
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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



SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

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

(Stock code: 01099)

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS
FOR THE THREE YEARS ENDING 31 DECEMBER 2014**

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



China Everbright Capital Limited

A letter from the Board is set out on pages 3 to 9 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 10 to 11 of this circular. A letter from China Everbright Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 22 of this circular.

A notice convening the EGM to be held at 9:30 a.m. on Friday, 30 December 2011, at VIP Room, 8th Floor, No. 221 Fuzhou Road, Shanghai, the PRC is set out on pages 28 to 30 of this circular.

Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

* The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd."

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
I. INTRODUCTION	3
II. THE TERMS OF THE MASTER PROCUREMENT AGREEMENT	4
III. HONG KONG LISTING RULES IMPLICATIONS	7
IV. GENERAL INFORMATION OF THE PARTIES OF THE TRANSACTIONS	7
V. EGM	8
VI. RECOMMENDATIONS	8
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	10
LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR	12
APPENDIX I — GENERAL INFORMATION	23
NOTICE OF THE EGM	28

DEFINITIONS

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

associates	has the meaning ascribed to it under the Hong Kong Listing Rules
Board	the board of directors of the Company
CNPGC	China National Pharmaceutical Group Corporation (中國醫藥集團總公司), is a state wholly-owned enterprise established in the PRC and is also the holding company of the Parent, which in turn is the controlling shareholder of the Company
CNPGC Group	CNPGC and its subsidiaries and associates (excluding the Group)
Company	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
Directors	the directors of the Company
EGM	an extraordinary general meeting of the Company to be convened for Independent Shareholders to consider and, if thought fit, to approve the Master Procurement Agreement
Group	the Company and its subsidiaries
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Hong Kong Stock Exchange	the Stock Exchange of Hong Kong Limited
Independent Board Committee	an independent board committee of the Board comprising all the independent non-executive Directors, who have no material interests in the Master Procurement Agreement, namely Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Zhou Bajun
Independent Financial Advisor	China Everbright Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Master Procurement Agreement

DEFINITIONS

Independent Shareholders	shareholders of the Company who are not required to abstain from voting on the resolution to be proposed at the EGM under the Hong Kong Listing Rules
Latest Practicable Date	11 November 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
Master Procurement Agreement	the master pharmaceutical products, personal-care supplies and medical equipment procurement agreement dated 11 November 2011 and entered into between the Company and CNPGC
Original Master Procurement Agreement	the master pharmaceutical products, personal-care supplies and medical equipment procurement agreement dated 31 August 2009 and entered into between the Company and CNPGC
Parent	Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company
PRC	the People's Republic of China, which for the purpose of this circular only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
RMB	Renminbi, the lawful currency of the PRC
SFO	the Securities and Futures Ordinance (Chapter 571 of laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
Shareholders	the shareholders of the Company
Supervisors	the supervisors of the Company



SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

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

(Stock code: 01099)

Executive Directors:

Mr. Wei Yulin

Registered office:

6th Floor, No. 221 Fuzhou Road
Shanghai 200002, China

Non-executive Directors:

Mr. She Lulin (Chairman)
Mr. Wang Qunbin
Mr. Chen Wenhao
Mr. Zhou Bin
Mr. Chen Qiyu
Mr. Deng Jindong
Mr. Fan Banghan
Mr. Liu Hailiang

Principal place of business in Hong Kong:

Room 2302, Far East Finance Centre
No. 16 Harcourt Road
Admiralty, Hong Kong

Independent non-executive Directors:

Mr. Wang Fanghua
Mr. Tao Wuping
Mr. Xie Rong
Mr. Zhou Bajun

14 November 2011

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS
FOR THE THREE YEARS ENDING 31 DECEMBER 2014**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 11 November 2011 in relation to the continuing connected transactions, among which, the Company expects to renew the Master Procurement Agreement and proposes to renew the annual caps for the three years ending 31 December 2014 for the transactions contemplated thereunder.

* The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd."

LETTER FROM THE BOARD

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Master Procurement Agreement and China Everbright Capital Limited has been appointed as Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Master Procurement Agreement and the proposed annual caps thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with (i) further information of the Master Procurement Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; and (iii) the advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, together with a notice convening the EGM.

II. THE TERMS OF THE MASTER PROCUREMENT AGREEMENT

Date: 11 November, 2011

Parties: (i) the Company
(ii) the CNPGC

Continuing transactions Pursuant to Master Procurement Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group. The related services to be provided by the CNPGC Group under the Master Procurement Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, other related and ancillary services.

Term and termination The Master Procurement Agreement is for a term of three years with effect from 1 January 2012 and ending on 31 December 2014. Upon expiry, the Master Procurement Agreement will, subject to compliance with the relevant requirements under the Hong Kong Listing Rules and agreement of the parties, be renewed for a further term of three years.

Either party may, at any time before the Master Procurement Agreement expires, by giving not less than 3 months' notice to terminate the transactions under the Master Procurement Agreement.

Price determination Under the Master Procurement Agreement, the price shall be determined in accordance with the following pricing principles:

- the stated-prescribed price;
- where there is no stated-prescribed price, the relevant stated-recommended price;
- where there is no stated-recommended price neither, the relevant market price which means normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties under prevailing local market conditions; or

LETTER FROM THE BOARD

- where there is none of the above available or applicable, the price shall be calculated based on, if lower, the reasonable cost or the actual cost, plus reasonable profit margin. The reasonable profit margin shall be determined by reference to the profit margin of the prevailing market and the then market for each of the product or service as contemplated thereunder, the average profit margin in the related industry, and the overall profit margin of the Group in the past years.

The procurement fees under the Master Procurement Agreement are payable by the Group and funded by internal resources of the Group.

Annual Caps

Actual Transaction Values

The actual transaction values of the transactions contemplated under the Original Master Procurement Agreement for the two years ended 31 December 2010 and for the nine months ended 30 September 2011, respectively, are set out below:

	Year ended 31 December 2009 (RMB)	Year ended 31 December 2010 (RMB)	Nine months ended 30 September 2011 (RMB)
Transactions			
Payment payable by the Group to the CNPGC Group	961,200,000	1,436,000,000	1,178,000,000

Historical Annual Caps

The annual caps for the transactions contemplated under the Original Master Procurement Agreement for the two years ended 31 December 2010 and for the year ending 31 December 2011, respectively, are set out below:

	Year ended 31 December 2009 (RMB)	Year ended 31 December 2010 (RMB)	Year ending 31 December 2011 (RMB)
Transactions			
Payment payable by the Group to the CNPGC Group	916,000,000	3,000,000,000	4,000,000,000

As at the date of this circular, the annual cap for the transactions contemplated under the Original Master Procurement Agreement for the year ending 31 December 2011 has not been exceeded.

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the Master Procurement Agreement for the three years ending 31 December 2014, respectively, are set below:

Transactions	Year ending 31 December 2012 (RMB)	Year ending 31 December 2013 (RMB)	Year ending 31 December 2014 (RMB)
Payment payable by the Group to the CNPGC Group	5,200,000,000	6,760,000,000	8,788,000,000

In arriving at the above proposed annual caps in respect of the provision of pharmaceutical products, personal-care supplies, medical equipment and the related services to the Group by the CNPGC Group, the Directors have taken into account, among other matters, the following factors:

- (i) the historical figures of the actual transaction values of the transactions contemplated under the Original Master Procurement Agreement for the two years ended 31 December 2010 and for the nine months ended 30 September 2011;
- (ii) the estimated growth in the prices of the pharmaceutical products, personal-care supplies, medical equipment and the related services during the three years ending 31 December 2014;
- (iii) the estimated growth of the demand for pharmaceutical products, personal-care supplies, medical equipment and the related services of the Group, respectively, during the three years ending 31 December 2014, due to (a) that the relevant service providers and products suppliers engaged by the Group have become the subsidiaries or associates of the CNPGC Group consecutively as the results of a series of merger and acquisitions made by the CNPGC Group during the year ended 31 December 2010 and the first half of 2011, (b) the delay in certain original connected transactions supposed to be implemented under the Original Master Procurement Agreement, and (c) the expansion in the business scale of the Group due to a series of merger and acquisitions made by the Group during the year ended 31 December 2010 and the first half of 2011 and to be made by the Group during the three years ending 31 December 2014;
- (iv) the expected increase in the number of our customers and their demand for our pharmaceutical products, personal-care supplies and medical equipment as a result of the medical reform by the PRC Government;
- (v) the estimated annual expansion of distribution network and retail drug store network of the Group due to the expected approximately 20% annual growth of the pharmaceutical distribution industry in the PRC for the three years ending 31 December 2014 based on a report “China Pharmaceuticals & Healthcare Report Q4 2008” published by Business Monitor International Ltd.; and
- (vi) the then market conditions and the economic outlook of the PRC during the three years ending 31 December 2014.

Implementation Agreements

Members of the Group and members of the CNPGC Group will enter into, from time to time and as necessary, separate implementation agreements to set out the specific terms and conditions in respect of the procurement of the goods and services thereunder.

LETTER FROM THE BOARD

As the implementation agreements provide for the procurement of pharmaceutical products, personal-care supplies, medical equipment and the related services as contemplated under the Master Procurement Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the Master Procurement Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Hong Kong Listing Rules accordingly.

Reasons for entering into the Master Procurement Agreement

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

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

III. HONG KONG LISTING RULES IMPLICATIONS

CNPGC is a holding company of our Parent which in turn is the controlling shareholder of the Company, therefore CNPGC and its subsidiaries are associates of the connected persons of the Company. Therefore, the transactions contemplated under the Master Procurement Agreement constitute the continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2014 for transactions contemplated under the Master Procurement Agreement exceed 5%, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no other continuing transaction entered into between any member of the Group and CNPGC and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the Master Procurement Agreement, aggregated under Rule 14A.25 of the Hong Kong Listing Rules.

IV. GENERAL INFORMATION OF THE PARTIES OF THE TRANSACTIONS

The Company

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

LETTER FROM THE BOARD

CNPGC

CNPGC is a state wholly-owned enterprise established in the PRC and is also the holding company of the Parent, which in turn is the controlling shareholder of the Company. CNPGC is principally engaged in the wholesale of pharmaceutical products and biological products, etc.

V. EGM

The EGM will be held at 9:30 a.m. on Friday, 30 December 2011, at VIP Room, 8th Floor, No. 221 Fuzhou Road, Shanghai, the PRC, at which the resolution will be proposed to approve the transactions contemplated under the Master Procurement Agreement and the proposed annual caps thereof for the three years ending 31 December 2014. A notice convening the EGM is set out on pages 28 to 30 of this circular.

Votes on the resolution to be considered at the EGM shall be taken by way of poll. At as the date of this circular, the Parent and its associates, who directly and indirectly, hold 1,574,284,349 shares (represent approximately 65.52% of the issued share capital of the Company), control or are entitled to control over the voting right in respect of their shares in the Company. Therefore, the Parent and its associates will abstain from voting on the resolution to be proposed at the EGM in relation to the Master Procurement Agreement and the proposed annual caps thereof for the three years ending 31 December 2014.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than the Parent and its associates, no connected person of the Company, Shareholders or their respective associates with a material interest in the Master Procurement Agreement is required to abstain from voting at the EGM.

Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

VI. RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Master Procurement Agreement; and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Master Procurement Agreement and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Master Procurement Agreement (i) have been negotiated on an arm's length basis; (ii) will be conducted on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties under prevailing local market conditions; (iii) are entered into in the ordinary and usual course of business of the Company; (iv) are fair and reasonable and in the interests of Company and the Shareholders as a whole; and (v) that the proposed annual caps thereof for the three years ending 31 December 2014 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Mr. She Lulin, Mr. Chen Wenhao, Mr. Zhou Bin and Mr. Deng Jindong, also being directors or senior management of the Parent and its associates including the CNPGC, are deemed to have material interests in the transactions contemplated under the Master Procurement Agreement and have abstained from voting on the Board resolution. Other than those Directors mentioned above, none of the other Directors has the material interest in the transactions contemplated thereunder.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in relation to the transactions contemplated under the Master Procurement Agreement and the proposed annual caps thereof for the three years ending 31 December 2014.

By order of the Board
SINOPHARM GROUP CO. LTD.
She Lulin
Chairman



SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

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

(Stock code: 01099)

Independent Board Committee

Mr. Wang Fanghua

Mr. Tao Wuping

Mr. Xie Rong

Mr. Zhou Bajun

14 November 2011

To the Independent Shareholders:

Dear Sirs or Madam

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS
FOR THE THREE YEARS ENDING 31 DECEMBER 2014**

We refer to this circular dated 14 November 2011 issued by the Company to the Shareholders, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been formed to consider and advise the Independent Shareholders as to whether, in our opinion, the Master Procurement Agreement and the proposed annual caps thereof for the three years ending 31 December 2014 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Shareholders are recommended to read the letter from the Independent Financial Adviser, the letter from the Board contained in this circular as well as the additional information set out in the appendix to this circular.

As the Independent Board Committee, we have discussed with the management of the Company on the terms of the Master Procurement Agreement, the basis upon which the proposed annual caps thereof for the Master Procurement Agreement for the three years ending 31 December 2014 as set out in this circular are determined.

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd."*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the advices given by the Independent Financial Advisor, we are of the view that the transactions contemplated under the Master Procurement Agreement (i) have been negotiated on an arm's length basis; (ii) will be conducted on normal commercial terms, or on terms no less favourable to the Group than those available to or from independent third parties under prevailing local market conditions; (iii) are entered into in the ordinary and usual course of business of the Group; (iv) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (v) that the proposed annual caps thereof for the three years ending 31 December 2014 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in relation to the Master Procurement Agreement and the proposed annual caps thereof for the three years ending 31 December 2014.

Yours faithfully,
The Independent Board Committee
Mr. Wang Fanghua **Mr. Tao Wuping**
Mr. Xie Rong **Mr. Zhou Bajun**
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the “Letter from the Independent Financial Adviser” to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



14 November 2011

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS: MASTER PROCUREMENT AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in relation to procurement of pharmaceutical products, personal-care supplies, medical equipment and the related services by the Group from the CNPGC Group from 1 January 2012 to 31 December 2014 (the “**Continuing Connected Transactions**”) contemplated under the Master Procurement Agreement with CNPGC, details of which are set out in the letter from the Board (“**Letter from the Board**”) contained in the circular to the Shareholders dated 14 November 2011 (“**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.

As set out in the Letter from the Board, since the Original Master Procurement Agreement in relation to the Continuing Connected Transactions and their respective annual caps will expire on 31 December 2011, the Master Procurement Agreement has been entered into between the Company and CNPGC on 11 November 2011 in order to govern and specify the terms and conditions adopted and the Proposed Annual Caps (the “**Proposed Annual Caps**”) in relation to the Continuing Connected Transactions.

CNPGC is a state wholly-owned enterprise established in the PRC and is the holding company of Sinopharm Industrial Investment Co., Ltd., which is the controlling shareholder of the Company. As a result, CNPGC is a connected person of the Company under the Listing Rules. As the applicable percentage ratios in respect of the Proposed Annual Caps are more than 5% and the maximum annual values of the Continuing Connected Transactions are more than HK\$10 million, the Master Procurement Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, has been formed to consider whether (i) the terms of the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the Continuing Connected Transactions, including the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect thereof. We, China Everbright Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees and benefits from the Group, the CNPGC Group or any of their respective associates. We are independent from and not connected with the Group and the CNPGC Group or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules, and are accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transactions.

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our views on the Continuing Connected Transactions, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

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

The Group is principally engaged in (i) distribution of medicines, medical device and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics; (ii) operation of pharmaceutical chain stores; and (iii) distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products. As set out in the 2011 interim report (“**2011 Interim Report**”) of the Company, pharmaceutical distribution operations is the principal business of the Group and the revenue from pharmaceutical distribution operations accounted for 93.52% of total revenue of the Group. During its normal and ordinary course of business, the Group procures pharmaceutical and healthcare products, as well as personal care products and medical supplies, from its suppliers, including the CNPGC Group, from time to time.

As stated in the Letter from the Board, the CNPGC Group is the largest pharmaceutical group in the PRC with outstanding competency in pharmaceutical industry and has developed good experience and service systems in respect of the products and services under the Master Procurement Agreement. Therefore, the Company and CNPGC entered into the Original Master Procurement Agreement on 4 September 2009, pursuant to which the Group has procured pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group, subject to the annual caps and the terms of Original Master Procurement Agreement, which will expire on 31 December 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Management expects the Continuing Connected Transactions will continue after 31 December 2011. In compliance with the continuing connected transaction requirements under the Listing Rules, the Directors propose to seek Independent Shareholders' approval to renew the Continuing Connected Transactions for a term up to 31 December 2014.

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

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

(B) Major terms of the Master Procurement Agreement

Pursuant to the Master Procurement Agreement, the Group, subject to the Proposed Annual Caps, has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group for a term of three years ending 31 December 2014. The Group and the CNPGC Group will enter into separate implementation agreements to specify terms and conditions in respect of the procurement of related products and services thereunder.

As stated in the Letter from the Board, the prices of related products or services under the Master Procurement Agreement are determined in accordance with the following pricing principles:

- the stated-prescribed price;
- where there is no stated-prescribed price, the relevant stated-recommended price;
- where there is no stated-recommended price neither, the relevant market price which means normal commercial terms, or on terms no less favourable than those available to or from independent third parties under prevailing local market conditions; or
- where there is none of the above available or applicable, the price shall be calculated based on, if lower, the reasonable cost or the actual cost, plus reasonable profits margin.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the related products or services under the Master Procurement Agreement procured by the Group are pharmaceutical products, personal-care supplies and medical equipment as well as the related services. Therefore, the Management confirms that almost all of such products and services have stated-prescribed price, stated-recommended price or relevant market price. In any event if selling prices of related products or services under the Master Procurement Agreement cannot be determined with reference to stated-prescribed price, stated-recommended price or relevant market price, selling prices of such product or service shall be calculated based on, if lower, the reasonable cost or the actual cost, plus reasonable profits margin. The reasonable profits margin shall be determined by reference to the profit margin of the prevailing market and the then market for each of the product or service as contemplated thereunder, the average profit margin in the related industry, and the overall profit margin of the Group in the past years.

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

Taking into account of the above, we are of the view that appropriate and sufficient pricing mechanism has been in place to ensure that the transactions to be contemplated under the Master Procurement Agreement will be conducted on normal commercial terms.

For the purpose of evaluating the fairness and reasonableness of the transactions under the Master Procurement Agreement, we carried out review on the terms of sample purchase agreements signed by the Group with other independent suppliers. Based on the result of our review, we found that the principal terms, including pricing basis and credit terms, were similar and comparable with those of the Master Procurement Agreement.

Taking into account of the above, we are of the view that the terms of the Master Procurement Agreement are on normal commercial terms.

(C) The Proposed Annual Caps

The Continuing Connected Transactions are subject to requirements and conditions of the Listing Rules as particularly discussed under the section headed “Requirements of the Listing Rules” below. In particular, the Continuing Connected Transactions are subject to the Proposed Annual Caps as discussed below.

The Proposed Annual Caps for the three years ending 31 December 2014 are RMB5.2 billion, RMB6.76 billion and RMB8.788 billion, respectively. As set out in the Letter from the Board, the Directors are of the opinion that the Proposed Annual Caps set out above are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

- The growth of historical transaction amounts under the Original Master Procurement Agreement;
- The expected growth of the Group's business driven by its organic growth and potential acquisitions; and
- The expected growth of the CNPGC Group's business driven by its organic growth and potential acquisitions.

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

Set out below are (i) the annual caps under the Original Master Procurement Agreement, (ii) the Proposed Annual Caps under the Master Procurement Agreement; and (iii) the historical transactions amounts for the two years ended 31 December 2010 and the latest available transaction amount for nine months ended 30 September 2011:

	2009	2010	2011	2012	2013	2014
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Annual Caps	916.0	3,000.0	4,000.0	5,200.0	6,760.0	8,788.0
Historical transaction value	961.2	1,436.0	1,178.0 (up to 30 September 2011)	n/a	n/a	n/a

As illustrated above, the actual total purchase by the Group from the CNPGC Group increased by approximately 49.4% from approximately RMB961.2 million in 2009 to approximately RMB1.4 billion in 2010. During the first nine months ended 30 September 2011, the actual total purchase by the Group from the CNPGC Group amounted to approximately RMB1,178 million, representing approximately 82% of total purchase amount from the CNPGC Group in 2010, and therefore, the Management expects that the total purchase from the CNPGC Group in 2011 will achieve sustainable growth over 2010.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the 2011 Interim Report, according to the information of China Association of Pharmaceutical Commerce in 2010, the Group is the industry leader in the distribution of pharmaceutical and healthcare products in the PRC, both in terms of its market share and the geographical range of its distribution network. As a leading pharmaceutical distributor in the PRC, the Group is well-positioned to benefit from the rapid growth, consolidation, and regulatory reform in the pharmaceutical and healthcare industry of the PRC.

The PRC is one of the world's fastest-growing economies. According to the National Bureau of Statistics of China, the nominal gross domestic product of the PRC increased from RMB18.4 trillion in 2005 to RMB34.1 trillion in 2009, representing a CAGR of 16.7%, resulting in a rapid growth in disposable income in both urban and rural areas, which is expected to contribute to the sustainable growth in the healthcare spending in the PRC. The growth of the PRC's population, from 1,307.6 million in 2005 to 1,334.7 million in 2009, is also expected to underpin the demand for pharmaceutical market.

The PRC government's support in recent years has further drive up the growth of the PRC pharmaceutical market. The PRC government continued to strengthen the medical reform and reinforced implementation of corresponding auxiliary measures. The "Twelfth Five-Year Plan" encouraged the innovation and domestic demand for pharmaceutical market. By adjusting the structure of the pharmaceutical industry and implementing the Good Manufacturing Practice ("GMP") and pharmacopoeia, the leading enterprises will further drive the growth of pharmaceutical market.

The promulgation of "The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015" has promoted the concentration of domestic pharmaceutical distribution industry, structural adjustment of the industry, and encouraged mergers and reorganization of the pharmaceutical distribution enterprises. The PRC government estimated a 23% growth in the pharmaceutical industry in 2011. According to the China Association of Pharmaceutical Commerce, the sales of pharmaceutical products in 2011 is expected to reach RMB860 billion.

As stated in the Letter from the Board, according to a report "China Pharmaceuticals & Healthcare Report Q4 2008" published by Business Monitor International Ltd, which is a London-based independent provider of country risk and industry research, analysis, data and forecasts for businesses, banks, financial service companies, governments, academia and research centers, the pharmaceutical distribution industry in the PRC is expected to grow approximately 20% annually for the three years ending 31 December 2014. As advised by the Management, leveraged on its well-established leading position in the pharmaceutical distribution industry and strong operating performance which generate strong cash flow, the Group is well positioned to capture the market growth through expansion of its own distribution network and retail drug store network as well as through acquisition of companies with well established distribution network. As stimulated by its sustainable growth of business, the Group is expected to increase its procurement of pharmaceutical products, personal-care supplies, medical equipment and the related services from the CNPGC Group during the three years ending 31 December 2014.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As advised by the Management, the concentration of pharmaceutical distribution market has continued to intensify and the proportion of total revenue of the top three enterprises in the pharmaceutical distribution industry has increased continuously. However, the industry is still highly fragmented and there is plenty of room for improvement and integration.

As a leading enterprise in the pharmaceutical distribution industry in the PRC, the Group seized every opportunity and dealt with every challenge. Through proactively implementing strategies and optimizing its organizational structure and continuously standardizing its management system, the Group expanded its network coverage and optimized its operating model, so as to remain and consolidate its position as the leading distributor of, and supply chain service provider for, pharmaceutical and healthcare products in the PRC.

In order to consolidate its leading position in tier-1 cities and further extend its coverage in tier-2 and 3 cities, the Group has implemented a series of acquisitions during the past few years. Some of the companies acquired by the Group are ranked among the “Top 100 Pharmaceutical Distribution Enterprises of 2009” selected by China Association of Pharmaceutical Commerce (the “**Top 100 List**”). As stated in the Company's 2010 annual report (“**2010 Annual Report**”) and 2011 Interim Report, the Group acquired the following pharmaceutical distribution companies in the PRC during 2010 and the first half of 2011:

- 樂仁堂醫藥集團股份有限公司 (Le Ren Tang Pharmaceutical Group Co., Ltd.) — ranked 17 in the Top 100 List;
- 黑龍江龍衛同新公司 (Heilongjiang Longwei Tongxin Pharmaceutical Co., Ltd.);
- 吉林省隆泰藥業有限公司 (Jilin Longtai Pharmaceutical Co., Ltd.);
- 北京天星普信生物醫藥有限公司 (Beijing Tianxingpuxin Bio-med Co., Ltd.) — ranked 44 in the Top 100 List;
- 上海立康醫藥有限公司 (Shanghai Likang Medicine Co., Ltd.);
- 上海滬甬醫藥有限公司 (Shanghai Huyong Medicine Co., Ltd.);
- 上海凌雲醫藥有限公司 (Shanghai Linyun Pharmaceutical Co., Ltd.);
- 上海培寶康企業管理有限公司 (Shanghai Peibaokang Pharmaceutical Co., Ltd.);
- 常州亞泰五洲醫藥有限公司 (Changzhou Yatai Wuzhou Pharmaceutical Co.) — ranked 25 in the Top 100 List;
- 溫州市生物藥械供應有限公司 (Wenzhou Biomedicin-Appliances Supplies Co., Ltd.) — ranked 49 in the Top 100 List;
- 浙江溫嶺醫藥藥材有限公司 (Zhejiang Wenling Pharmaceutical Co., Ltd.);

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 浙江省縉雲縣醫藥有限公司 (Zhejiang Jinyun Pharmaceutical Co., Ltd.);
- 新疆新特藥公司 (Xinjiang New & Special Company) — ranked 23 in the Top 100 List;
- 佛山市南海醫藥集團有限公司 (Foshan City Nanhai Pharmaceutical Group Co., Ltd.) — ranked 63 in the Top 100 List; and
- 海南科園鴻益醫藥股份有限公司 (Hainan Keyuanhongyi Pharma Co., Ltd.).

As stated in the 2010 Annual Report and the 2011 Interim Report, the companies acquired and established by the Group in 2010 and the first half of 2011 have contributed sales revenue of approximately RMB14,549 million and approximately RMB6,043 million to the Group, respectively.

With aim to consolidate its leading position in tier-1 cities and extend its coverage in tier-2 and 3 cities in the PRC, we were advised by the Management that the Group will continue to implement its aggressive merger and acquisition strategies over the next few years. Therefore, it will support the sustainable growth of the Group's procurement from the CNPGC Group during the three years ending 31 December 2014.

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

We noted that the proposed annual cap for 2012 is significantly higher than the historical transaction value during the nine months ended 30 September 2011. As explained by the Management, the estimated growth of the proposed annual caps mainly reflected the facts that:

- i) Two large-scale pharmaceutical research and manufacturing institutions, namely 中國生物技術集團 (China National Biotech Group) and 上海醫藥工業研究院 (Shanghai Institute of Pharmaceutical Industry), have become subsidiaries or associates of the CNPGC Group consecutively due to a series of merger and acquisition made by the CNPGC Group during the second half of 2010 and first half of 2011;
- ii) In addition, the acquisition of 山西醫藥集團 (Shanxi Pharmaceutical Group) by the CNPGC Group is expected to completed by the end of 2011;
- iii) given the historical business relationship with the CNPGC Group, the Group has decided to switch its purchase orders from independent suppliers to 中國生物技術集團 (China National Biotech Group), 上海醫藥工業研究院 (Shanghai Institute of Pharmaceutical Industry) and 山西醫藥集團 (Shanxi Pharmaceutical Group) (collectively, "**Related Companies**") upon the Related Companies become subsidiaries or associates of the CNPGC Group ("**Acquisition Completion**"). As estimated by the Management, the relevant annual purchase orders to be placed to the Related Companies will be not less than RMB1.5 billion, given the business scale of the Related Companies and the growing procurement needs from the Group arising from its continuous business development;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- iv) Due to the delay in the Acquisition Completion and business integration between the Related Companies and the CNPGC Group, only a limited amount of purchase orders were placed by the Group to the Related Companies during the nine months ended 30 September 2011;
- v) As estimated by the Management, the Acquisition Completion and business integration between the Related Companies and the CNPGC Group will be finished gradually by the end of 2011, therefore, the Management will start to switch its purchase orders from independent suppliers to the Related Companies in 2012 which result in substantially increase in the procurement from the CNPGC Group; and
- vi) Upon the completion of the above acquisitions, it has further expanded the product portfolio and strengthened the presence of the CNPGC Group in different regions of the PRC. As advised by the Management, the CNPGC Group may continue to acquire other pharmaceutical companies in the PRC over the next few years. Benefited from the continuous business expansion of the Group and the CNPGC Group, the Management expects that it will further increase the Group's purchase of pharmaceutical products, personal-care supplies, medical equipment and the related services from the CNPGC Group during the three years ending 31 December 2014.

Set out below is the details of 中國生物技術集團 (China National Biotech Group) 上海醫藥工業研究院 (Shanghai Institute of Pharmaceutical Industry) and 山西醫藥集團 (Shanxi Pharmaceutical Group):

中國生物技術集團 (China National Biotech Group)

According to its official website, China National Biotech Group is one of the leading research and manufacturing institutions for vaccines and blood products in the PRC, and the world's fourth largest vaccine manufacturers, with annual sales revenue over RMB5 billion. 北京天壇生物製品股份有限公司 (Beijing Tiantan Biological Co., Ltd.) (Stock code: 600161), being one of the subsidiary of China National Biotech Group, is primarily engaged in the provision of treatment for hepatitis and vaccine products including hepatitis vaccines and rubella vaccines, with total revenue of approximately RMB1.03 billion during the nine months ended 30 September 2011.

上海醫藥工業研究院 (Shanghai Institute of Pharmaceutical Industry)

According to its official website, Shanghai Institute of Pharmaceutical Industry is one of the leading state-owned pharmaceutical research and manufacturing institutions in Shanghai. Its products are mainly focus on the treatment of cardiovascular drugs, anti-infectives and endocrine system. 上海現代製藥股份有限公司 (Shanghai Modern Pharmaceutical Co., Ltd.) (Stock code: 600420), being one of the subsidiary of Shanghai Institute of Pharmaceutical Industry, is primarily engaged in the development, manufacturing and distribution of pharmaceuticals, with total revenue of approximately RMB1.2 billion during the nine months ended 30 September 2011. Its products include antibiotics, hypertension drugs, diet pills, anti-aging drugs, biological products and medicine preparations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

山西醫藥集團 (Shanxi Pharmaceutical Group)

Founded in 1999, Shanxi Pharmaceutical Group is one of major pharmaceutical enterprises in Shanxi. It has around 15 proprietary Chinese medicines and other popular branded Chinese medicines. 山西雙鶴藥業有限公司 (Shanxi Shuanghe Pharmaceutical Co., Ltd.) is one of the major group members of Shanxi Pharmaceutical Group. According to its official website, it achieved sales of approximately RMB2.1 billion in 2010, and its product portfolio contains approximately 11,000 type medicines.

Based on the various factors described above, we regard the basis of the Proposed Annual Caps as fair and reasonable so far as the Group and the Shareholders are concerned. However, as the Proposed Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2014, we express no opinion as to how closely the actual volume of purchase pursuant to the Master Procurement Agreement shall correspond to the Proposed Annual Caps.

(D) Requirements of the Listing Rules on the Continuing Connected Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Group;
 - (iii) have been entered into in accordance with the terms of the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have not exceeded the Proposed Annual Caps;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) the Company shall allow, and shall procure the relevant counter-parties to the Continuing Connected Transactions shall allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

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

OUR RECOMMENDATIONS

Having considered the principal factors and reasons referred to above, we are of the opinion that the Master Procurement Agreement, the transactions and the Proposed Annual Caps contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interest of the Group and the Shareholders as a whole, and the terms thereof as well as the Proposed Annual Caps are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

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

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICER

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO), which are required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and to the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to the Directors, the Supervisors and the chief executive officer of the Company, as at the Latest Practicable Date, the following persons, other than the Directors, the Supervisors, or the chief executive officer of the Company, had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares in the Company (%)	Approximate percentage to the issued domestic shares in the Company (%)	Approximate percentage to the issued H shares in the Company (%)	Long position/ short position/ shares available for lending
China National Pharmaceutical Group Corporation	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.11	0.17	—	N/A
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 2 and 10)	65.41	99.83	—	N/A
Sinopharm Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	65.41	99.83	—	N/A
Shanghai Qishen Investment Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 3 and 10)	65.41	99.83	—	N/A
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 4 and 10)	65.41	99.83	—	N/A
Shanghai Fosun High Technology (Group) Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 5 and 10)	65.41	99.83	—	N/A
Fosun International Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 6 and 10)	65.41	99.83	—	N/A
Fosun Holdings Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 7 and 10)	65.41	99.83	—	N/A

APPENDIX I

GENERAL INFORMATION

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares in the Company (%)	Approximate percentage to the issued domestic shares in the Company (%)	Approximate percentage to the issued H shares in the Company (%)	Long position/ short position/ shares available for lending
Fosun International Holdings Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 8 and 10)	65.41	99.83	—	N/A
Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 9 and 10)	65.41	99.83	—	N/A
National Council for Social Security Fund of the People's Republic of China	H shares	Beneficial owner	62,753,102	2.61	—	7.58	Long position
Mirae Assets Global Investments (Hong Kong) Limited	H shares	Investment manager	40,648,000	1.69	—	4.91	Long position
Capital Research and Management Company	H shares	Investment manager	74,959,025	3.12	—	9.05	Long position
Blackrock, Inc	H shares	Interest of controlled corporation	51,602,815	2.15	—	6.23	Long position
		Interest of controlled corporation	5,756,806	0.24	—	0.69	Short position
Government of Singapore Investment Corporation Pte Ltd	H shares	Investment manager	50,604,400	2.11	—	6.11	Long position
JPMorgan Chase & Co.	H shares	Of which, 4,165,200 were held by beneficial owner, 9,200 shares were held by investment manager and 38,079,749 shares were held by custodian-corporation/ authorized lending agent	42,254,149	1.76	—	5.10	Long position
		Of which, 2,099,030 were held by beneficial owner, 9,200 shares were held by investment manager	2,108,230	0.08	—	0.25	Short position
		custodian-corporation/ authorized lending agent	38,079,749	1.58	—	4.60	Lending pool
Matthews International Capital Management, LLC	H shares	Investment manager	41,692,800	1.74	—	5.03	Long position

Notes:

- (1) Such 1,571,555,953 domestic shares belong to the same batch of shares.
- (2) China National Pharmaceutical Group Corporation is interested in 2,728,396 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd.. As China National Pharmaceutical Group Corporation owns 51% of the equity interest in Sinopharm Industrial Investment Co., Ltd., it is deemed to be interested in the shares held by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.

- (3) Shanghai Qishen Investment Co., Ltd. is the beneficial owner of a 49% equity interest in Sinopharm Industrial Investment Co., Ltd. and, therefore, Shanghai Qishen Investment Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (4) Shanghai Fosun Pharmaceutical (Group) Co., Ltd. is the beneficial owner of a 100% equity interest in Shanghai Qishen Investment Co., Ltd. and, therefore, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (5) Shanghai Fosun High Technology (Group) Co., Ltd. is the beneficial owner of a 49.03% equity interest in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and, therefore, Shanghai Fosun High Technology (Group) Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (6) Fosun International Limited is the beneficial owner of 100% equity interest in Shanghai Fosun High Technology (Group) Co., Ltd. and, therefore, Fosun International Limited is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (7) Fosun Holdings Limited is the beneficial owner of 78.24% equity interest in Fosun International Limited and, therefore, Fosun Holdings Limited is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (8) Fosun International Holdings Ltd. is the beneficial owner of 100% equity interest in Fosun Holdings Limited and, therefore, Fosun International Holdings Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
- (9) Mr. Guo Guangchang is the beneficial owner of 58% equity interest in Fosun International Holdings Ltd. and 0.006% equity interest in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. pursuant to the SFO.
- (10) Since each of the relevant person and corporations listed in the first column is entitled to control, directly or indirectly, more than one-third of the voting power at general meetings of Sinopharm Industrial Investment Co., Ltd., which is the beneficial owner of these 1,571,555,953 domestic shares, such person and corporations are deemed to be interested in these 1,571,555,953 domestic shares pursuant to the SFO.
- (11) As at the Latest Practicable Date, Mr. She Lulin, Mr. Chen Wenhao, Mr. Zhou Bin and Mr. Deng Jindong are also directors or senior management of the Parent and its associates including CNPGC.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, the Supervisors and the chief executive officer of the Company, there was no other person (other than the Directors, the Supervisors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors and the Supervisors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group was made up.

5. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and the Supervisors nor their respective associates was interested in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group which would require disclosure under the Hong Kong Listing Rules.

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

As at the Latest Practicable Date, none of the Directors nor 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 2010, being the date to which the latest published audited financial statements of the Group was made up or was proposed to be acquired or disposed of by or leased to any member of the Group. None of the Directors nor the Supervisors 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 taken as a whole.

7. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors nor 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).

8. LITIGATION

As far as the Directors are aware, none of the members of the Group is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

9. EXPERT'S QUALIFICATION AND CONSENT

China Everbright Capital Limited, as the Independent Financial Adviser, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advices and references to its names in the form and context in which it appear.

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

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

10. EXPERTS' INTERESTS

As the Latest Practicable Date, China Everbright Capital Limited, had not any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2010, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital 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.

11. METHOD OF VOTING AT THE EGM

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to the resolution to be proposed at the EGM.

12. MISCELLANEOUS

- a) The joint company secretaries of the Company are Mr. Wu Aimin and Dr. Liu Wei.
- b) The registered office of the Company is situated at 6th Floor, No. 221 Fuzhou Road, Shanghai 200002, China.
- c) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited which is situated at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 2302, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong during normal business hours on any business day from the date of this circular up to and including 28 November 2011:

- a) the Master Procurement Agreement;
- b) the letter from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out in this circular; and
- d) the letter of consent from the expert referred to under the paragraph headed “Expert’s Qualification and Consent” in this appendix.

NOTICE OF THE EGM



SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

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

(Stock code: 01099)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Sinopharm Group Co. Ltd., (the “**Company**”) will be held at 9:30 a.m. on Friday, 30 December 2011, at VIP Room, 8th Floor, No. 221 Fuzhou Road, Shanghai, the PRC, for the purpose of considering and, if thought fit, passing the following resolution:

AS AN ORDINARY RESOLUTION

1. **THAT**, the master pharmaceutical products, personal-care supplies and medical equipment procurement agreement dated 11 November 2011 (the “**Master Procurement Agreement**”) and entered into between the Company and China National Pharmaceutical Group Corporation, and the annual caps for the three years ending 31 December 2014 for the transactions contemplated thereunder are hereby approved, ratified and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Master Procurement Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient.

By order of the Board
SINOPHARM GROUP CO. LTD.
She Lulin
Chairman

Shanghai, the PRC, 14 November 2011

As at the date of this notice, the executive director of the Company is Mr. Wei Yulin; the non-executive directors of the Company are Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Wenhao, Mr. Zhou Bin, Mr. Chen Qiyu, Mr. Deng Jindong, Mr. Fan Banghan and Mr. Liu Hailiang; and the independent non-executive directors of the Company are Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Zhou Bajun.

NOTICE OF THE EGM

Notes:

1. Eligibility for Attending the EGM

Holders of H shares of the Company whose names appear on the register of members of the Company maintained by Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at the close of business of Tuesday, 29 November 2011 shall be entitled to attend the EGM.

To qualify for attendance and vote at the EGM to be held on Friday, 30 December 2011, all transfers of H shares accompanied by the relevant share certificate must be lodged with Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 29 November 2011.

2. Proxy

- (1) Shareholders entitled to attend and vote at the EGM may appoint one or more proxies in writing to attend and vote at the meeting on his behalf. The proxy need not be a shareholder of the Company.
- (2) A proxy shall be appointed by a shareholder by a written instrument signed by the appointor or his attorney duly authorized in writing. In case of a corporation, the same must be either under its common seal or under hand of its director(s) or duly authorized attorney(s). If the written instrument is signed by an attorney of the appointor, the power of attorney or other documents of authorization of such attorney shall be notarized.
- (3) To be valid, the notarized power of attorney or other document(s) of authorization (if any) and the form of proxy shall be delivered to (i) the registered office address of Company for holders of domestic shares; and (ii) Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong, for holders of H shares, no less than 24 hours before the time fixed for convening the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so desires.
- (4) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.

3. Registration Procedures for Attending the EGM

- (1) A shareholder or his proxy shall produce his identification document when attending the EGM. Where a shareholder is a legal person, the legal representative of that shareholder or the person authorized by its board of directors or other governing body shall produce a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders intending to attend the EGM shall return to the Company the reply slip stating their attendance on or before Friday, 9 December 2011.
- (3) A shareholder may return the above reply slip to the Company in person, by post or by facsimile to the Company.

4. Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 30 November 2011 to Friday, 30 December 2011 (both dates inclusive), during which time no transfer of shares will be registered.

5. Method of Voting at the EGM

Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to the resolution to be proposed at the EGM.

6. Miscellaneous

- (1) The EGM of the Company is expected to be held for less than half a day. Shareholders attending the EGM shall be responsible for their own travelling and accommodation expenses.

NOTICE OF THE EGM

(2) The address of the Computershare Hong Kong Investor Services Limited, the H share registrar and transfer office of the Company in Hong Kong is situated at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

(3) The registered office and the contact details of the Company are:

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

Tel.: (86 21) 6339 1911
Fax.: (86 21) 6321 2722

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name “Sinopharm Group Co. Ltd.”*