
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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国药集团
SINOPHARM

國藥控股股份有限公司 SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROCUREMENT AND SALES TRANSACTIONS: PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION AMOUNTS AND PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023 AND NOTICE OF EGM

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



Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 4 to 20 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, 20 May 2022, 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 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, 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.

5 May 2022

* 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."

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
I. INTRODUCTION	5
II. PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION AMOUNTS AND PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023	11
III. HONG KONG LISTING RULES IMPLICATIONS	18
IV. EGM	19
V. RECOMMENDATION	20
VI. ADDITIONAL INFORMATION	20
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	21
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	23
APPENDIX – ADDITIONAL INFORMATION	41
NOTICE OF EGM	47

DEFINITIONS

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

“2020 Procurement Framework Agreement”	means the procurement framework agreement entered into between the Company and CNPGC on 22 October 2020
“2020 Sales Framework Agreement”	means the sales framework agreement entered into between the Company and CNPGC on 22 October 2020
“2021 Actual Procurement Transaction Amount”	means the actual transaction amount between the Group and CNPGC Group under the 2020 Procurement Framework Agreement for the year ended 31 December 2021
“2021 Actual Sales Transaction Amount”	means the actual transaction amount between the Group and CNPGC Group under the 2020 Sales Framework Agreement for the year ended 31 December 2021
“2021 Actual Transaction Amounts”	means the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	means the board of directors of the Company
“CNBG”	means China National Biotech Group Company Limited (中國生物技術股份有限公司), a subsidiary controlled by CNPGC, mainly engaged in comprehensive research and product manufacturing of vaccines and blood products
“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)
“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
“Director(s)”	means the director(s) of the Company

DEFINITIONS

“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, 20 May 2022
“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
“Independent Board Committee”	means an independent board committee comprising all of the independent non-executive Directors, who have no material interests in the ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual Caps, 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, was approved by the Company to be the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the ratification of the 2021 Actual Transaction Amounts and approval of the Revised Annual Caps
“Independent Shareholders”	means Shareholders other than CNPGC and its associates
“Latest Practicable Date”	means 29 April 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

DEFINITIONS

“Revised Annual Caps”	means the Revised Procurement Annual Caps and the Revised Sales Annual Caps
“Revised Procurement Annual Caps”	means the proposed new annual caps of RMB10,600 million and RMB12,200 million for the transactions contemplated under the 2020 Procurement Framework Agreement for the two years ending 31 December 2023
“Revised Sales Annual Caps”	means the proposed new annual caps of RMB4,200 million and RMB5,500 million for the transactions contemplated under the 2020 Sales Framework Agreement for the two years ending 31 December 2023
“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
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Supervisor(s)”	means the supervisor(s) of the Company
“Taiji Group”	means Chongqing Taiji Industry (Group) Co., Ltd. (重慶太極實業(集團)股份有限公司), a pharmaceutical company listed on the Shanghai Stock Exchange (stock code: 600129.SH)

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. Yu Qingming
Mr. Liu Yong

Non-executive Directors:

Mr. Chen Qiyu
Mr. Hu Jianwei
Mr. Ma Ping
Mr. Deng Jindong
Mr. Wen Deyong
Mr. Li Dongjiu
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:

1st Floor, No. 385
East Longhua Road
Huangpu District
Shanghai 200023,
the PRC

Principal Place of Business in Hong Kong:

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

5 May 2022

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
PROCUREMENT AND SALES TRANSACTIONS:
PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION
AMOUNTS AND
PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023
AND
NOTICE OF EGM**

* *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 BOARD

I. INTRODUCTION

Reference is made to the announcement of the Company dated 18 March 2022 in relation to the proposed ratification of the 2021 Actual Transaction Amounts and the proposed revision of the annual caps for 2022 and 2023 of the continuing connected transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement.

During the course of preparing the financial statements of the Company for the year of 2021 and reviewing and verifying the data on the amounts of connected transactions of the Group in 2021, the Board noted that the 2021 Actual Transaction Amounts of the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement exceeded the Original Annual Caps for 2021. Taking into account the 2021 Actual Transaction Amounts and the business demands of the Group for the years of 2022 and 2023, the Board expects that the Original Annual Caps for the years of 2022 and 2023 will not be sufficient to meet the Group's needs for business development. Therefore, on 18 March 2022, the Board proposes to (1) ratify the 2021 Actual Transaction Amounts; and (2) revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement.

Pursuant to the Hong Kong Listing Rules, the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount, and the Revised Procurement Annual Caps and the Revised Sales Annual Caps 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 2021 Actual Transaction Amounts and the Revised Annual Caps; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

1. 2020 Procurement Framework Agreement

Details of the 2020 Procurement Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company
(ii) CNPGC

Term of the Agreement: The 2020 Procurement Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.

LETTER FROM THE BOARD

**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 products currently procured by the Group from CNPGC Group are mainly chemical pharmaceuticals, biopharmaceuticals, modern Chinese medicine and other related products, which are mainly used for distribution to medical institutions and retail pharmacies (according to the pharmaceutical distribution model in the PRC, the specific types and scale of drugs procured by the Group from CNPGC Group are mostly specified directly by the Group's customers such as medical institutions and retail pharmacies).

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 after 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 procured through national centralized procurement, national negotiations or the public bidding process by local governments, the final price refers to the successful tender price published on the public official websites of the local governments, such as: the website of Shanghai Sunshine Medical Procurement ALL-IN-ONE (上海陽光醫藥採購網), the website of Beijing Municipal Medical Insurance Bureau Medicine Sunshine Purchasing Website (北京市醫療保障局陽光採購網站), the website of Tianjin Medicine Purchasing Center (天津市醫藥採購中心網站), the website of Chongqing Drug Delivery (重慶藥交網); 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 (such as price of medical insurance drug) or the hospital's procurement price from the distributor which is determined according to the agreement between the manufacturer and the hospital, and the manufacturer's proposed terminal sales price for the relevant product in the corresponding channel such as hospitals, pharmacies), (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 after mainly taking into account the proposed terminal sales prices provided by relevant members of the CNPGC Group for the related products in the corresponding channels such as hospitals and pharmacies, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant products.

In determining the prices for the procurement of the above products from CNPGC Group, such prices (being the procurement costs of products of the Group), when aggregated with the distribution costs of the relevant members of the Group, shall still enable the Group to achieve level of gross profit from the sale of such products comparable to the gross profit margin that would be achieved if the relevant products or similar products to be sold were purchased from a third party.

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, aftersales 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 and compliance department, quality department and operation department). For products with public bidding price/public procurement price (such as pharmaceutical products), after taking into account the tender 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 successful tender 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 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.

LETTER FROM THE BOARD

**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. 2020 Sales Framework Agreement

Details of the 2020 Sales Framework Agreement are as follows:

Date: 22 October 2020

Parties: (i) the Company
(ii) CNPGC

Term of the Agreement: The 2020 Sales Framework Agreement shall be effective from 1 January 2021 to 31 December 2023

**Major Terms and
Conditions:**

Pursuant to the 2020 Sales Framework Agreement, the Group has agreed to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products to the CNPGC Group; and the CNPGC Group has agreed to purchase such products from the Group. The products currently sold by the Group to CNPGC Group are mainly pharmaceutical products such as chemical pharmaceuticals, biopharmaceuticals, modern Chinese medicine, health products and medical devices, such products are mainly sold to medical institutions and medical service enterprises of the CNPGC Group. In addition, the Group also sells chemical reagents, auxiliary materials and laboratory supplies to manufacturing enterprises of the CNPGC Group (such as CNBG) for the production of vaccines, biological products and chemical pharmaceuticals.

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

LETTER FROM THE BOARD

Upon its expiry, the 2020 Sales 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.

Pricing Policy:

The price of pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products sold by the Group to the CNPGC Group under the 2020 Sales Framework Agreement will be determined on an arm's length basis between the parties after mainly taking into account (i) the purchase cost (including products cost, cost of capital, logistic cost and others) for relevant products purchased by relevant members of the Group; and (ii) the profit level of the Group on related products.

The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis. The president and various departments (including but not limited to the procurement department, finance department, legal and compliance department, quality department and operation department) of the Company and/or its subsidiaries will carry out all necessary internal review and approval procedures. Relevant departments of the Company, including the procurement department and the operation department will examine and compare specific agreements for such continuing connected transactions with at least two available comparable agreements entered into with independent third parties through price inquiry and comparison, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

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 sale of the products thereunder.

Any such implementation agreements will be within the ambit of the 2020 Sales Framework Agreement and shall not contravene the provisions of the 2020 Sales Framework Agreement.

LETTER FROM THE BOARD

II. PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION AMOUNTS AND PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023

1. Original Annual Caps for the Three Years Ending 31 December 2023

The transactions contemplated under the 2020 Procurement Framework Agreement and the annual caps thereof for the years from 2021 to 2023 were approved by the Independent Shareholders at the general meeting of the Company held on 18 December 2020, and the transactions contemplated under the 2020 Sales Framework Agreement and the annual caps thereof for the years from 2021 to 2023 were approved by the Board on 22 October 2020 (the “**Original Annual Caps**”). The Original Annual Caps for the three years ending 31 December 2023 are as follows:

Transactions	Year ended 31 December 2021 <i>(RMB million)</i>	Year ending 31 December 2022 <i>(RMB million)</i>	Year ending 31 December 2023 <i>(RMB million)</i>
Annual caps for the transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement	7,000	8,000	9,000
Annual Caps for the transaction amount between the CNPGC Group and the Group under the 2020 Sales Framework Agreement	1,800	2,000	2,150

2. Proposed Ratification of the 2021 Actual Transaction Amounts

During the course of preparing the financial statements of the Company for the year of 2021 and reviewing and verifying the data on the amounts of connected transactions of the Group in 2021, the Board noted that the 2021 Actual Transaction Amounts exceeded the Original Annual Caps for 2021. On 18 March 2022, the Board proposes to ratify the 2021 Actual Transaction Amounts. Details are as follows:

Transactions	Year ended 31 December 2021 <i>(RMB million)</i>
Actual transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement	7,969
Actual transaction amount between the CNPGC Group and the Group under the 2020 Sales Framework Agreement	2,626

LETTER FROM THE BOARD

Reasons for Exceeding the Original Annual Caps for the Year of 2021

The 2021 Actual Transaction Amounts exceeded the Original Annual Caps for 2021, primarily due to the following reasons:

- (i) The COVID-19 inactivated vaccine developed by the CNPGC Group is the first COVID-19 inactivated vaccine approved for registration and marketing in the world. In order to guarantee the demands of China and even the whole world for COVID-19 vaccines or anti-COVID-19-related drugs and equipment, the Group's relevant sales of raw materials will be adjusted according to the temporary requirements of the CNPGC Group from time to time.
- (ii) In respect of the sales transactions between the Group and the CNPGC Group: the enhanced transmissibility of COVID variants and the continuing outbreak of COVID-19 worldwide have led to an increased demand for vaccines nationwide and even globally. In 2021, the amount of sales of vaccine reagent raw materials and vaccine logistics labels by the Group (as the main supplier of reagent raw materials required for the production of Sinopharm COVID-19 vaccines and the main supplier of logistics labels for vaccine export business) to CNBG (a subsidiary of the CNPGC Group) significantly increased. The Company did not anticipate such rapid growth in sales of relevant products during the global pandemic of COVID-19 when it set the Original Annual Caps for the year of 2021. The aggregate amount of the Group's sales to the CNPGC Group in respect of such vaccine reagent raw materials and vaccine logistics labels amounted to approximately RMB856 million in 2021, which is far higher than the sales amount of the Group in 2020 in this regard.
- (iii) In respect of the procurement transactions between the Group and the CNPGC Group: Taiji Group became a subsidiary of CNPGC in April 2021, and has since become a major supplier of more than 200 retail pharmacies and distributors of the Group. Taiji Group and its subsidiaries are mainly engaged in the processing, sale of proprietary Chinese medicines, medicines and health care products, etc., and their products include chemicals, own-branded proprietary Chinese medicines and health care products, and products and materials related to COVID-19 diagnosis and treatment. In 2021, the retail pharmacies and distributors of the Group purchased a large number of medicines and health products from Taiji Group and its subsidiaries, with the total purchase amount reaching approximately RMB1,265 million in 2021.

After noting that the actual transaction amounts exceeded the Original Annual Caps for the year of 2021, the Company immediately organized various departments to conduct reconciliation and confirmation to confirm the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount.

LETTER FROM THE BOARD

3. Proposed Revision of the Annual Caps for the years of 2022 and 2023

Taking into account the 2021 Actual Procurement Transaction Amount, the 2021 Actual Sales Transaction Amount and the business demands of the Group for the years of 2022 and 2023, the Board expects that the Original Annual Caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement will not be sufficient to meet the Group's needs for business development. Therefore, on 18 March 2022, the Board proposes to revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement. Details of the proposed Revised Annual Caps are as follows:

Transactions	Year ending 31 December 2022 (RMB million)	Year ending 31 December 2023 (RMB million)
Annual caps for the transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement	10,600	12,200
Annual caps for the transaction amount between the CNPGC Group and the Group under the 2020 Sales Framework Agreement	4,200	5,500

From 1 January 2022 to 31 March 2022, the actual transaction amount between the Group and CNPGC Group under the 2020 Procurement Framework Agreement was RMB1,818 million and the actual transaction amount between the Group and CNPGC Group under the 2020 Sales Framework Agreement was RMB646 million. The Company confirmed that, from 1 January 2022 until the Latest Practicable Date, (i) the actual transaction amount between the Group and the CNPGC Group under the 2020 Procurement Framework Agreement has not exceeded the Original Annual Cap for 2022 (i.e. RMB8,000 million); and (ii) the actual transaction amount between the Group and the CNPGC Group under the 2020 Sales Framework Agreement has also not exceeded the Original Annual Cap for 2022 (i.e. RMB2,000 million).

Basis of determination of the Revised Annual Caps

The above Revised Annual Caps were determined mainly with reference to the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount and taking into account the following factors:

- (i) Taking into account the compound annual growth rate of approximately 15% of the Group's business for the years from 2015 to 2020, it is expected that the transaction amount of the Group's purchases from the CNPGC Group in 2022 and 2023 will increase at an average annual growth rate of 15% from the adjusted full-year procurement amount for 2021 (adjusted on the assumption that

LETTER FROM THE BOARD

Taiji Group had become a subsidiary of CNPGC since 1 January 2021). Therefore, it is expected that the amount of the Group's purchase from the CNPGC Group under the 2020 Procurement Framework Agreement in 2022 and 2023 will reach approximately RMB9,650 million and RMB11,097 million respectively. The Group may procure products and materials related to COVID-19 diagnosis and treatment from CNPGC Group during the outbreak of the pandemic, such as Huashi Baidu Granules (化濕敗毒顆粒) manufactured by Guangdong Yifang Pharmaceutical Co., Ltd. (廣東一方製藥有限公司) (a subsidiary of the CNPGC Group) and Huo Xiang Zheng Qi series products (藿香正氣系列產品) and Angong NiuHuang Pills (安宮牛黃丸) manufactured by a subsidiary of Taiji Group, which have been included in the "Diagnosis and Treatment Protocol for Novel Coronavirus Pneumonia (Trial Version 9) 《新型冠狀病毒肺炎診療方案(試行第九版)》";

- (ii) Taking into account the compound annual growth rate of approximately 15% of the Group's business for the years from 2015 to 2020, it is expected that the transaction amount of the Group's sales to the CNPGC Group (excluding the sales in respect of vaccine reagent raw materials and vaccine logistics labels) in 2022 and 2023 will increase at an average annual growth rate of 15% from the adjusted full-year sales amount for 2021 (adjusted on the assumption that Taiji Group had become a subsidiary of CNPGC since 1 January 2021). In addition, the Group will continue to supply the raw materials of vaccine reagents and the logistics labels required for vaccine export to CNBG in 2022 and 2023, and with reference to the historical sales growth rate during the COVID-19 global pandemic and the estimated future purchase demands of CNBG arising from its supply of vaccines, it is expected that the growth rate of relevant sales amount in 2022 and 2023 will reach 100% and 50%, respectively. Therefore, it is expected that the amount of the Group's sales to the CNPGC Group under the 2020 Sales Framework Agreement in 2022 and 2023 will amount to approximately RMB3,826 million and RMB4,999 million respectively; and
- (iii) When determining the Revised Annual Caps, the Company has applied a buffer of 10% to cater for the unanticipated increase in demand.

4. 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.

5. Reasons for and Benefit of the Transactions

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 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.

The 2020 Sales Framework Agreement enables (i) the Group to have stable customers to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products 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.

In addition, the materials related to pandemic prevention and control and the raw materials related to the production of vaccines are subject to various pandemic prevention policies issued by the government to a certain extent. As the Group is the largest medical equipment distributor and retail services provider in China, the Group has the necessity and responsibility to cooperate with governments at all levels to promote the implementation of relevant pandemic prevention and control policies and the production and reserve of vaccines and pandemic prevention materials. The Group will actively provide cooperation for the circulation and reserve of pandemic prevention materials, which is a necessary measure for the Group to fulfil its corporate social responsibility and perform the relevant obligations of central enterprises as emergency guarantee and reserve enterprises, and also helps the Group to further deepen the cooperation between the Group and the upstream and downstream medical institutions and the government regulatory authorities in terms of the supply and guarantee of medical materials.

LETTER FROM THE BOARD

6. Internal Control Measures

For the procurement and sales transactions between the Group and CNPGC Group, the Group will continue to implement the existing internal control measures, including:

- (i) 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 and the 2020 Sales Framework Agreement. These departments are responsible for (a) 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 and the 2020 Sales Framework Agreement on a regular basis; (b) 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 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement; (c) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and (d) reporting relevant information to the Board in a timely manner.
- (ii) 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.
- (iii) 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 and the 2020 Sales 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 and the 2020 Sales 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.

LETTER FROM THE BOARD

In addition to the above, with respect to continuing connected transactions between the Group and the CNPGC Group (including the Revised Annual Caps), the Group has adopted the following enhanced internal control measures:

- (i) The departments of the Company and/or its subsidiaries responsible for the execution of transactions (including but not limited to those responsible for legal, finance, operation, etc.) will perform the review and approval procedures for the terms and conditions of the specific implementation agreements prior to the entering into of the same, so as to confirm whether the terms of the implementation agreements of continuing connected transactions are fair and reasonable and are in compliance with the relevant framework agreement.
- (ii) (a) the operation department of the Company is responsible for taking the lead in requesting the subsidiaries that having continuing connected transactions to report the estimated amount of continuing connected transactions in the next quarter on a quarter basis, and the finance department of the Company is responsible for reviewing the quarterly budget; (b) the finance department of the Company is responsible for taking the lead in continuously monitoring and collecting from subsidiaries at least quarterly the actual amount of continuing connected transactions; (c) the office of the Board, the operation department and the finance department of the Company shall check the received actual amount of continuing connected transactions of subsidiaries for each quarter as soon as possible to jointly confirm the final actual amount; (d) the office of the Board is responsible for organizing relevant departments such as the finance department, the treasury department, the legal and compliance department, the investment management department, the operation department to hold regular meetings to review and upgrade the list of connected persons; (e) the Company established a continuing connected transaction management working group led by the office of the Board, with the participation of the heads of the operation department, the finance department, the legal and compliance department and other departments and the secretaries of the boards of directors of significant subsidiaries as members. The working group will hold regular meetings on the Group's continuing connected transactions on a quarterly basis, and hold temporary meetings as necessary.
- (iii) In addition to the Group's quarterly review of actual amounts for continuing connected transactions, the enhanced internal control measures require that (i) if (a) at the end of the first quarter of each year, the actual amount of any continuing connected transaction amounts to or exceeds 40% of the cap of the current year; or (b) at the end of the second quarter of each year, the actual amount of any continuing connected transaction amounts to or exceeds 50% of the cap of the current year, the finance department shall issue an early warning, and then follow up on a monthly basis to collect the actual amount, and discuss with the secretary of the Board, the office of the Board and the operation department on the response plan; (ii) if the actual amount of any continuing connected transaction has amounted to 70% of the cap of the current year, the finance department shall immediately notify the secretary of the Board, the office of the Board and the operation department, and the office of the Board shall take the lead in organizing relevant departments to jointly formulate a response plan; and (iii) the

LETTER FROM THE BOARD

operation department shall analyze and track the reasons for abnormal changes in a timely manner, and make an estimate of the subsequent growth of the continuing connected transactions; if the operation department expects that such business will increase or expand substantially in a short period of time and is likely to account for a significant portion of the annual cap of such continuing connected transaction, the operation department shall issue an early warning in a timely manner, and discuss with the secretary of the Board, the office of the Board and the finance department on a response plan. The response plan mentioned here will include, but not limited to, considering to revise the annual caps before the annual caps are to be fully utilized and submit the proposal to the shareholder's general meeting for consideration and approval.

- (iv) The Company will continue to provide training on connected transactions to its Directors, senior management, and personnel responsible for connected transaction monitoring. In 2022, the Company has organized a training on connected transactions and internal control in March 2022 for its Directors and senior management.

III. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is the ultimate controlling shareholder of the Company, therefore, pursuant to the Hong Kong Listing Rules, CNPGC is a connected person of the Company and the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement constitute continuing connected transactions of the Company.

As both of the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount exceeded the Original Annual Caps for 2021, pursuant to Rule 14A.54 of the Hong Kong Listing Rules, the Company is required to re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules. The Company has failed to re-comply with the applicable requirements under Rule 14A.54 of the Hong Kong Listing Rules on a timely basis. The Company has always attached great importance to the protection of shareholders' interests and the compliance with the Hong Kong Listing Rules, and the failure to re-comply with the requirements under Rule 14A.54 on a timely basis is an isolated event. The sporadic outbreak of COVID-19 pandemic and the production of and demand for vaccines and other pandemic prevention materials were unanticipated by the Company, therefore the failure to comply with the aforesaid rules is inadvertent and highly regrettable.

As the highest applicable percentage ratio in respect of each of the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount exceeds 5%, the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of each of the Revised Procurement Annual Caps and the Revised Sales Annual Caps exceeds 5%, the Revised Procurement Annual Caps and the Revised Sales Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A 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 the proposed ratification of the 2021 Actual Transaction Amounts and proposed approval of the Revised Annual Caps. 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. Hu Jianwei and Mr. Deng Jindong, are senior management of CNPGC. Therefore, they are deemed to have material interests in the proposed ratification of the 2021 Actual Transaction Amounts and proposed approval of the Revised Annual Caps, 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 resolution at the Board meeting.

IV. EGM

A notice convening the EGM to be held at 9:00 a.m. on Friday, 20 May 2022 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 the ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual 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 ratification of the 2021 Actual Transaction Amounts and approval of the Revised Annual Caps 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 that power of attorney or other authority, must be delivered to the Board Office of the Company in the PRC

LETTER FROM THE BOARD

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.

As disclosed in the announcement of the Company dated 28 April 2022, for the purpose of holding the EGM, the register of members of H Shares will be closed from Thursday, 5 May 2022 to Friday, 20 May 2022 (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 Thursday, 5 May 2022 are entitled to attend and vote at the EGM.

V. RECOMMENDATION

The Directors (excluding the independent non-executive Directors, the opinion of whom will be included in the Circular) are of the view that the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement for the year ended 31 December 2021 and the 2021 Actual Transaction Amounts and the Revised Annual Caps are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, 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.

VI. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 21 to 22 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 23 to 40 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.
Yu Qingming
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)

5 May 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROCUREMENT AND SALES TRANSACTIONS: PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION AMOUNTS AND PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023

We refer to the circular of the Company dated 5 May 2022 (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 ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual 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 the ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual 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 23 to 40 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 20 of the Circular and the additional information set out in the Appendix.

* 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

Having considered (i) the ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual Caps, (ii) the interests of the Independent Shareholders, and (iii) the advice of the Independent Financial Adviser, we are of the opinion that the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement for the year ended 31 December 2021 and the 2021 Actual Transaction Amounts and the Revised Annual Caps are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, 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 the ratification of the 2021 Actual Transaction Amounts and the approval of the Revised Annual 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

5 May 2022

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROCUREMENT AND SALES TRANSACTIONS: PROPOSED RATIFICATION OF THE 2021 ACTUAL TRANSACTION AMOUNTS PROPOSED REVISION OF THE ANNUAL CAPS FOR 2022 AND 2023

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the ratification of the 2021 Actual Transaction Amounts and approval of the Revised Annual Caps (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 5 May 2022 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, among other things, the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement, which were effective from 1 January 2021 to 31 December 2023.

During the course of preparing the financial statements of the Company for the year of 2021 and reviewing and verifying the data on the amounts of connected transactions of the Group in 2021, the Board noted that the 2021 Actual Transaction Amounts of the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement exceeded the Original Annual Caps for 2021. Taking into account the 2021 Actual Transaction Amounts and the business demands of the Group for the years of 2022 and 2023, the Board expects that the Original Annual Caps for the years of 2022 and 2023 will not be sufficient to meet the Group’s needs for business development. Therefore, on

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

18 March 2022, the Board proposes to (1) ratify the 2021 Actual Transaction Amounts; and (2) revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement.

With reference to the Board Letter, the 2021 Actual Procurement Transaction Amount and the 2021 Actual Sales Transaction Amount are subject to the ratification of the Independent Shareholders at the EGM and the Revised Procurement Annual Caps and the Revised Sales Annual Caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A 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

Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions and discloseable and continuing connected transactions (details of which are set out in the Company's circular dated 27 November 2020). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

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

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 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 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:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

	For the year ended 31 December 2021 <i>RMB'000</i>	For the year ended 31 December 2020 <i>RMB'000</i>	Change from 2020 to 2021 %
Revenue	521,051,235	456,414,611	14.16
– <i>Pharmaceutical distribution</i>	389,954,789	348,294,382	11.96
– <i>Medical device</i>	108,129,208	89,402,246	20.95
– <i>Retail pharmacy</i>	29,059,250	24,164,339	20.26
– <i>Other business</i>	9,820,967	7,651,679	28.35
– <i>Eliminations</i>	(15,912,979)	(13,098,035)	21.49
Profit for the year attributable to owners of the Company	7,758,646	7,187,278	7.95

As illustrated in the above table, the Group recorded an increase in revenue of approximately 14.16% from 2020 to 2021. With reference to the 2021 Annual Report, such increase in revenue was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, medical device business and retail pharmacy business, and the Group's revenue grew faster than the average level of development of pharmaceutical market in China. The segment information for the year ended 31 December 2021 is as follows:

- **Pharmaceutical distribution segment:** revenue from pharmaceutical distribution of the Group accounted for 72.62% of the total revenue of the Group (before elimination) and represented an increase of 11.96% as compared to that for the year ended 31 December 2020. The increase was primarily due to a remarkable development of the pharmaceutical distribution business and further expansion of its distribution network of the Group.
- **Medical device segment:** revenue from medical device of the Group accounted for 20.14% of the total revenue of the Group (before elimination) and represented an increase of 20.95% as compared to that for the year ended 31 December 2020. The increase was primarily due to the expansion through acquisition and business growth of the medical device business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Retail pharmacy segment: revenue from retail pharmacy of the Group accounted for 5.41% of the total revenue of the Group (before elimination) and represented an increase of 20.26% as compared to that for the year ended 31 December 2020. The increase was primarily due to the growth of the retail pharmaceutical market and the expansion of network of the Group's retail pharmacy.
- Other business segments: revenue from other business of the Group was RMB9,821.0 million, representing an increase of 28.35% as compared to that for the year ended 31 December 2020.

The Group also recorded an increase of approximately 7.95% in profit attributable to owners of the Company for the year ended 31 December 2021 as compared to that for the year ended 31 December 2020.

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.

Reasons for the Transactions

With reference to the Board Letter:

- a) 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;
- b) 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; and
- c) the 2020 Sales Framework Agreement enables (i) the Group to have stable customers to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products 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 transactions contemplated under the 2020 Procurement Framework Agreement (the "**Procurement Transactions**") and the transactions contemplated under the 2020 Sales Framework Agreement (the "**Sales Transactions**") are expected to be conducted in the ordinary and usual course of business of the Group and on a frequent 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Procurement Transactions and the Sales Transactions will be beneficial to the Company and the Shareholders as a whole.

With reference to the Board Letter, the materials related to pandemic prevention and control and the raw materials related to the production of vaccines are subject to various pandemic prevention policies issued by the government to a certain extent. The Group has the necessity and responsibility to cooperate with governments at all levels to promote the implementation of relevant pandemic prevention and control policies and the production and reserve of vaccines and pandemic prevention materials. The Group will actively provide cooperation for the circulation and reserve of pandemic prevention materials, which is a necessary measure for the Group to fulfil its corporate social responsibility and perform the relevant obligations of central enterprises as emergency guarantee and reserve enterprises, and also helps the Group to further deepen the cooperation between the Group and the upstream and downstream medical institutions and the government regulatory authorities in terms of the supply and guarantee of medical materials.

Having considered that (i) long-term business relationships between the Group and the CNPGC Group; (ii) the Procurement Transactions enable the Company to have a stable supply source; (iii) the Sales Transactions enable the Group to have stable customers to sell products; (iv) 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; and (v) the Group has the necessity and responsibility to cooperate with governments at all levels to promote the implementation of relevant pandemic prevention and control policies and the production and reserve of vaccines and pandemic prevention materials, we are of the view that the Procurement Transactions and the Sales Transactions are in the interests of the Company and the Shareholders as a whole.

As mentioned above, during the course of preparing the financial statements of the Company for the year of 2021 and reviewing and verifying the data on the amounts of connected transactions of the Group in 2021, the Board noted that the 2021 Actual Transaction Amounts of the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement exceeded the Original Annual Caps for 2021. Taking into account the 2021 Actual Transaction Amounts and the business demands of the Group for the years of 2022 and 2023, the Board expects that the Original Annual Caps for the years of 2022 and 2023 will not be sufficient to meet the Group's needs for business development. Therefore, on 18 March 2022, the Board proposes to (1) ratify the 2021 Actual Transaction Amounts; and (2) revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement.

Based on the above, we are of the view that the Transactions are in the interests of the Company and the Shareholders as a whole and both the Procurement Transactions and the Sales Transactions are conducted in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Principle terms of the Transactions

A. *The Procurement Transactions*

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

Date:	22 October 2020
Parties:	(i) the Company (ii) the CNPGC
Term of the Agreement:	The 2020 Procurement Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.
Major Terms and Conditions:	<p>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.</p> <p>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.</p> <p>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.</p>
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.

Pricing basis

With reference to the Board Letter, 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 after 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 procured through national centralized procurement, national negotiations or the public bidding process by local governments, the final price refers to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

successful tender price published on the public official websites of the local governments, such as: the website of Shanghai Sunshine Medical Procurement ALL-IN-ONE (上海陽光醫藥採購網), the website of Beijing Municipal Medical Insurance Bureau Medicine Sunshine Purchasing Website (北京市醫療保障局陽光採購網站), the website of Tianjin Medicine Purchasing Center (天津市醫藥採購中心網站), the website of Chongqing Drug Delivery (重慶藥交網); 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 (such as price of medical insurance drug) or the hospital's procurement price from the distributor which is determined according to the agreement between the manufacturer and the hospital, and the manufacturer's proposed terminal sales price for the relevant product in the corresponding channel such as hospitals, pharmacies), (ii) the distribution costs of the relevant members of the Group, and (iii) the profit level of the Group on the 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 after mainly taking into account the proposed terminal sales prices provided by relevant members of CNPGC Group for the related products in the corresponding channels such as hospitals, pharmacies, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant product.

In determining the prices for the procurement of the above products from CNPGC Group, such prices (being the procurement costs of products of the Group), when aggregated with the distribution costs of the relevant members of the Group, shall still enable the Group to achieve level of gross profit from the sale of such products comparable to the gross profit margin that would be achieved if the relevant products or similar products to be sold were purchased from a 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 for fair pricing of the Procurement Transactions are set out under the subsection headed "Pricing Policy" under the section headed "2020 Procurement Framework Agreement" of the Board Letter. As there will be pricing checking procedures before purchasing products, 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.

With reference to the Board Letter, the 2021 Actual Procurement Transaction Amount exceeded the existing annual cap of the Procurement Transactions for 2021, primarily due to the reasons, among other things Taiji Group became a subsidiary of CNPGC in April 2021, and has since become a major supplier of more than 200 retail pharmacies of the Group. Taiji Group and its subsidiaries are mainly engaged in the processing, sale of proprietary Chinese medicines, medicines and health care products, etc., and their products include chemicals, own-branded proprietary Chinese medicines and health care products, and products and materials related to COVID-19 diagnosis and treatment. Therefore, we assess the effectiveness of the internal control policies in respect of the fair pricing of the Procurement Transactions focus on the transactions between the Group and Taiji Group and its subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For our due diligence purpose, we obtained from the Company six purchase records in total entered into between the Group and (i) Taiji Group (being members of CNPGC Group); and (ii) independent third parties during 2021 to 2022 in respect of the procurement of various pharmaceutical products by the Group, together with supporting information showing the Group's further distribution of the same underlying products to the end customers (being independent third parties).

We consider that the numbers of purchase records as mentioned above are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the purchase records showing the purchase information for the first half of 2021, second half of 2021, first half of 2022; (ii) the purpose of reviewing historical purchase records was to check the effectiveness of the internal control measures and in addition to reviewing the historical individual records, we also discussed with staff of Company's relevant departments and subsidiaries to check whether they were aware of and would continuously comply with the internal control measures.

According to the aforesaid information, the Group recorded gross profit margins from the distribution with procurement of relevant products from the CNPGC Group being not lower than gross profit margins from the distribution with procurement of relevant products from the independent third parties.

We further discussed with the staff 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, we do not doubt the effectiveness of the internal control policies in respect of the fair pricing of the Procurement Transactions.

In light of the above, we are of the view that the pricing basis of the Procurement Transactions are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revised Procurement Annual Caps

The table below sets out (i) the historical transaction amounts for the year ended 31 December 2021; (ii) original annual caps of the Procurement Transactions for the two years ending 31 December 2023; and (iii) the Revised Procurement Annual Caps for the two years ending 31 December 2023:

	For the year ended 31 December 2021 ("FY2021") <i>(in RMB million)</i>	For the year ending 31 December 2022 ("FY2022") <i>(in RMB million)</i>	For the year ending 31 December 2023 ("FY2023") <i>(in RMB million)</i>
Historical transaction amounts	7,969		
Original annual caps	8,000		9,000
Revised Procurement Annual Caps		10,600	12,200

With reference to the Board Letter, the Revised Procurement Annual Caps were determined after taking into consideration various factors, details of which are set out under the section headed "Basis of determination of the Revised Annual Caps" of the Board Letter.

Upon our request, we obtained detailed calculation for the Revised Procurement Annual Caps for the two years ending 31 December 2023. Based on the calculation, the Revised Procurement Annual Caps were calculated based on (i) the estimated transaction amounts (the "**Estimated Procurement Amounts**") for FY2022 (i.e. approximately RMB9,650 million) and FY2023 (i.e. approximately RMB11,097 million) respectively; and (ii) a buffer of 10%.

We noted that the Estimated Procurement Amounts for FY2022 was determined based on (i) the historical transaction amounts of Procurement Transactions for FY2021 and adjusted on the assumption that Taiji Group (Note: Taiji Group became a subsidiary of CNPGC in April 2021) had become a subsidiary of CNPGC since 1 January 2021; and (ii) an estimated annual growth of 15%. To assess the fairness and reasonableness of the aforesaid assumptions, we conducted following analyses:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated Procurement Amounts

FY2021

The adjusted transaction amounts of Procurement Transactions for FY2021 were approximately RMB8,391.1 million, calculated by the sum of approximately RMB6,704.4 million (being the full year transaction amounts with CNPGC Group (other than Taiji Group) and RMB1,686.7 million (being the annualised amounts based on historical amounts of approximately RMB1,265 million for the nine months ended 31 December 2021 with Taiji Group). Therefore, we consider the adjusted transaction amounts of Procurement Transactions for FY2021 to be justifiable.

FY2022 and FY2023

The adjusted transaction amounts of the Estimated Procurement Amounts for FY2022 was calculated by the Estimated Procurement Amounts for FY2021 (which is justifiable as analysed above) and estimated annual growth of 15%.

To assess the fairness and reasonableness of estimated annual growth of 15%, we considered following factors:

- The Group recorded increases in historical transaction amounts of the Procurement Transactions of approximately 11.1% from 2019 to 2020 (being the first year of the COVID-19 outbreak) and approximately 18.9% from 2020 to 2021 (being the first year after the COVID-19 outbreak)(note: historical transaction amounts with Taiji Group for FY2021 were not considered), the average annual increase rates being approximately 15.0%.
- We noted that the Group recorded annual increases in the transaction amounts of the Procurement Transactions of 13.0%, 30.8% and 14.2% from 2016 to 2019 (all being the years without the COVID-19 outbreak). Excluding the increase rate of 30.8%, which represented an outlier amount among the aforesaid increase rates and was mainly due to the fully implementation of 兩票制 (Two Invoices Policy*) as advised by the Directors. The estimated annual growth of 15% was close to the aforesaid increase rates (excluding outlier).

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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).

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 and market concentration of such drugs will be substantially increased as the result of the industry policies such as centralized drug procurement.

Based on the above factors, we considered the estimated annual growth of 15% to be acceptable. Accordingly, we also consider that the Estimated Procurement Amounts for FY2022, which was based on the adjusted transaction amounts of Procurement Transactions for FY2021 and the estimated annual growth of 15%, to be justifiable.

As the Estimate Procurement Amounts for FY2023 was calculated by the Estimated Procurement Amounts for FY2022 and estimated annual growth of 15% (being justifiable as analysed above), we consider the Estimated Procurement Amounts for FY2023 to be justifiable.

Buffers

As mentioned above, when determining the Revised Procurement Annual Caps for the two years ending 31 December 2023, buffers of 10% were applied on the Estimated Procurement Amounts 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 products during the term of the 2020 Procurement Framework Agreement.

Having considered the above factors and that (i) the possible further unexpected increase in transaction volume amount; and (ii) we noted from circulars regarding continuing connected transactions issued by companies listed on the Stock Exchange that the incorporation of buffers of 10% in the proposed annual caps are common among companies listed on the Stock Exchange, we are of the view that the buffers are acceptable.

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

Shareholders should note that as the Revised Procurement 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 costs to be incurred from the Procurement Transactions. Consequently, we express no opinion as to how closely the actual costs to be incurred from the transactions contemplated under the 2020 Procurement Framework Agreement will correspond with the Revised Procurement Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. The Sales Transactions

Set out below are the key terms of Sales Transactions, details of which are set out under the section headed “2020 Sales Framework Agreement” of the Board Letter.

Date:	22 October 2020
Parties:	(i) the Company (ii) the CNPGC
Term of the Agreement:	The 2020 Sales Framework Agreement shall be effective from 1 January 2021 to 31 December 2023.
Major Terms and Conditions:	<p>Pursuant to the 2020 Sales Framework Agreement, the Group has agreed to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products to the CNPGC Group; and the CNPGC Group has agreed to purchase such products from the Group.</p> <p>The Group will sell the relevant products to the CNPGC Group on a voluntary and non-compulsory basis and is entitled to sell the same to any other third parties.</p> <p>Upon its expiry, the 2020 Sales 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.</p>
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.

Pricing basis

Pursuant to the 2020 Sales Framework Agreement, the price of pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products sold by the Group to the CNPGC Group under the 2020 Sales Framework Agreement will be determined on an arm’s length basis between the parties after mainly taking into account (i) the purchase cost (including products cost, cost of capital, logistic cost and others) for relevant products purchased by relevant members of the Group and (ii) the profit level of the Group on related products. As further advised by the Directors, the profit level of the Group on related products will be determined with reference to, among other things, prevailing profit level on related/similar products, profit level on historical transaction on related/similar products, the Group’s overall operating profit

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

margin (i.e. pharmaceutical distribution segment: approximately 3.5% – 3.7% for the three years ended 31 December 2021; medical devices segment: approximately 4.0% – 4.8% for the three years ended 31 December 2021) and relevant subsidiaries' operating performance.

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 for fair pricing of the Sales Transactions are set out under the subsection headed "Pricing Policy" under the section headed "2020 Sales Framework Agreement" of the Board Letter. As there will be internal review and approval procedures before selling products, we consider that the effective implementation of the internal control policies would help to ensure fair pricing of the Sales Transactions according to the pricing policies.

With reference to the Board Letter, the 2021 Actual Sales Transaction Amount exceeded the existing annual cap of the Sales Transactions for 2021, primarily due to the reasons, among other things, the Company did not anticipate such rapid growth in sales of relevant products during the global pandemic of COVID-19 when it set the existing annual cap of the Sales Transactions for the year of 2021. The aggregate amount of the Group's sales to the CNPGC Group in respect of such vaccine reagent raw materials and vaccine logistics labels amounted to approximately RMB856 million in 2021, which is far higher than the sales amount of the Group in 2020 in this regard. Therefore, we assess the effectiveness of the internal control policies in respect of the fair pricing of the Sales Transactions focusing on vaccine reagent raw materials and vaccine logistics labels.

For our due diligence purpose, we obtained from the Company eight contracts in total entered into between the Group and (i) CNPGC Group; and (ii) independent third parties during 2021 to 2022 in respect of the sales of various pharmaceutical products by the Group.

We consider that the numbers of individual sales contracts as mentioned above are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the sales records showing the sales information for the first half of 2021, second half of 2021 and first half of 2022; (ii) the purpose of reviewing historical individual contracts was to check the effectiveness of the internal control measures and in addition to review the historical individual contracts, we also discussed with staff of Company's relevant departments and subsidiaries to check whether they were aware of and would continuously comply with the internal control measures.

According to the individual contracts, the unit prices of the same pharmaceutical products charged by the Group to the CNPGC Group were not lower than those charged by the Group to the independent third parties.

We further discussed with the staff 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 Sales Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered our discussion with relevant staffs as mentioned above and our findings on the sales contracts as mentioned above, we do not doubt the effectiveness of the internal control policies in respect of the fair pricing of the Sales Transactions.

In light of the above, we are of the view that the pricing basis of the Sales Transactions are fair and reasonable.

Revised Sales Annual Caps

The table below sets out (i) the historical transaction amounts for the year ended 31 December 2021; (ii) original annual caps of the Sales Transactions for the two years ending 31 December 2023; and (iii) the Revised Sales Annual Caps for the two years ending 31 December 2023:

	For the year ended 31 December 2021 <i>(in RMB million)</i>	
Historical transaction amounts	2,626	
	For the year ending 31 December 2022 <i>(in RMB million)</i>	For the year ending 31 December 2023 <i>(in RMB million)</i>
Original annual caps	2,000	2,150
Revised Sales Annual Caps	4,200	5,500

With reference to the Board Letter, the Revised Sales Annual Caps were determined after taking into consideration various factors, details of which are set out under the section headed “Basis of determination of the Revised Annual Caps” of the Board Letter.

Upon our request, we obtained detailed calculation for the Revised Sales Annual Caps for the two years ending 31 December 2023. Based on the calculation, the Revised Sales Annual Caps were calculated based on (i) the estimated transaction amounts (the “**Estimated Sales Amounts**”, comprised (a) the Estimated Sales Amounts (excluding transactions with CNBG); and (b) the Estimated Sales Amounts with CNBG for FY2022 and FY2023 respectively; and (ii) buffer of 10%.

We noted that the Estimated Sales Amounts for FY2022 and FY2023 were determined based on the following:

- a) **the Estimated Sales Amounts (excluding transactions with CNBG):** (i) the historical transaction amounts of Sales Transactions for FY2021 (excluding transaction with CNBG) and adjusted on the assumption that Taiji Group had become a subsidiary of CNPGC since 1 January 2021; and (ii) an estimated annual growth of 15%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The adjusted transaction amounts of Sales Transactions (excluding transaction with CNBG) for FY2021 were approximately RMB1,837.5 million, calculated by the sum of approximately RMB1,582.8 million (being the full year transaction amounts with CNPGC Group (other than Taiji Group and CNBG) and approximately RMB254.7 million (being the annualised amounts based on historical amounts of approximately RMB191.0 million for the nine months ended 31 December 2021 with Taiji Group). Therefore, we consider the adjusted transaction amounts of Sales Transactions (excluding transaction with CNBG) for FY2021 to be justifiable.

In addition, we noted that the compound annual growth rate of the Group's revenue for the years from 2016 to 2020 of approximately 15.3% and the compound annual growth rate of the Group's revenue for the years from 2016 to 2019 (being the years before the COVID-19 outbreak) of approximately 18.1%.

Based on the above and the impact of Two Invoices System and centralized volume-based drug procurement, we consider the estimated increase of 15% to be acceptable. Accordingly, we also consider that (i) the Estimated Sales Amounts (excluding transactions with CNBG) for FY2022, which was based on the adjusted transaction amounts of Sales Transactions (excluding transactions with CNBG) for FY2021 and the estimated annual growth of 15%, to be acceptable; and (ii) the Estimated Sales Amounts (excluding transactions with CNBG) for FY2023, which was based on the Estimated Sales Amounts (excluding transactions with CNBG) for FY2022 and the estimated annual growth of 15%, to be acceptable.

- b) **the Estimated Sales Amounts with CNBG:** (i) the historical transaction amounts with CNBG for FY2021; and (ii) an estimated annual growth of 100% for FY2022 and 50% for FY2023.

We understood that the products sold to CNBG were mainly vaccine reagent raw and materials and vaccine logistics labels. The sales amounts with CNBG for FY2021 increased by over three times as compared to that for FY2020. Having considered (i) the historical growth of sales amounts with CNBG; (ii) the recurring COVID-19 pandemic in 2022; and (iii) that estimated annual growths for both FY2022 and FY2023 were lower than the historical growth from FY2020 to FY2021 and were on a gradual decrease trend from FY2022 to FY2023 as a result of the gradual recovering from the COVID-19 pandemic, we are of the view that the estimated annual growths for FY2022 and for FY2023 to be acceptable.

Accordingly, we consider the Estimated Sales Amounts with CNBG for FY2022 and FY2023 to be justifiable.

Based on the above analyses, we consider the Estimated Sales Amounts (being the summation of the Estimated Sales Amounts (excluding transactions with CNBG) and the Estimated Sales Amounts with CNBG) for FY2022 and FY2023 to be reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Buffers

As mentioned above, when determining the Revised Sale Annual Caps for the two years ending 31 December 2023, buffers of 10% were applied on the Estimated Sales Amounts so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in demand by the CNPGC Group) or unexpected increase in the selling prices of relevant products during the term of the 2020 Sales Framework Agreement.

Having considered the above factors and that we noted from circulars regarding continuing connected transactions issued by companies listed on the Stock Exchange that the incorporation of buffers of 10% in the proposed annual caps are common among companies listed on the Stock Exchange, we are of the view that the buffers are acceptable.

In light of the above factors, we consider that the Revised Sales Annual Caps for the two years ending 31 December 2023 to be fair and reasonable.

Shareholders should note that as the Revised Sales 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 to be recorded from the Sales Transactions. Consequently, we express no opinion as to how closely the actual revenue/income to be recorded from the transactions contemplated under the 2020 Sales Framework Agreement will correspond with the Revised Sales Annual Caps.

Enhanced internal control procedures after the Original Annual Caps for 2021 being exceeded

Despite that the Group implemented internal control procedures to monitor and manage on-going continuing connected transactions pursuant to the 2020 Procurement Framework Agreement and the 2020 Sales Framework Agreement, the annual caps for FY2021 were exceeded, with primary reasons are set out under the section headed "Reason for exceeding the Original Annual Caps for the Year of 2021" of the Board Letter.

We understood that the Group enhanced the procedures for monitoring the annual caps (please refer to section headed "Internal control measures" of the Board Letter for details). As (i) the Group will conduct quarterly review of actual amounts for continuing connected transactions and may take further action if the actual amounts exceeds different thresholds; (ii) the operation department of the Company is responsible for taking the lead in requesting the subsidiaries that having continuing connected transactions to report the estimated amount of continuing connected transactions in the next quarter on a quarter basis, and the finance department of the Company is responsible for reviewing the quarterly budget; and (iii) the Company established a continuing connected transaction management working group led by the office of the Board, with the participation of heads of various department of the Group as members, and will hold regular meetings on the Group's continuing connected transactions on a quarterly basis, and hold temporary meetings as necessary, we consider the enhanced procedures, if it is effectively implemented, will ensure the Revised Annual Caps not being exceeded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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, 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; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) 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 Transactions (in particular, the internal control measures for monitoring annual caps were enhanced) 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 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.

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. Yu Qingming	H Shares	Beneficial owner	100,000	0.00	0.01	Long position
Mr. Liu Yong	H Shares	Beneficial owner	59,009	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	6.64	11.65	Long position
	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 2)	50.36	88.35	Long position
Sinopharm Investment	Domestic Shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	50.36	88.35	Long position
Fosun Pharma	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 3)	50.36	88.35	Long position
Fosun High Technology	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 4)	50.36	88.35	Long position
Fosun International	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 5)	50.36	88.35	Long position
Fosun Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 6)	50.36	88.35	Long position
Fosun International Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 7)	50.36	88.35	Long position
Mr. Guo Guangchang	Domestic Shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 8)	50.36	88.35	Long position
Citigroup Inc.	H Shares	Interest of controlled corporation	3,551,101	0.11	0.26	Long position
			6,115,525	0.20	0.45	Short position
		Approved lending agent (Note 9)	93,058,253	2.98	6.93	Long position
BlackRock, Inc.	H Shares	Interest of controlled corporation (Note 10)	82,410,975	2.64	6.14	Long position
			2,550,800	0.08	0.19	Short position
FMR LLC	H Shares	Interest of controlled corporation (Note 11)	147,687,769	4.73	11.01	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 39.40% 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 International**”) 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 72.72% equity interest in Fosun International 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 0.23% 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.
- (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 96,609,354 H Shares of the Company in long position (including 93,058,253 H Shares available for lending) and 6,115,525 H Shares of the Company in short position.
- (10) BlackRock, Inc. is interested in long positions of 82,410,975 H shares of the Company and short positions of 2,550,800 H shares of the Company.
- (11) FMR LLC is interested in an aggregate of long positions of 147,687,769 H shares of the Company.
- (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 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 2021, 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 2021, 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	CNPGC	Positions held in specific companies			
		Sinopharm Investment	Fosun Pharma	Fosun High Technology	Fosun International
Mr. Yu Qingming		director and general manager			
Mr. Liu Yong		director			
Mr. Chen Qiyu		vice chairman	non-executive director	chairman	executive director, co-chief executive officer
Mr. Hu Jianwei	deputy general manager (in charge of operation), general counsel				
Mr. Deng Jindong	deputy general manager	chairman			
Mr. Wen Deyong		director	co-president		
Mr. Li Dongjiu			senior vice president		
Ms. Feng Rongli			senior vice president, general manager of human resources department		

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 2021, 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 1st Floor, No.385, East Longhua Road, Huangpu District, Shanghai 200023, 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 company secretary of the Company is Mr. Wu Yijian.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (<http://ir.sinopharmgroup.com.cn/>) for a period of 14 days from the date of this circular:

- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 21 to 22 of this circular;
- (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 40 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) 2020 Procurement Framework Agreement;
- (v) 2020 Sales 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”, together with its subsidiaries, the “Group”) will be held at 9:00 a.m. on Friday, 20 May 2022 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 actual transaction amount between the Group and China National Pharmaceutical Group Co., Ltd. (“CNP GC”) and its subsidiaries and associates (excluding the Group)(the “CNP GC Group”) under the procurement framework agreement entered into between the Company and CNP GC on 22 October 2020 (the “**2020 Procurement Framework Agreement**”) for the year ended 31 December 2021 as well as the actual transaction amount between the Group and CNP GC Group under the sales framework agreement entered into between the Company and CNP GC on 22 October 2020 (the “**2020 Sales Framework Agreement**”) for the year ended 31 December 2021 (collectively, the “**2021 Actual Transaction Amounts**”) , be and are hereby approved, confirmed and ratified.”
2. **“THAT** the proposed new annual caps for the transactions contemplated under the 2020 Procurement Framework Agreement for the two years ending 31 December 2023, be and are hereby approved and confirmed.”
3. **“THAT** the proposed new annual caps for the transactions contemplated under the 2020 Sales Framework Agreement for the two years ending 31 December 2023, be and are hereby approved and confirmed.”

By Order of the Board
Sinopharm Group Co. Ltd.
Yu Qingming
Chairman

Shanghai, the PRC
5 May 2022

* 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.”.

NOTICE OF EGM

As at the date of this notice, the executive directors of the Company are Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Mr. Li Dongjiu 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 will be closed from Thursday, 5 May 2022 to Friday, 20 May 2022 (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 Thursday, 5 May 2022 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 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. In order to cooperate with the prevention and control of the pandemic so as to safeguard the health and safety of the Shareholders and the participants of the meeting, at the same time ensuring that the Shareholders may exercise their respective Shareholders' rights, the Company recommends H share Shareholders and their proxies intending to attend the EGM to vote by completing and submitting the proxy form, i.e. to indicate how you wish your votes to be casted in the proxy form, and appoint the Chairman of the EGM as your proxy to vote on your behalf on site.

In case H share Shareholders or their proxies choose to attend the meeting in person by then, they must comply with the policies and requirements of Mainland China regarding the containment of COVID-19 pandemic. On the way to, from and at the venue of the EGM, please adopt proper personal preventive measures. Upon arrival at the venue of the EGM, please follow the arrangement and guidance of the staff and cooperate with the pandemic prevention and control requirements including, among others, attendee registration and wearing of masks.

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.

NOTICE OF EGM

8. Contact details of the Board Office of the Company in the PRC are as follows:

Address: 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