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 and reply slip 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.

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)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY BY ISSUE OF DOMESTIC SHARES UNDER GENERAL MANDATE AND NOTICE OF EGM

Financial Adviser to the Company

CICC
中金公司

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

八方 金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 5 to 17 of this circular. A notice convening the EGM to be held at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 9:00 a.m. on Friday, 21 September 2018, is being dispatched to the Shareholders together with this circular.

If you intend to attend the EGM, please complete and return the appropriate reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Friday, 31 August 2018.

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. For holders of Domestic Shares, please return the proxy form together with any documents of authority to the Board Office of the Company in the PRC at Room 1603, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, 200051 as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting at the EGM, or any adjournment thereof should you so wish.

7 August 2018

* *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

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

"Acquisition"	means the acquisition of the Target Assets by the Company from CNPGC in accordance with the terms and conditions of the Asset Purchase Agreement
"AIC"	means the applicable administration for industry and commerce
"Asset Purchase Agreement"	means the agreement on asset purchase by issue of shares dated 11 July 2018 entered into between the Company and CNPGC, pursuant to which the Company agreed to purchase the Target Assets from CNPGC by issue of Consideration Shares
"Board"	means the board of directors of the Company
"Closing"	means the register of the Target Assets under the name of the Company and the completion of the registration of share transfer with AIC
"Closing Date"	means the date on which the registration of the share transfer in relation to the Target Assets with AIC is completed
"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
"Company"	means Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed and traded on the Hong Kong Stock Exchange
"Competent State-owned Assets Supervision and Administration Authority"	means State-owned Assets Supervision and Administration Commission of the State Council of the PRC or CNPGC
"controlling shareholder"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Consideration Shares"	means the 204,561,102 Domestic Shares to be issued by the Company to CNPGC to settle the consideration pursuant to the Asset Purchase Agreement
"Director(s)"	means the director(s) of the Company

"Domestic Share(s)"	means ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for and fully paid up in RMB by PRC nationals and/or PRC incorporated entities
"EGM"	means the extraordinary general meeting of the Company to be convened at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 9:00 a.m. on Friday, 21 September 2018
"Exchange Rate"	means the middle exchange rate of HK$1 to RMB0.84390 as quoted on the website of the People's Bank of China on the Price Determination Date
"Financial Adviser" or "CICCHKS"	means China International Capital Corporation Hong Kong Securities Limited, the financial adviser of the Company
"General Mandate"	means the general mandate granted to the Board by a special resolution of the Shareholders passed at the annual general meeting of the Company held on 28 June 2018 to allot, issue and/or deal with no more than 20% of the existing issued Domestic Shares as at the date of passing the said resolution
"Group"	means the Company and its subsidiaries
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"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 Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"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
"Independent Board Committee"	means the independent board committee comprising all the independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin, formed to advise the Independent Shareholders in relation to, among others, Asset Purchase Agreement and the transactions contemplated thereunder

"Independent Financial Adviser" or "Octal Capital"	means Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) under Securities and Futures Ordinance, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholder
"Independent Shareholder(s)"	means the Shareholder(s) other than CNPGC and its associates
"Independent Valuer"	means Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司)
"Latest Practicable Date"	means 2 August 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"LPD of the Further Announcement"	means the latest practicable date stated in the further announcement of the Company dated 30 July 2018, being 19 July 2018
"PRC"	means the People's Republic of China, which for the purpose of this circular only excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Price Determination Date"	means the date on which the issue price of the Consideration Shares is determined, being 11 July 2018
"Previous Transaction"	means the acquisition of 100% equity interest of Shanghai Pudong New Area Medicine and Herbs Co., Ltd. (上海浦東新區醫藥藥材有限公司) by the Company from CNPGC in accordance with the equity transfer agreement entered into between the Company and CNPGC on 27 November 2017, the details of which are set out in the announcement of the Company dated 27 November 2017
"Reporting Accountant"	means Baker Tilly Hong Kong Limited, the reporting accountant of the Company
"RMB"	means Renminbi, the lawful currency of the PRC
"Share(s)"	means the share(s) of the Company in the nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	means the shareholders of the Company
"Supervisor(s)"	means the supervisor(s) of the Company

"Target Assets"	means the 60% equity interest in the Target Company held by CNPGC
"Target Company"	means China National Scientific Instruments and Materials Co. Ltd. (中國科學器材有限公司), a company incorporated in the PRC with limited liability
"Valuation"	means the valuation of the Target Company as at the Valuation Benchmark Date prepared by the Independent Valuer and filed with Competent State-owned Assets Supervision and Administration Authority
"Valuation Benchmark Date"	means 31 December 2017
"Working Day"	means a day on which banks in the PRC and Hong Kong are generally open for business and which does not include a Saturday, Sunday or public holiday
"%"	means per cent

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國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

Executive Directors:
Mr. Li Zhiming
Mr. Liu Yong

Non-Executive Directors:
Mr. Chen Qiyu
Mr. She Lulin
Mr. Wang Qunbin
Mr. Ma Ping
Mr. Deng Jindong
Mr. Wen Deyong
Ms. Rong Yan
Mr. Wu Yijian

Independent Non-Executive Directors:
Ms. Li Ling
Mr. Yu Tze Shan Hailson
Mr. Tan Wee Seng
Mr. Liu Zhengdong
Mr. Zhuo Fumin

Registered office in the PRC:
6th Floor
No. 221 Fuzhou Road
Shanghai 200002
China

Principal place of business in Hong Kong:
Room 1601
Emperor Group Center
288 Hennessy Road, Wanchai
Hong Kong

7 August 2018

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY BY ISSUE OF DOMESTIC SHARES UNDER GENERAL MANDATE 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.".*

I. INTRODUCTION

Reference is made to the announcement of the Company issued on 11 July 2018 (the "**Announcement**") and the further announcement of the Company issued on 30 July 2018 (the "**Further Announcement**") in relation to the Asset Purchase Agreement and the transactions contemplated thereunder. The purpose of this circular is to provide you with detailed information in relation to the Asset Purchase Agreement and the transactions contemplated thereunder to enable you to make an informed decision on voting in respect of the relevant resolution at the EGM.

II. ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY

On 11 July 2018, the Company and CNPGC entered into the Asset Purchase Agreement, pursuant to which the Company agreed to acquire, and CNPGC agreed to sell the Target Assets, being the 60% equity interest in the Target Company held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 Domestic Shares by the Company to CNPGC under General Mandate at the issue price of RMB24.97 per Consideration Share. Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company.

1. Asset Purchase Agreement

The principal terms of the Asset Purchase Agreement are set out as follows:

Date:	11 July 2018
Parties:	(i) the Company (as the buyer) (ii) CNPGC (as the seller)
Target Assets:	60% equity interest in the Target Company, being China National Scientific Instruments and Materials Co. Ltd., held by CNPGC
Consideration:	The consideration for the acquisition of the Target Assets is RMB5,107,890,720, which will be satisfied by issue of Consideration Shares by the Company to CNPGC. The consideration was determined by the Company and CNPGC after arm's length negotiations with reference to the valuation of the Target Assets as at the Valuation Benchmark Date, being RMB5,107,890,720.

The Valuation is prepared by the Independent Valuer based on income approach, which involves the calculation of discounted cash flow, and is therefore regarded as a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. The principal assumptions of the Valuation are set out in the section headed "Principal Assumptions of the Valuation" contained in this circular. The Reporting Accountant has reported in respect of the calculations of discounted future cash flow estimates adopted in the Valuation, and the Financial Adviser has confirmed that the profit forecast of the Valuation has been made after due and careful enquiry.

The Reporting Accountant confirmed that they have obtained the discounted future cash flows working papers on the Target Company and 106 subsidiaries the valuation of which was appraised based on income approach, and performed the procedures on arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. The Reporting Accountant is of the opinion that, as the result of their procedures performed, the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation Report.

The report of the Reporting Accountant and the letter from the Financial Adviser in relation to the Valuation are set out in Appendices II and III of this circular, respectively.

Issue Price of the Consideration Shares: The Consideration Shares will be issued by the Company to CNPGC at the issue price of RMB24.97 per Consideration Share, which is determined after arm's length negotiations between the Company and CNPGC with reference to the recent share prices of the Company, the valuation of the Company and the Target Assets and the expected future development of the Target Company. The issue price is subject to the approval of the Competent State-owned Assets Supervision and Administration Authority*.

* *As of the date of this circular, the Competent State-owned Assets Supervision and Administration Authority has approved the Acquisition (including the afore-mentioned issue price).*

If, during the period from the Price Determination Date to the registration date of the Consideration Shares, the Company makes any distribution, converts capital reserve into share capital, issues new shares, allots shares or carries out any other ex-rights or ex-dividends activities, corresponding adjustments shall be made to the issue price as follows:

Assuming P0 is the pre-adjustment issue price, N is the number of bonus shares or converted shares for each share, K is the number of new shares issued or allocated for each share, A is the price per share for new share issuance or allocation, D is the amount of cash dividend per share, and P1 is the post-adjustment issue price (rounded off to the nearest hundredths place):

(a) In the case of grant of bonus share, or conversion of capital reserve into share capital: P1= P0/(1+N)

(b) In the case of issue of new shares or allotment of shares：P1=(P0+A×K)/(1+K)

In the case of both (a) and (b): P1=(P0+A×K)/(1+N+K)

(c) In the case of distribution of cash dividend: P1=P0-D

In the case of both (a), (b) and (c): P1=(P0-D+A×K)/(1+N+K)

Issue of Consideration Shares:

Within thirty (30) Working Days upon the Closing Date or at such other time as determined by the parties, the Company shall register the Consideration Shares under the name of CNPGC in accordance with the procedures prescribed by applicable laws.

The Consideration Shares shall rank pari passu with the Domestic Shares in issue at the date of the issue of Consideration Shares, and shall be entitled to all the dividends, bonus shares or other distributions the record dates of which are the dates of the issue of Consideration Shares or any dates thereafter.

Closing: The Closing shall take place within twenty (20) Working Days upon the Asset Purchase Agreement becoming effective or on such other date as determined by the parties, i.e. the Target Assets shall be registered under the name of the Company in accordance with the procedures prescribed by applicable laws and such share transfer shall be registered with the AIC.

Effectiveness: The Asset Purchase Agreement shall take effect upon the fulfilment date of all the following conditions:

(i) the signing of the Asset Purchase Agreement by the legal representatives or authorized representatives of the parties and the affixing of seals thereto;

(ii) the approval of the Acquisition by the Competent State-owned Assets Supervision and Administration Authority; and

(iii) the consideration and approval of the Asset Purchase Agreement by the independent shareholders of the Company at a general meeting in accordance with the Hong Kong Listing Rules.

Other terms: If Competent State-owned Assets Supervision and Administration Authority, the Hong Kong Stock Exchange or other competent regulatory authorities have any requirements on the Acquisition, the Company and CNPGC agreed to make reasonable efforts to make corresponding adjustment to the Acquisition, including but not limited to the consideration and the number of Consideration Shares to be issued. In the event that the Company and CNPGC fail to agree on the adjustment proposals determined in accordance with the requirements of the regulatory authorities within twenty (20) Working Days from the date when the above regulatory authorities make relevant requirements, any of party shall be entitled to unilaterally terminate the Asset Purchase Agreement by written notice within ten (10) Working Days from the expiration of the above period.

2. Principal Assumptions of the Valuation

Basic Assumptions

(1) Trading assumption

The trading assumption assumes that the evaluated entity and the assets and liabilities subject to evaluation are all in the process of transaction, and the asset evaluator makes evaluations in a simulated market according to trading conditions, etc. The trading assumption is the most basic prerequisite for valuation.

(2) Open market assumption

The open market assumption assumes that, with respect to assets traded or to be traded in the market, the parties to the transaction are all on equal standings, and each has the opportunity and time to obtain sufficient market information so as to make reasonable judgement on the functions, uses and trading prices of the assets. The basis of open market assumption is that the assets can be traded openly in the market.

(3) Assumption of continuous use of assets

The assumption of continuous use of assets assumes that the appraisal methods, parameters and basis are to be determined in accordance with the condition that the assets being evaluated will be used in consistent with their current function, method, scale, frequency and environment, or used on the basis of certain changes.

(4) Going-concern assumption

Going-concern assumption assumes that the evaluated entity will maintain operations using the same operation methods as it currently does.

General Assumptions

(1) It is assumed that following the Valuation Benchmark Date, there are no significant changes to the evaluated entity and the political, economic, social or other macro-environment in the place where it operates, which would affect its operation;

(2) It is assumed that except for the laws and regulations that have been promulgated by the government (whether they have come into force or not) as of the Valuation Benchmark Date which affect the operation of the evaluated entity, there will be no significant changes in the laws and regulations in relation to the operation of the evaluated entity during the operation period;

(3) It is assumed that changes in the exchange rates, interest rates, taxes and inflation and other factors involved in the operations of the evaluated entity following the Valuation Benchmark Date will not have a significant impact on its operating conditions in the operation period (taking into account the interest rate changes from the Valuation Benchmark Date to the reporting date);

(4) It is assumed that following the Valuation Benchmark Date, there will be no irresistible and unpredictable events affecting the operations of the evaluated entity;

(5) It is assumed that the evaluated entity continues to operate and its assets continue to be used during the subsequent operation period;

(6) It is assumed that the material aspects of the accounting policies maintained by the evaluated entity in the subsequent operation period will be consistent with, sustained from and comparable to those maintained at the Valuation Benchmark Date;

(7) It is assumed that in the subsequent operation period, the evaluated entity's operations will be in compliance with and not against the national laws and regulations;

(8) It is assumed that the operator of the evaluated entity is responsible and the management of the evaluated entity is capable of assuming its responsibilities. In the subsequent operation period, there will be no significant changes to the key officers and technicians of the evaluated entity that would affect its operations as compared to the status at the Valuation Benchmark Date, the management team of the evaluated entity will develop steadily, and there will be no significant changes to its management systems that would affect its operations;

(9) It is assumed that the materials provided by the client and the evaluated entity are true, complete and reliable, and there are no defects or contingencies which may affect the evaluation conclusions that should have been provided by the client/evaluated entity but remain unavailable to the valuer after having fulfilled the requisite valuation procedures;

(10) It is assumed that there will be no issues such as lawsuit, mortgage or guarantee, etc. that will arise during the subsequent operation period and will have significant impact on the operation results of the evaluated entity.

Specific Assumptions

(1) Except for the fixed assets investments for which there is definite evidence as of the Valuation Benchmark Date showing that the production capacity will change subsequently, it is assumed that the evaluated entity will not make major fixed asset investments that would affect its operations in the subsequent operation period, and its production capacity will be evaluated based on the status as of the Valuation Benchmark Date;

(2) In this evaluation, the impact of the external equity investments made by the evaluated entity following the Valuation Benchmark Date on its value is no considered;

(3) It is assumed that the amount of taxable income of the evaluated entity in the subsequent operation period is basically identical to its total profits then, without major, definite differences or adjustments resulting from timing differences;

(4) It is assumed that in the subsequent operation period, the evaluated entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

(5) It is assumed that the evaluated entity will have steady cash inflows and outflows during the subsequent operation period, without a burst of inflows to be recognised as receipt at a certain point in the year.

3. Consideration Shares and Issue Price

The 204,561,102 Consideration Shares represent: (i) approximately 12.99% of the total Domestic Shares in issue and approximately 7.39% of the total Shares in issue as at the date of this circular; and (ii) approximately 11.50% of the total Domestic Shares in issue and approximately 6.88% of the total Shares in issue as enlarged by the issue of the Consideration Shares (assuming no other changes made to the issued share capital of the Company between the date of this circular and the date of issue of the Consideration Shares).

The issue price of RMB24.97 per Consideration Share (equivalent to approximately HK$29.59 per Consideration Share calculated based on the Exchange Rate) represents: (i) a discount of approximately 5.6% to the closing price of HK$31.35 per H Share as quoted on the Hong Kong Stock Exchange on the date of the Price Determination Date; and (ii) a discount of approximately 3.0% to the average closing price of HK$30.52 per H Share as quoted on the Hong Kong Stock Exchange for the five (5) consecutive trading days immediately preceding the Price Determination Date; (iii) a discount of approximately 4.5% to the average closing price of HK$30.98 per H Share as quoted on the Hong Kong Stock Exchange for the ten (10) consecutive trading days immediately preceding the Price Determination Date; and (iv) a discount of approximately 8.0% to the average closing price of HK$32.16 per H Share as quoted on the Hong Kong Stock Exchange for the twenty (20) consecutive trading days immediately preceding the Price Determination Date.

4. General Mandate

The Consideration Shares will be issued pursuant to the General Mandate. The maximum number of Domestic Shares that can be issued under the General Mandate is 314,856,869. As at the date of this circular, (i) no Domestic Shares have been issued pursuant to the General Mandate; and (ii) the General Mandate is sufficient for the issue of the Consideration Shares.

5. Effect of the Completion of the Acquisition on the Shareholding Structure of the Company

The following table sets out the shareholding structure of the Company: (i) as at the date of this circular; and (ii) immediately after the issue of the Consideration Shares, assuming there is no other change in the shareholding structure of the Company between the date of this circular and the date of issue of the Consideration Shares.

Shareholders	**As at the date of this circular**		**Immediately after the issue of the Consideration Shares**	
	Number of Shares held	*Approximate percentage of issued share capital (%)*	*Number of Shares held*	*Approximate percentage of issued share capital (%)*
Substantial Shareholders				
Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**")	1,571,555,953	56.79	1,571,555,953	52.88
CNPGC	2,728,396	0.10	207,289,498	6.98
Public Shareholders	1,192,810,740	43.11	1,192,810,740	40.14
Total	2,767,095,089	100	2,971,656,191	100

Note: Sinopharm Investment is held as to 49% by Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and 51% by CNPGC.

6. Information on the Target Company

The Target Company is a limited liability company incorporated in the PRC. The Target Company and its subsidiaries are principally engaged in medical devices distribution business.

The audited consolidated total assets and net assets of the Target Company as at 31 December 2017 prepared in accordance with the Accounting Standards for Business Enterprises were RMB21,190,742,683.90 and RMB6,677,538,796.92, respectively. The audited consolidated total assets and net assets of the Target Company as at 30 June 2018 prepared in accordance with the Accounting Standards for Business Enterprises were RMB25,138,463,379.78 and RMB7,261,667,433.34

respectively. The consolidated financial information of the Target Company for the three financial years ended 31 December 2017 and the six months ended 30 June 2018 prepared in accordance with the Accounting Standards for Business Enterprises were as follows:

	For the year ended 31 December 2015 (RMB) (audited)	For the year ended 31 December 2016 (RMB) (audited)	For the year ended 31 December 2017 (RMB) (audited)	For the six months ended 30 June 2018 (RMB) (audited)
Operating revenue	16,257,185,950.93	22,376,966,021.30	30,708,427,878.29	16,102,709,296.49
Gross profit	1,803,893,170.73	2,433,200,546.28	3,090,921,405.30	1,756,891,215.16
Net profit (before taxation)	579,305,671.84	802,723,686.04	1,055,089,515.67	549,540,384.61
Net profit (after taxation)	445,271,735.43	583,101,920.17	798,096,726.48	418,181,461.20
Net profit attributable to owners of parent company	287,346,130.88	327,894,607.68	488,783,595.78	251,434,705.47

Benefiting from the healthy developments in the Chinese medical device distribution market, the Target Company achieved rapid growth in business performance by implementing business strategies that balance internal improvement and expansion. According to the above consolidated financial information, the operating income of the Target Company increased by 21.21%, 37.64% and 37.23%, and its gross margin increased by 22.37%, 34.89% and 27.03%, respectively, in the past three years.

As the largest medical device distributor in China, the Target Company actively implements M&A and integration strategies in order to adapt to the market developments and seize the development opportunities brought about by the "two-invoice system" and other policies which enhance the industrial concentration. In 2015-2017, the Target Company's merged companies contributed to an average of 7.06% and 13.66% respectively to the Target Company's total operating income and net profit. In the first half of 2018, although the Target Company suspended the M&A practices in order to implement this restructuring, it continued to maintain rapid growth in the business performance with operating income and gross profit increased by 29.86% and 34.24% respectively compared with the first half of 2017, due to the high growth in its internal improvement and the visible integrative effect of the previous M&A and integration. At the same time, in response to the possible impact of the "two-invoice system" to be tabled for medical devices on the competitive landscape and business operations of the industry, the Target Company prioritized business layout while ensuring profitability. In the first half of 2018, the Target Company further expanded its channels and networks, increase investments in logistics, warehousing, information systems, etc., to further cement and enhance its position in the industry in anticipation of the roll-out of the "two-invoice system".

In recent years, the Target Company has established an effective M&A and integration mechanism and unified management input methods to drive merged enterprises in achieving faster development. After the completion of this Acquisition, the Target Company will promote the M&A and integration strategies and its business performance is expected to further improve.

7. Reasons for and Benefit of Entering into the Asset Purchase Agreement

With the Chinese government's focus on improving citizens' medical and health standards and the country's aging population, the Chinese medical device industry is experiencing rapid growth. According to the Blue Book on Developments in the Chinese Medical Device Industry, the scale of the Chinese medical device market was RMB417.6 billion in 2017, and its compound growth rate from 2015 to 2017 was 16.44%. Benefiting from the rapid growth of the medical device market, the Chinese medical device distribution sector is also in a period of rapid development with plenty of opportunities. As China's largest medical device distributor, the Target Company has structured excellent product lines and business models in China and built up strong M&A and integration capabilities. Its future development will directly benefit from the rapid growth of the industry and the sharp increase in concentration. Moreover, both the Company and the Target Company are engaged in medical and pharmaceutical distribution, producing great synergistic effects in terms of sales channels, customers and networks.

Therefore, the parties to the transaction agreed to start planning on the matters concerning the Acquisition in January 2018. This Acquisition will further enhance our competitive edges in the Chinese medical market. The Company will vigorously develop the medical device distribution business, making it a core business of the Company in addition to pharmaceutical distribution and retail pharmacy. Based on the linkage between pharmaceuticals and medical devices, the Company will combine and effectively integrate the Target Company's superior product structure and business models with the Company's existing national distribution networks, channels and customer resources to further increase the market shares and business scale of our medical device distribution business, strengthen the Company's comprehensive service capabilities in the healthcare industry, and enhance its core competence. This is an important part of the Company's overall strategy for the future.

8. Hong Kong Listing Rules Implications

As at the date of this circular, CNPGC is the ultimate controlling shareholder of the Company and thus a connected person of the Company as defined under the Hong Kong Listing Rules. According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Acquisition shall be aggregated with the Previous Transaction. As the highest of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) is higher than 5% but less than 25%, the Acquisition constitutes discloseable transaction and connected transaction of the Company under the Hong Kong Listing Rules. Therefore, the Acquisition is subject to (i) the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The following Directors, being Mr. She Lulin, Mr. Deng Jindong, Mr. Ma Ping and Ms. Rong Yan, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the Asset Purchase Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

9. General Information of the Parties

The Company

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

CNPGC

CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company, which is principally engaged in the research and development, production, sale and wholesale of pharmaceutical products and biological products, etc.

III. EGM

A notice convening the EGM to be held at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the PRC at 9:00 a.m. on Friday, 21 September 2018, is set out at the end of this circular.

In accordance with the Hong Kong Listing Rules, CNPGC and its associates will abstain from voting on the resolution to be proposed at the EGM in relation to the Asset Purchase Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, CNPGC and its associates held in aggregate 1,574,284,349 Shares of the Company, which represent approximately 56.89% of the total issued Share of the Company as at the date of the circular, 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, Shareholder or their respective associate has a material interest in the transactions contemplated under the Asset Purchase Agreement and is required to abstain from voting on the relevant resolution to be proposed at the EGM.

A reply slip and a proxy form to be used at the EGM are also enclosed herein and published on the website of the Hong Kong Stock Exchange (www.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, Hong Kong, not less than 24 hours before the time for holding the EGM in order for such documents to be valid. For holders of Domestic Shares, the proxy form, and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Board Office of the Company in the PRC at Room 1603, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, not less than 24 hours before the time for holding the EGM in order for such documents to be valid.

Holders of H Shares and Domestic Shares, who intend to attend the EGM must complete the reply slip and return it to the Board Office of the Company not later than 20 days before the date of the EGM, i.e. no later than Friday, 31 August 2018.

Pursuant to the articles of association of the Company, for the purpose of holding the EGM, the register of members of H Shares of the Company will be closed from Wednesday, 22 August 2018 to Friday, 21 September 2018 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders whose names appear on the register of members of the Company on Wednesday, 22 August 2018 are entitled to attend and vote at the EGM.

In order to attend the EGM, holders of H Shares shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 21 August 2018.

IV. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Asset Purchase Agreement and the transactions contemplated thereunder; and (ii) the letter from Octal Capital set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Asset Purchase Agreement and the transactions contemplated thereunder, as well as the principal factors and reasons taken into account by Octal Capital at its advice.

The Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) are of the view that the Asset Purchase Agreement was entered into on normal commercial terms, and although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

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

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)

7 August 2018

To the Independent Shareholders of the Company

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY BY ISSUE OF DOMESTIC SHARES UNDER GENERAL MANDATE

We refer to the circular of the Company dated 7 August 2018 (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, the terms of the Asset Purchase Agreement and the transactions contemplated thereunder (details of which are set out in the letter from the Board) are fair and reasonable so far as the Independent Shareholders are concerned.

Octal 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 terms and conditions of the Asset Purchase Agreement and the transactions contemplated thereunder. Details of the advice from Octal Capital, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 20 to 40 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 17 of the Circular and the additional information set out in the Appendices.

Having considered the terms and conditions of the Asset Purchase Agreement and the transactions contemplated thereunder, the interests of the Independent Shareholders and the advice of Octal Capital, we are of the opinion that the Asset Purchase Agreement is on normal commercial terms, and even though the

* *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.".*

transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions contained therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM so as to approve the Asset Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee of
SINOPHARM GROUP CO. LTD.
Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng,
Mr. Liu Zhengdong and Mr. Zhuo Fumin
Independent Non-executive Directors

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and Independent Shareholders prepared for the purpose of inclusion in this circular.

八方金融有限公司
OCTAL Capital Limited

801-805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

7 August 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY BY ISSUE OF DOMESTIC SHARES UNDER GENERAL MANDATE

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Asset Purchase Agreement, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 7 August 2018 (the "**Circular**"), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 11 July 2018, the Company entered into the Asset Purchase Agreement with CNPGC, pursuant to which the Company has agreed to acquire, and CNPGC has agreed to sell 60% equity interest of the Target Company for a total consideration of RMB5,107,890,720 which will be satisfied entirely by the issuance of Domestic Shares by the Company to CNPGC under General Mandate. Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company. CNPGC (together with its subsidiaries, the "**CNPGC Group**") is the ultimate controlling shareholder of the Company and thus a connected person of the Company as defined under the Hong Kong Listing Rules.

According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Acquisition shall be aggregated with the Previous Transaction. As the highest of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) is higher than 5% but less than 25%, the Acquisition constitutes discloseable transaction and connected transaction of the Company under the Hong Kong Listing Rules.

The Independent Board Committee comprising of independent non-executive Directors, Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin, has been established to advise the Independent Shareholders on whether the terms of the Asset Purchase Agreement are on normal commercial terms, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. In the last two years, we have not acted in any financial adviser role to the Company in any way. Apart from normal professional fees paid or payable to us in connection with the appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Acquisition pursuant to Rule 13.84 of the Hong Kong Listing Rules.

BASIS OF OUR OPINION

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

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 Chapter 14A 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, confirmed 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 herein 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 an independent in-depth investigation into the business and affairs of the Company, CNPGC and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied. 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 Octal 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 Acquisition, we have taken into consideration the following principal factors and reasons:

Background of and Reasons for the Acquisition

1. Business overview of the Group

The Company is principally engaged in the distribution of pharmaceutical and healthcare products, operation of retail pharmacies and chemical reagents manufacturing. As disclosed in the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**") and the year ended 31 December 2016 (the "**2016 Annual Report**"), the Group has three reportable segments:

(i) Pharmaceutical distribution segment – being the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international pharmaceutical products, and medical devices and other suppliers. The Group differentiates itself from its competitors in China by its strengths of geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services provided to its customers and suppliers, etc.

(ii) Retail pharmacy segment – a network of retail drug stores in major cities of China via direct operations and franchises.

(iii) Other business segments – financial leasing, production and sale of pharmaceutical products, chemical reagents and laboratory supplies.

With respect to the pharmaceutical distribution segment, the Group has built an integrated pharmaceutical supply chain, established an advanced supply chain management model, and integrated a national distribution network. As at 31 December 2017, the distribution network covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included approximately 15,000 hospitals (only referring to ranked hospitals, including approximately 2,300 largest Class-III hospitals with the highest rankings), over 128,000 small end-customers (including primary health services institutions and others) and over 87,000 retail pharmacies.

With respect to the retail pharmacy segment, the Group has set up retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2017, Sinopharm Holding Guoda Drug Store Co., Ltd., a subsidiary of the Group, has set up pharmacies covering 19 provinces, municipalities and autonomous regions across the PRC. The number of retail pharmacies was 3,834, among which 2,801 were directly operated by the Group and 1,033 were operated by franchisees.

According to the "2017 statistical analysis report on the operation of the drug circulation industry" ("2017年藥品流通行業運行統計分析報告") published by the Department of Market Supervision of the Ministry of Commerce of the PRC in May 2018, the Company is ranked in the first place in term of revenues generated from wholesale and retail of pharmaceutical products in 2017.

Set out below is a summary of the financial information of the Group as extracted from the 2017 Annual Report and the 2016 Annual Report:

	For the year ended 31 December		
	2015	**2016**	**2017**
	RMB million	*RMB million*	*RMB million*
	(audited)	(audited)	(audited)
Revenue			
– *Pharmaceutical distribution*	215,597.2	243,883.4	261,635.7
– *Retail pharmacy*	8,714.8	10,201.7	12,341.8
– *Other business*	4,360.9	4,302.6	3,739.5
Total	228,672.9	258,387.7	277,717.0
Gross profit	18,720.3	20,670.7	23,076.6
Profit before taxation	7,469.2	8,924.8	10,173.0
Profit after taxation	5,740.9	6,891.6	7,868.2
Profit attributable to owners of the Company	3,772.2	4,647.3	5,283.1

As illustrated by the above table, the revenue of the Group for the year ended 31 December 2017 ("**FY2017**") was approximately RMB277,717.0 million, representing an increase of approximately 7.48% as compared to that for the year ended 31 December 2016 ("**FY2016**"), which was approximately RMB258,387.7 million. Furthermore, the revenue increased by approximately 12.99% for FY2016 as compared to that for the year ended 31 December 2015 ("**FY2015**").

The revenue from the pharmaceutical distribution segment, which includes the distribution of both pharmaceutical products and medical devices, contributed over 94% of the total revenues for the Group for three consecutive years, in which the pharmaceutical products contributed the majority of the revenue. This segment remains as the Group's important strategic sector. The Group will continue to promote the vertical layout of distribution network and optimization of network layout, thereby further utilizing scale and network advantages to continuously solidify its industry leading position. On the other hand, the revenue from the retail pharmacy segment increased by approximately 20.98% for FY2017 as compared to that for FY2016, and 17.06% for FY2016 as compared to that for FY2015, signifying the effectiveness of the Company's core strategy "integrated wholesale-retail" implemented on pharmaceutical retail distribution which aims to promote the direct relationship from wholesale to retail according to the 2017 Annual Report.

With reference to the 2017 Annual Report, the aforesaid increase in the Group's revenue was mainly attributable to (i) the successful implementation of the integrated pharmaceutical supply chain on a national scale which reinforced its leading position in the distribution business; and (ii) its establishment of retail chain pharmacies across the PRC which supported its expansion in the retail market.

As a result of the growth in the pharmaceutical distribution and retail pharmacy segments, profit attributable to owners of the Company increased by approximately 13.68% for FY2017 (RMB5,283.1 million) as compared to that for FY2016 (RMB4,647.3 million), and 23.20% for FY2016 as compared to that for FY2015 (RMB3,772.2 million).

	As at 31 December 2017 *RMB million* (audited)
Total assets	169,539.0
Total liabilities	118,269.4
Net assets	51,269.6

The Group's total assets, total liabilities, and net assets as at 31 December 2017 amounted to approximately RMB169,539.0 million, RMB118,269.4 million and RMB51,269.6 million, respectively. The total assets and total liabilities exhibited increases of approximately 7.50% and 4.50% for FY2017 as compared to that for FY2016, respectively. As the growth in assets has outweighed the growth in liabilities, the net assets increased by RMB6,737.2 million or 15.13% primarily attributable to the increase in (i) property, plant and equipment; (ii) trade receivables; and (iii) prepayments and other receivables, but partially offset by the increase in (iv) accruals and other payables; and (v) interest-bearing bank and other borrowings.

2. Information on CNPGC

CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company and the Target Company. It is principally engaged in the research and development, production, sale and wholesale of pharmaceutical products and biological products.

3. Information on the Target Company

The Target Company is a limited liability company established in the PRC. The Target Company and its subsidiaries (collectively the "**Target Group**") are principally engaged in medical devices distribution business with hospitals, clinics, and chain retail drug stores. It focuses on the sales and distribution of Class II and Class III medical equipment, devices, and supplies (i.e. magnetic resonance equipment and ultrasound equipment).

The Target Company was established in 1982 with a registered capital of RMB4.0 billion, and it has been licensed by the China Food and Drug Administration to carry out the sales of Class II and Class III medical devices. As of 31 December 2017, the Target Group included 110 companies, 91 of which are involved in the pharmaceutical distribution segment, while the remaining are involved in the medical institution service and product management segments. Its extensive distribution network covers 22 provinces, four autonomous regions, and four municipalities in the PRC. Its clientele base includes over 4,000 hospitals, 1,000 community clinics, and 50 chain retail drug stores.

As at the Latest Practicable Date, 60% of the equity interest of the Target Company is directly held by CNPGC while the remaining 40% is held by 北京納通實創投資管理有限公司. Upon completion of the Acquisition, the Company will directly hold 60% equity interest in the Target Company.

Financial Information of the Target Group

The table below sets out financial information of the Target Group based on audited consolidated financial statements for the three years ended 31 December 2017 and the six months ended 30 June 2018.

	For the year ended 31 December			**For the six months ended**
	2015	**2016**	**2017**	**30 June 2018**
	RMB million	*RMB million*	*RMB million*	*RMB million*
	(audited)	(audited)	(audited)	(audited)
Revenue	16,257.2	22,377.0	30,708.4	16,102.7
Profit before tax	579.3	802.7	1,055.1	549.5
Profit after tax	445.3	583.1	798.1	418.2
Profit attributable to owners of the company	287.3	327.9	488.8	251.4

According to the above table, the total revenue increased by 37.64% and 37.23% between the year 2015 to 2017 and amounted to RMB30,708.4 million for the year ended 31 December 2017, due to the Target Group's expansion in the medical device distribution segment. The profit attributable to owners of the Target Group increased by approximately 49.07% for FY2017 (RMB488.8 million) as compared to that for FY2016 (RMB327.9 million), and 14.13% for FY2016 as compared to that for FY2015 (RMB287.3 million). As advised by the Directors, such significant increase was attributable to (i) the market expansion effects from the implementation of the "Healthy China 2030" blueprint released by the State Council of the People's Republic of China (the "**SCPRC**") that aims to improve healthcare accessibility and quality; (ii) the implementation of the government policy on consolidating and organizing the healthcare providers which ruled out the small non-competent providers and strengthened the advantages of leading players such as the Target Group; (iii) the active business strategies and good performance on the internal management; and (iv) completion of acquisitions of new companies by the Target Group. In addition, in anticipation of the implementation of the "two-invoice system" on the medical device distribution market, the Target Group is taking the following initiatives, including the expansion and enhancement on its warehouses, channels and networks, logistics arrangements, and information systems in order to ensure its long-term profitability and competitiveness under the new market environment.

	As at 30 June 2018 *RMB million* (audited)
Total assets	25,138.5
Total liabilities	17,876.8
Net assets	7,261.7

The Target Group's total assets, total liabilities, and net assets as at 30 June 2018 amounted to approximately RMB25,138.5 million, RMB17,876.8 million and RMB7,261.7 million, respectively.

Upon completion of the Acquisition, the Target Company will become a non-wholly owned subsidiary of the Company.

Reasons for and Benefits of the Acquisition

Medical device industry in the PRC is gaining momentum on its growth as the Chinese government places emphasis to improve the national healthcare level and as the population ages, whilst the Acquisition presents opportunities for the Company to enhance its coverage in this segment. Through the Acquisition of the Target Company, the Company will combine and effectively integrate the Target Company's superior product selection and business models in the PRC with the Company's existing national distribution networks, channels and customer resources based on the linkage between pharmaceuticals and medical devices. This allows the Company to further increase the market shares and expand its business coverage to the medical device distribution industry and strengthen its comprehensive service capabilities in the healthcare industry, which aligns with the Company's future plan in consolidating leading position in the distribution business as disclosed in the 2017 Annual Report. The Directors believe the Acquisition will benefit the Group as: (i) positive market outlook and rapid growth of the Target Group will improve the Group's financial performance; (ii) the Target Group being a leading enterprise in the medical device distribution industry in the PRC will benefit from the industry consolidation imposed by the Chinese government; and (iii) the Acquisition will integrate the existing distribution channels, network, and resources of the Group and the Target Group.

1. Positive market outlook

In 2016, the SCPRC released the "Healthy China 2030" blueprint《健康中國2030》, a national strategy that aims to improve the national major health index. A few of the particular goals include: (i) improving life expectancy to 79 years by 2030; (ii) reducing infant mortality rate from 8.1‰ in 2015 down to 5.0‰ by 2030; (iii) reducing mortality rate for children under the age of five from 10.7‰ in 2015 to 6.0‰ by 2030; and (iv) reducing maternal mortality rate from 20.1 in 2015 to 12.0 by 2030 per 100,000 pregnancies. As a result, the Directors anticipate the Chinese government will put in substantial resources and implement policies relevant to the pharmaceutical industry in order to advocate and reach its long-term objectives.

According to the statistics compiled by the China Medical Pharmaceutical Material Association (中國醫藥物資協會), the annual expenditure in 2014 was RMB255.6 billion on medical devices and RMB1,332.6 billion on pharmaceutical products, which represents an expenditure ratio between medical device and pharmaceutical product ("**Expenditure Ratio**") of approximately 0.19:1 while the Expenditure Ratio for the world averaged to approximately 0.7:1 and reached 1.02:1 in high income countries. The data also revealed that the size of China's medical device market reached RMB417.6 billion in 2017. From 2015 to 2017, the compound growth rate of the medical device market was 16.44%, such rapid growth of the medical device market also benefited the distribution market of medical devices. The Target Group recorded an operating income of RMB30.71 billion in 2017, with compound growth rates of 37.44% from 2015 to 2017, which outpaced the medical device market's compound growth rate in the respective period.

As a result, the Directors are convinced that there will be a prosperous outlook for the Group to pursue in the Acquisition.

2. Reform and consolidation of the pharmaceutical product and medical device industry

The SCPRC implemented the "Two-Invoice system", drug tender, and rigorous regulation which aim to consolidate the fragmented distributor market for pharmaceutical products with the goal of increasing overall distribution chain transparency, managing the profit margin, controlling potential fraudulent behaviours, and minimizing the overall prices that patients or hospitals have to pay for pharmaceutical products.

Similarly, the SCPRC also recognized the importance in managing the medical device distribution industry. The Regulations on the Supervision and Administration of Medical Devices,《醫療器械監督管理條例》, which was promulgated by the Order No. 276 of the SCPRC on 4 January 2000, has been amended twice by the State Council Decree No. 650 and No. 680《國務院關於修改〈醫療器械監督管理條例〉的決定》in 2014 and 2017 respectively. These two recent amendments put stringent regulations around the medical device distribution industry to eliminate ineffective multi-layers distribution system and unorderly market. As advised by the Directors, in light of the above amendments and the national's initiative to consolidate the fragmented distribution industry of medical devices, they believe that the Chinese government will implement more regulations on medical device industry in the near future, similar to what has already been imposed on the pharmaceutical product distribution industry, to further enhance the efficiency, transparency, affordability, and credibility of the medical device distribution market. According to "CFDA 2006-2017 Food and Drug Regulatory Statistics Annual Report"《CFDA 2006-2017年度食品藥品監管統計年報》, the number of medical device distributors has exceeded 410,000 as at 31 December 2017 with a compound growth rate of 50.10% since 31 December 2015. The Directors believe the new regulations could eliminate small distributors which could bring new opportunity to the Target Group given its solid distribution network and platforms.

3. Expansion on the Company's business and product coverage

As indicated above regarding the background of the Company and the Target Group, they are both involved in the pharmaceutical distribution business – the Company focuses on pharmaceutical products like drugs and medicine, while the Target Group focuses on medical devices, and they both have wide-coverage distribution networks in the PRC. In addition, according to a research report prepared by a securities company in the PRC, the Target Group possesses the greatest market share of approximately 7.0% while the competitors possess at almost approximately 1.9% in the medical device distribution market. As such, the Directors believe that the Acquisition will (i) enhance the medical device distribution segment of the Company by enriching the product offering selection, given that the consumable products constitute the majority of the medical device distribution business for the Company, while medical equipment and reagents constitute the majority of the medical device distribution business for the Target Group; (ii) create cross selling opportunities by utilizing the customer base and distribution networks of the Company and the Target Group with over 15,000 hospitals and 4,000 hospitals, respectively; (iii) improve operational efficiencies through sharing of logistic centers, distribution services and back office services; (iv) reduce cost of goods from suppliers due to larger order volume and bargaining power; (v) eliminate any potential business competition that existed before; and (vi) diversify its business profile to include the medical device distribution segment which will further enhance the Company's market competitiveness and leading position in the pharmaceutical distribution industry.

Having considered (i) the positive market outlook with great development potential for the Target Group; (ii) the stringent market environment which gives rise to solid and structured corporation like the Target Group; and (iii) the Acquisition is in line with the Group's future plan as discussed in the 2017 Annual Report and allows the Group to utilize its leading reputation in the industry and existing customer base, we concur with the Directors that the Acquisition is fair and reasonable so far as the Shareholders are concerned and it is in the interests of the Company and the Shareholders as a whole.

PRINCIPAL TERMS OF THE ASSET PURCHASE AGREEMENT

Set out below are the principal terms of the Asset Purchase Agreement:

Date:

11 July 2018

Parties:

(1) the Company (as the buyer)

(2) CNPGC (as the seller)

Target Assets:

60% equity interest in the Target Company, being China National Scientific Instruments and Materials Co. Ltd., held by CNPGC.

Consideration:

Pursuant to the Asset Purchase Agreement, the consideration for the Acquisition is RMB5,107,890,720, which will be satisfied by issue of Consideration Shares by the Company to CNPGC under General Mandate.

The consideration was determined by the Company and CNPGC after arm's length negotiations with reference to the Valuation as at the Valuation Benchmark Date, being RMB5,107,890,720.

Issue Price of Consideration Shares:

The Consideration Shares will be issued by the Company to CNPGC at the issue price of RMB24.97 per Consideration Share, which is determined after arm's length negotiations between the Company and CNPGC with reference to the recent share market prices of the Company, the valuation of the Company and the Target Assets and the expected future development of the Target Group. The issue price is subject to the approval by the Competent State-owned Assets Supervision and Administration Authority.

If, during the period from the Pricing Determination Date to the registration date of the Consideration Shares, the Company makes any distribution, converts capital reserve into share capital, issues new shares, allots shares or carries out any other ex-rights or ex-dividends activities, corresponding adjustments shall be made to the issue price as follows:

Assuming P0 is the pre-adjustment issue price, N is the number of bonus shares or converted shares for each share, K is the number of new shares issued or allocated for each share, A is the price per share for new share issuance or allocation, D is the amount of cash dividend per share, and P1 is the post-adjustment issue price (rounded off to the nearest hundredths place):

(a) In the case of grant of bonus share, or conversion of capital reserve into share capital: $P1 = P0/(1+N)$

(b) In the case of issue of new shares or allotment of shares: $P1=(P0 + A\times K)/(1+K)$

In the case of both (a) and (b): $P1=(P0 + A\times K)/(1+N+K)$

(c) In the case of distribution of cash dividend: $P1=P0-D$

In the case of both (a), (b) and (c): $P1=(P0-D + A\times K)/(1+N+K)$

We noted that the adjustment formulae are anti-dilutive in nature. In any event that the Company makes any distribution, converts capital reserve into share capital, issues new shares, allots shares or carries out any other ex-rights or ex-dividends activities during the period from Price Determination Date to the registration date of the Consideration Shares, the adjustment mechanism will adjust the issue price of the Consideration Share to reflect the dilution effect, hence we consider the adjustment is fair and reasonable as far as the shareholders are concerned.

Effectiveness:

The Asset Purchase Agreement shall take effect upon the fulfilment date of all the following conditions:

(i) the signing of the Asset Purchase Agreement by the legal representatives or authorized representatives of the parties and the affixing of seals thereto;

(ii) the approval of the Acquisition by the Competent State-owned Assets Supervision and Administration Authority; and

(iii) the consideration and approval of the Asset Purchase Agreement by the independent shareholders of the Company at a general meeting in accordance with the Hong Kong Listing Rules.

ANALYSIS ON THE CONSIDERATION

Pursuant to the letter from the Board, the consideration for the Acquisition was determined after taking into account the valuation of the Target Assets of RMB5,107,890,720 prepared by the Independent Valuer based on income approach, following arm's length negotiations of the parties.

We have considered and reviewed, among others, the Valuation as prepared by the Independent Valuer, which is set out in Appendix I to the Circular, and discussed with the Independent Valuer regarding the methodology of and the principal bases and assumptions adopted for the Valuation.

1. Competence of the Independent Valuer

As part of our due diligence, we have reviewed the qualification and experience of the Independent Valuer. In addition, we have also reviewed the terms of the Independent Valuer's engagement and are satisfied the terms of engagement and the scope of work of the Independent Valuer to be appropriate. Furthermore, we have enquired with the Independent Valuer as to its current and prior independence with the Group, and understood that the Independent Valuer is an independent third party from the Company, the Target Group, and the connected persons of the Group and CNPGC.

2. Valuation methodologies

We understand the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Independent Valuer that the adoption of market approach may not be appropriate because the transactions of companies with comparable characteristics are limited. The lack of information from the market makes it impossible to use the market approach for the valuation. We also understand from the Independent Valuer that the asset-based approach, which involves the assessment of assets and liabilities to appraise the value of Target Group, is not ideal for this valuation as (i) it only takes into account of the Target Group worth as at the valuation date and forgoes the positive growth prospect of the Target Group; (ii) the Target Group is considered to be an asset-light industry without heavy investment in factory or plant, which would result in an underestimate of the Target Group's value if the asset-based approach was used; and (iii) the future earning potential of the Target Group is in its ability to generate revenue through its well-established distribution network which is hard to quantify a value for. The Independent Valuer further confirmed that the income approach is appropriate as it values the future growth of the Target Group based on assessment on its strong historical business performance.

3. Valuation assumptions

We have reviewed and discussed with the Independent Valuer in respect of the valuation assumptions applied in the Valuation. We noted that they are common assumptions adopted in business valuation, including but not limited to (i) no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the economy in general and the business of the Target Group; and (ii) the accuracy of the financial and operational information provided to the Independent Valuer by the Company and the Target Group are relied upon to a considerable extent in arriving at the Independent Valuer's conclusion of value. We are not aware of any material facts which may lead us to doubt the principal bases and assumptions adopted for the Valuation. We discussed with the Valuer regarding the calculation method of the income approach adopted in the Valuation. We understand from the Valuer that the Valuation is mainly derived from discounted future cashflow of each individual company of the Target Group. We have further discussed with the Reporting Accountant regarding their work performed on the discounted future cashflow. We understand that the Reporting Accountants checked the arithmetical calculations and the complications of the discounted future cash flows and concluded that the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the directors of the Target Company, who are solely responsible and the profit forecast has been prepared by them based on the audited financial results of the Target Group as set out in the Valuation. In addition, we have discussed with the Financial Adviser regarding their views on the basis and assumptions adopted in the profit forecast. We understand that the Financial Adviser has taken into account of the business plans, market environment, historical business performance, shareholdings structure, business regions of the subsidiaries before forming their views on the basis and assumptions, including but not limited to the growth rates and discount rates used in the profit forecast. Further, we reviewed the calculation of the long-term equity investment as shown in the Appendix I of the Circular that represented the enterprise value of subsidiaries and associates in which the Target Company holds certain or a majority of equity interests, and the value of the principal businesses that represented the enterprise value of the major operating subsidiaries of the Target Group, and Further review the discounted future cash flow, the growth rate and the discount rate adopted in the Valuation.

Taking into account (i) the Independent Valuer is independent from the Company and is competent to perform the Valuation; (ii) scope of work of the Independent Valuer is appropriate for the relevant engagement; (iii) the discounted future cash flows have been reviewed by the Reporting Accountant, as set out in Appendix II of the Circular; and (iv) the Financial Adviser is satisfied with the profit forecast included in the Valuation Report which is solely responsible by the Directors, as stated in the Appendix III of the Circular, we consider that the Valuation is an appropriate reference to assess the fairness and reasonableness of the consideration for the Acquisition.

Comparable analysis

To further assess the fairness and reasonableness of the consideration for the Acquisition, we have reviewed the price-to-earnings ratio(s) ("**P/E Ratio(s)**") of companies with principal business comparable to the Target Group. We have conducted an independent research from the public domain on comparable companies (the "**Comparables**"), with the selection criteria that they are (i) listed on the Hong Kong Stock Exchange; (ii) principally engaged in the distribution of pharmaceutical products and/or medical devices (the "**Relevant Business**"); (iii) with at least 50% revenue from the Relevant Business; (iv) with at least 50% revenue from the PRC; and (v) with positive profits as disclosed in their respective latest published annual reports. To the best of our knowledge and on a best-effort basis, an exhaustive list of 5 Comparables has been identified based on the aforesaid selection criteria. Set out in the table below is a summary of the Comparables.

Company Name	**Stock Code**	**Principal Business**	**P/E Ratios** *(Note 1,2)*
PA Shun International	574	pharmaceutical products and medical instruments distribution business	36.46
Lee's Pharmaceutical	950	manufacture, sales and distribution of pharmaceutical products and medical devices	21.05
Kingworld Medicines	1110	distribution of pharmaceutical products and medical examination devices	10.75
LifeTech Scientific Corporation	1302	manufacturing and distribution of cardiovascular and peripheral vascular medical devices	46.32
Charmacy Pharmaceutical	2289	pharmaceutical products and medical device distribution	15.66
		Maximum	46.32
		Minimum	10.75
		Average	26.05
		Median	21.05
Target Group		**medical devices distribution business**	**17.42** ***(Note 3)***
Company		**pharmaceutical products distribution business**	**13.08** ***(Note 4)***

Sources: The website of the Stock Exchange (www.hkex.com.hk) and the latest published annual reports of the respective Comparables.

Notes:

1. The P/E Ratios of the Comparables are calculated by dividing the market capitalization as at the Latest Practicable Date by the net profit attributable to the owners for the recent completed financial year.

2. For the purpose of this table, the conversion of RMB into HK$ is based on the Exchange Rate for illustration purpose only.

3. The P/E Ratio of the Target Group is calculated based on (i) theoretical market capitalization of the Target Group being derived from the consideration of the Acquisition of RMB5,107,890,720 for 60% equity of the Target Company; and (ii) 60% of the profit attributable to the owners of the company.

4. The P/E Ratio of the Company is calculated based on (i) the market capitalization of the Company as derived from the total number of 2,767,095,089 issued Shares with the issue price of the Consideration Shares; and (ii) the profit attributable to the owners of the Company as disclosed in the 2017 Annual Report.

As shown in the above table, we note that the P/E Ratios of the Comparables ranged from 10.75 times to 46.32 times, with an average of 26.05 times. The P/E Ratios of the Target Group and the Company of 17.42 times and 13.08 times, respectively are (i) lower than the average P/E Ratio of the Comparables of approximately 26.05 times; and (ii) within the range from 10.75 times to 46.32 times of the P/E Ratios of the Comparables, as such, we concur with the view of the Directors that the consideration of the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Number of the Consideration Shares to be issued

The 204,561,102 Consideration Shares represent approximately 12.99% of the total Domestic Shares in issue and approximately 7.39% of the total Shares in issue as at the date of the Circular, and approximately 11.50% of the total Domestic Shares and approximately 6.88% of the total Shares as enlarged by the issue of the Consideration Shares (assuming no other changes made to the issued share capital of the Company between the date of the Circular and the date of issue of the Consideration Shares). The final number of Consideration Shares to be issued is subject the price adjustment event as discussed.

The Consideration Shares shall be issued under the General Mandate. The Consideration Shares shall rank *pari passu* with the Domestic Shares in issue at the date of the issue of Consideration Shares, and shall be entitled to all the dividends, bonus shares or other distributions the record dates of which are the dates of the issue of Consideration Shares or any dates thereafter.

Issue price of Consideration Shares

The issue price of the Consideration Shares was determined with reference to the recent share prices of the Company, the Valuation and the expected future development of the Target Group.

The issue price of RMB24.97 per Consideration Share (equivalent to approximately HK$29.59 per Consideration Share calculated based on the Exchange Rate) represents:

(i) a discount of approximately 5.6% to the closing price of HK$31.35 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date;

(ii) a discount of approximately 3.0% to the average closing price of HK$30.52 per H Share as quoted on the Hong Kong Stock Exchange for the five (5) consecutive trading days immediately preceding the Price Determination Date;

(iii) a discount of approximately 4.5% to the average closing price of HK$30.98 per H Share as quoted on the Hong Kong Stock Exchange for the ten (10) consecutive trading days immediately preceding the Price Determination Date;

(iv) a discount of approximately 8.0% to the average closing price of HK$32.16 per H Share as quoted on the Hong Kong Stock Exchange for the twenty (20) consecutive trading days immediately preceding the Price Determination Date;

(v) a discount of approximately 11.8% to the closing price of HK$33.55 per H Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 96.0% over the net asset value of the Company HK$15.10 per Share as at 31 December 2017.

To further assess the fairness and reasonableness of the issue price, we set out the following analysis for illustrative purposes:

1. Comparable issues

As part of our analysis, we have conducted a research in relation to acquisitions by listed companies in Hong Kong involving the issue of consideration shares, limited to consideration shares being issued less than 20% of the existing issued capital, as all or part of the consideration (the "**Consideration Shares Comparables**"), announced by companies listed on the Hong Kong Stock Exchange from 1 January 2018 up to and including the date of the Asset Purchase Agreement (the "**Selection Period**"). We consider that the Selection Period is adequate and appropriate to capture the most recent market conditions and sentiments. To the best of our knowledge and as far as we are aware of, we identified an exhaustive list constituting 14 transactions which met the said criteria. Shareholders should note that the businesses, operations and prospects of the Consideration Shares Comparables are not identically the same as the Company. Nevertheless, the Consideration Shares Comparables can demonstrate the market practices during the Selection Period.

Date of announcement	Company Name	Stock Code	Issue price	Premium/(discount) of the issue price over/(to) the closing price: Last trading day prior to/on the date of the announcement	Last 5 consecutive trading days prior to/on the date of the announcement	Last 10 consecutive trading days prior to/on the date of the announcement
05 Jan 2018	Sino Biopharmaceutical	1177	12.730	-10.0%	-8.0%	-4.4%
18 Jan 2018	Realord Group Holdings	1196	4.738	-7.8%	-7.5%	-8.7%
23 Jan 2018	Tongfang Kontafarma	1312	0.500	0.0%	0.0%	-0.6%
31 Jan 2018	Richly Field China	313	0.086	0.0%	2.9%	2.5%
12 Feb 2018	Huabang Financial	3638	0.650	27.5%	19.5%	14.2%
15 Feb 2018	eForce Holdings	943	0.270	8.0%	3.8%	7.9%
15 Mar 2018	China Fire Safety	445	0.366	8.7%	13.6%	13.6%
06 Apr 2018	Sincere Watch (HK)	444	0.113	2.7%	5.0%	2.7%
12 Apr 2018	Ausnutria Dairy	1717	5.000	3.3%	3.5%	1.8%
26 Apr 2018	V1 Group Limited	82	0.286	27.7%	35.5%	35.5%
25 May 2018	AL Group Limited	8360	0.153	-19.5%	-17.7%	-14.0%
25 Jun 2018	Inspur International	596	2.650	-2.9%	-2.2%	-0.7%
29 Jun 2018	New Silkroad Int'l Ltd.	472	1.300	4.8%	17.1%	25.0%
29 Jun 2018	Anton Oilfield	3337	1.014	20.7%	25.8%	28.0%
			Maximum	27.7%	35.5%	35.5%
			Minimum	-19.5%	-17.7%	-14.0%
			Average	4.5%	6.5%	7.3%
	Company			**-5.6%**	**-3.0%**	**-4.5%**

Source: the website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the above table, the variance of the issue price of the Consideration Shares Comparables ranged from:

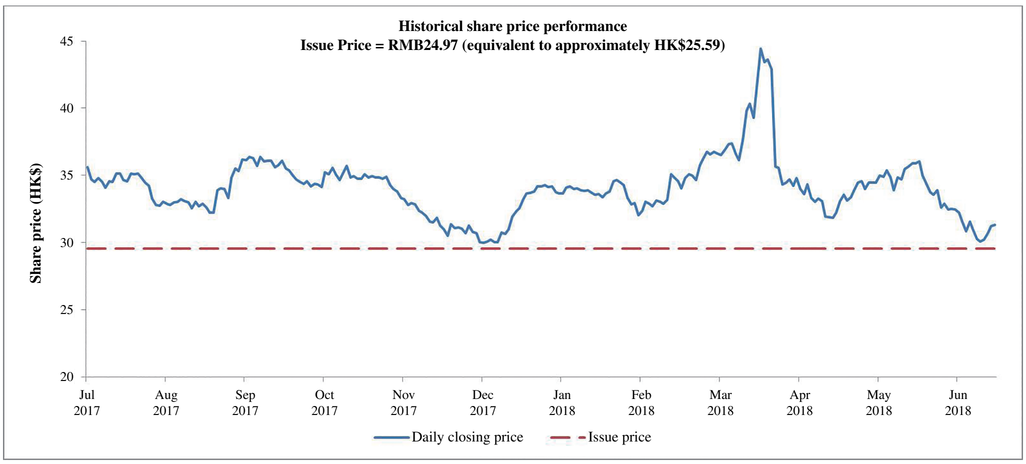
(i) a discount of approximately 19.5% to a premium of approximately 27.7% (the "**CS LTD Range**") with the average figure being a premium of approximately 4.5% on the respective last trading day prior to/on the date of the relevant announcement;

(ii) a discount of approximately 17.7% to a premium of approximately 35.5% (the "**CS 5-Days Range**") with the average figure being a premium of approximately 6.5% on the respective last 5 consecutive trading days prior to/on the date of the relevant announcement; and

(iii) a discount of approximately 14.0% to a premium of approximately 35.5% (the "**CS 10-Days Range**") with the average figure being a premium of approximately 7.3% on the respective last 10 consecutive trading days prior to/on the date of the relevant announcement.

2. Historical price performance of the H Shares

The diagram below illustrates the issue price and daily closing price of the H Shares as quoted on the Hong Kong Stock Exchange during the period commencing from 1 July 2017 up to and including the date of the Asset Purchase Agreement (the "**Review Period**"). The Review Period is set to be approximately one year prior to the date of the Asset Purchase Agreement, which is commonly used for analysis purpose.



Source: the website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the average closing price was approximately HK$34.07 per H Share (the "**Average Closing Price**"). The daily closing price ranged from HK$30.00 per H Share (the "**Lowest Closing Price**") to HK$44.45 per H Share (the "**Highest Closing Price**") during the Review Period. The issue price of HK$29.59 per Consideration Shares in the Review Period represents:

(i) a discount of approximately 13.1% of the Average Closing Price;

(ii) a discount of approximately 1.4% of the Lowest Closing Price; and

(iii) a discount of approximately 33.4% of the Highest Closing Price.

Although the issue price remained lower than the historical price of the H Shares for the past one year and represents a slight discount of 1.4% from the Lowest Closing Price, it should be noted that the Domestic Shares are not listed and freely traded in Hong Kong, therefore there is no publicly available trading price for the Domestic Shares. Due to their differences in tradability, it is not suitable to do a direct comparison between the Domestic Shares and the H Shares, and it is acceptable to observe a discount on the Domestic Share price as compared to H Share price.

3. Historical trading volume of the H Shares

	Total monthly trading volume of the H Shares	Average daily trading volume of the H Shares	% of average daily trading volume of the H Shares to total Shares in issue *(Note 1)*	% of average daily trading volume of the H Shares to average public float Shares *(Note 2)*	Number of trading days in each month
2017					
July	110,156,368	5,245,541	0.19%	0.44%	21
August	119,951,208	5,452,328	0.20%	0.46%	22
September	111,806,776	5,324,132	0.19%	0.45%	21
October	104,573,477	5,228,674	0.19%	0.44%	20
November	140,023,258	6,364,694	0.23%	0.53%	22
December	110,736,333	5,828,228	0.21%	0.49%	19
2018					
January	121,791,811	5,535,991	0.20%	0.46%	22
February	100,560,530	5,586,696	0.20%	0.47%	18
March	134,311,697	6,395,795	0.23%	0.54%	21
April	202,168,595	10,640,452	0.38%	0.89%	19
May	127,601,047	6,076,240	0.22%	0.51%	21
June	105,340,511	5,267,026	0.19%	0.44%	20
July *(Note 3)*	36,313,714	5,187,673	0.19%	0.43%	7

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on 2,767,095,089 H Shares in issue from 1 July 2017 to 11 July 2018.

2. Based on 1,192,810,740 H Shares in issue held by the Independent Shareholders from 1 July 2017 to 11 July 2018.

3. up to 11 July 2018.

The above table illustrates that the trading volume of the H Shares was thin during the Review Period. The average daily trading volume of the H Shares in each month ranged from approximately 5,187,673 H Shares in July 2018 to 10,640,452 H Shares in April 2018, representing approximately 0.19% and 0.38% to the total number of issued Shares, respectively, as at the end of these two months. Save and except for April 2018, the average daily trading volume of the H Shares was approximately 5,624,418 H Shares per day, which represents less than 0.50% of the total number of issued H Shares held by the public during the Review Period.

Given (i) the low level of trading volume of the H shares during the Review Period; and (ii) the number of Domestic Shares of 204,561,102 to be issued in relation to the Acquisition represents approximately 7.39% of the total Shares in issue or 36.4 times of the average daily trading volumes of the H Shares, we consider that it is fair and reasonable to exert small degree of downward pressure on the issue price of the Consideration Shares.

Having considered that:

(i) the issue price of the Consideration Shares represents a premium of approximately 96.0% over the net asset value of the Company of HK$15.10 per Share as at 31 December 2017;

(ii) the large-scale issue of the Consideration Shares in relation to the thin trading volume during the Review Period; and

(iii) domestic shares tend to have lower liquidity than H shares given its lack of marketability,

we concur with the Directors that the issue price of the Consideration Share is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

General Mandate

The Consideration Shares will be allotted and issued under the General Mandate approved by the Shareholders at the annual general meeting held on 28 June 2018.

Effect on the shareholding structure of the Company

The following table illustrates the shareholding structure of the Company (i) as at the date of the Asset Purchase Agreement; and (ii) immediately after the issue of the Consideration Shares in accordance to the terms of the Acquisition (assuming that there is no other change in the issued share capital of the Company before the date of issue the Consideration Shares):

	As at the date of the Asset Purchase Agreement		**Immediately after the issue of the Consideration Shares**	
	Number of Shares	*% of shareholding*	*Number of Shares*	*% of shareholding*
Domestic Shares				
Sinopharm Industrial Investment Co., Ltd.	1,571,555,953	56.79%	1,571,555,953	52.88%
CNPGC	2,728,396	0.10%	207,289,498	6.98%
H-Shares				
Public Shareholders	1,192,810,740	43.11%	1,192,810,740	40.14%
Total	2,767,095,089	100.00%	2,971,656,191	100.00%

Although the shareholding of the existing public shareholders will be slightly diluted by approximately 2.97% after the Acquisition due to the issue of the Consideration Shares, taking into account (i) the reasons for and benefits of the Acquisition; (ii) the terms of the Asset Purchase Agreement being fair and reasonable; and (iii) the terms of the Consideration Shares are fair and reasonable as discussed in section headed "Number of the Consideration Shares to be issued" of this letter, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders is acceptable.

Financial effects of the Acquisition

Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company. Its financial results, assets and liabilities will be consolidated into the accounts of the Group.

Financial Results

Upon completion of the Acquisition, the financial results of the Target Group will be consolidated into the consolidated accounts of the Group as enlarged by the Acquisition ("**Enlarged Group**"). Based on the audited financial statements for the year ended 31 December 2017 of the Group and assuming that the Acquisition had taken place on 31 December 2017, the net profit of the Group for the financial year ended 31 December 2017 is expected to increase from approximately RMB7,868.2 million to approximately RMB8,666.3 million as a result of the Acquisition.

Liquidity

Since the consideration of the Acquisition is to be satisfied by issue of Consideration Shares, the Acquisition will not have a significant adverse impact on the liquidity of the Enlarged Group.

Assets and Liabilities

As of 31 December 2017, the Group's audited consolidated total assets and total liabilities are approximately RMB169,539.0 million and RMB118,269.4 million, where the net assets of the Group is RMB51,269.6 million. The Acquisition will increase the consolidated total assets and total liabilities of the Enlarged Group to approximately RMB190,729.7 million and RMB132,782.6 million, respectively, where the net asset value of the Enlarged Group will be RMB57,947.1 million.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

Recommendations

Having considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

(i) the P/E Ratios of the Target Group and the Company are below the average of the Comparables' P/E Ratios;

(ii) the issue price of the Consideration Share represents a premium over the net asset value of the Company;

(iii) the Acquisition would have improvement on the earning and net asset value for the Group;

(iv) the Acquisition would enable the Company to expand its revenue sources and business coverage;

(v) the trading volume is relatively thin during the Review Period and domestic shares tend to have less liquidity than the H shares; and

(vi) the confirmation from the Reporting Accountant and Financial Adviser on the calculation, basis and assumptions of the profit forecast solely responsible and prepared by the directors of the Target Company, as set out in the Valuation,

we are of the opinion that (i) the terms of the Acquisition as contemplated under the Asset Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Acquisition is 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 to be proposed at the EGM to approve the Acquisition contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung — *Managing Director*
Wong Wai Leung — *Executive Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 23 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008 and Type 9 (asset management) regulated activities. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

The following is a summary of the Valuation Report dated 8 May 2018 issued by the Independent Valuer, for the purpose of, among others, inclusion in this circular.

Asset Valuation Report (Summary) for the Value of the Entire Equity Interests of China National Scientific Instruments and Materials Corporation in the Proposed Transfer of Equity in China National Scientific Instruments and Materials Corporation by China National Pharmaceutical Group Co., Ltd.

No.0506 Wo Ke Sen Ping Bao Zi (2018)

To China National Pharmaceutical Group Co., Ltd. and Sinopharm Group Co. Ltd.:

Engaged by your company, Vocation (Beijing) International Assets Appraisal Co., Ltd. has carried out all necessary valuation procedures to evaluate the market value of the entire equity interests of China National Scientific Instruments and Materials Corporation ("**CSIMC**") that are involved in the economic behavior of proposed transfer of equity in CSIMC by China National Pharmaceutical Group Co., Ltd. ("**CNPGC**") on 31 December 2017. The valuation is carried out according to relevant laws, administrative regulations and asset valuation standards, based on asset-based approach and income approach, and in the principle of independence, objectiveness and fairness. The conclusions of the asset valuation and the summary of the asset valuation report are as follows:

1 PURPOSE OF VALUATION

CNPGC is planning to sell its equity interests held in CSIMC, and such economic behavior has been approved by the twelfth meeting of the fifth session of Board of Directors of CNPGC in 2017.

2 APPRAISAL TARGET AND SCOPE OF VALUATION

The appraisal target is the value of the entire equity interests of CSIMC involved in the proposed transfer of equity in CSIMC by CNPGC, and the valuation covers all the assets and liabilities of CSIMC involved in the economic behavior as of the Benchmark Date. The financial statements of CSIMC as of the Benchmark Date were audited by Baker Tilly China Certified Public Accountants (Special General Partnership), and relevant audit conclusions are set out in No.14306 Tian Zhi Ye Zi [2018] audit report.

3 TYPE OF VALUE

Market value

4 BENCHMARK DATE

31 December 2017

5 VALUATION METHOD

(1) Selection of Valuation Method

1 Basis of Selecting Valuation Method

(1) Article 16 of the Basic Standards on Assets Valuation stipulates that the valuation methods of determining asset value include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods in accordance with laws.

(2) Article 17 of the Practice Guidelines for Asset Valuation – Enterprise Value stipulates that when evaluating enterprise value, the suitability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods.

(3) Article 18 of the Practice Guidelines for Asset Valuation – Enterprise Value stipulates that if different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.

2 Suitability of Valuation Methods

(1) Income Approach

The income approach refers to the approach in which the expected income of the appraisal target shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the income approach based on the historical operations of the evaluated entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of discounted dividend method and discounted cash flow method.

The discounted dividend method refers to the method in which the appraisal target's value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests. Discounted cash flow method generally consists of the discounted enterprise free cash flow model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the evaluated entity's sectors, operational modes, capital structure and development trends.

(2) Market Approach

The market approach refers to the approach in which the appraisal target shall be compared with comparable listed companies or transactions so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the market approach based on adequacy and reliability of the operational and financial data collected on comparable companies, as well as the number of comparable companies able to be collected.

The market approach primarily consists of methods of comparing with listed companies and transactions.

The method of comparing with comparable listed companies refers to the method in which operational and financial data of comparable listed companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the listed company and the evaluated entity. The method of comparing with comparable transactions refers to the method in which information on trade, transfer and merger cases of comparable companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the transactions and the evaluated entity.

(3) Asset-based Approach

Asset-based approach refers to the approach in which, based on the balance sheet of the evaluated entity on the Benchmark Date, the value of identifiable assets and liabilities on and off the balance sheet shall be evaluated so as to determine the value of the appraisal target. Suitability of the asset-based approach shall be reassessed if the appraisal target carries assets or liabilities that are difficult to identify and evaluate, and can exert material impact upon the appraisal target's value.

3 Selection of Valuation Method

Analysis of Suitability of the Three Valuation Methods for the Project

(1) Suitability of Income Approach

CSIMC has been established for a long time and delivered stable performance in history. Its future profits can be forecasted and measured in monetary terms, and the risks that such profits are exposed to can also be gauged. The appraisal target is a circulation enterprise, and its enterprise value is highly sensitive to changes in intangible assets such as human resource, sales channels, competitive advantages and brand awareness. Therefore, the income approach was selected for the valuation in this project.

(2) Suitability of Market Approach

The market approach was not adopted in this project as there are not enough comparable China-listed companies operating in the same industry as CSIMC, and there are rare transaction cases in the industry of CSIMC and relevant disclosure is quite inadequate.

(3) Suitability of Asset-based Approach

The asset-based approach was adopted in this project because the assets and liabilities entrusted to be valuated can be inspected onsite and adequate information can be provided for valuation of such assets and liabilities.

(2) Rationale of Selected Valuation Method

1 Rationale of Income Approach

We use discounted cash flow method to arrive at the value of the evaluated entity's principal business as at the Benchmark Date, and we have selected the discounted enterprise free cash flow model, under which the value of the evaluated entity's principal business was calculated based on the enterprise's free cash flow over the next few years that was discounted at an appropriate discount rate and was added up.

The total enterprise value of the evaluated entity equals to the value of the evaluated entity's principal business plus the non-operating and surplus assets value and minus the non-operating and surplus liabilities value. Value of entire equity interests of shareholders equals to total enterprise value minus interest-bearing debts value.

Matters requiring further explanations in the income model are as follows:

1.1 Calculation of enterprise free cash flow

Enterprise free cash flow during the forecast period = net profit after tax + depreciation and amortization + financial expense after tax – capital expenditure – working capital increment

1.2 Calculation of value of the evaluated entity's principal business

Value of the evaluated entity's principal business refers to the value of the entity's operating assets.

The formula for calculating value of the evaluated entity's principal business is as follows:

$$V = \sum_{i=1}^{n} \frac{Ai}{(1+r)^{i}} + \frac{An}{r(1+r)^{n-1}}$$

Where: V: The value of the evaluated entity's principal business

Ai: The net FCFF of No. i year in explicit forecast period

r: Discount rate (Capitalization rate)

i: The length of forecast period

n: The n^{th} year

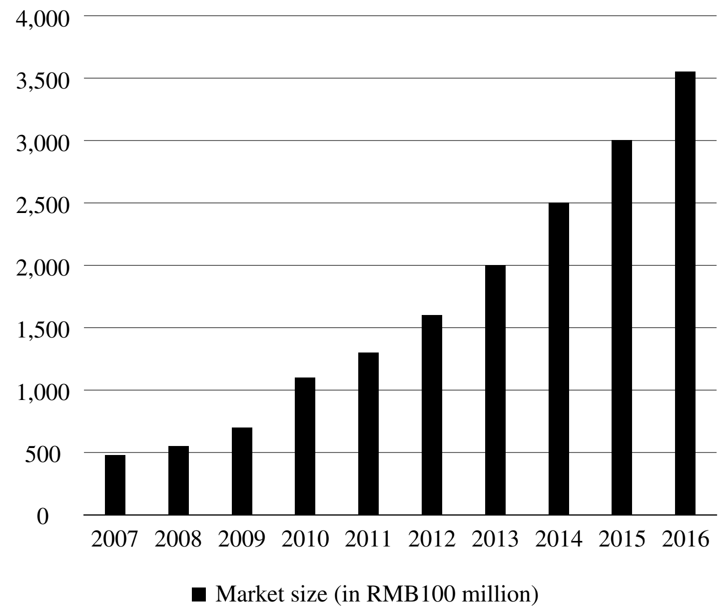
An: Each year's net FCFF following the explicit forecast period

1.3 Basis of profit forecast

According to the audited financial statements, the Target Company's businesses were on a continuously fast growing trajectory during the historical years. From 2015 to 2017, the compound growth rate of the Target Company's operating revenue reached approximately 37% on a combined basis.

As one of the major medical equipment production and consumption countries in the world, China's medical equipment market is bound to continuously expand as the reform of the medical insurance system deepens and improves, investments in medical insurance by the government and individuals further increase and demands for medical equipment from medical institutions and the public continue to grow. Relevant data shows that the average ratio of sales volume of medicines to that of medical equipment is 1:0.7 globally and exceeds or approximates 1:1 in developed countries such as the U.S., Germany, and the U.K., while the said ratio was approximately 1:0.19 in China in 2014 according to statistics of China Medical Pharmaceutical Material Association, indicating tremendous development potential.

Market size of medical equipment in China



According to statistics of China Medical Pharmaceutical Material Association, the size of the Chinese medical equipment industry grew from RMB53.5 billion in 2007 to RMB370 billion in 2016 with an average compound annual growth rate of 23.97%, substantially higher than the average growth rate of the global medical equipment market. As the China's economic and social development continues to accelerate and demands for medical equipment from medical institutions and the public continue to grow, the Chinese medical equipment industry is expected to maintain the fast growing momentum in the future.

Compared with the supply chain of medicines, the supply chain of medical equipment is less standardized and the regulation is tightening. The implementation of the "Two-Invoice System" will have significant impacts on the entire medical equipment distribution industry in China, triggering mergers and acquisitions and consolidation of regional channels. As the leader in the medical equipment distribution industry in China, the Target Company adapts itself to the new regulatory landscape and seizes opportunities presented by the industry reform in the new era, and is well-positioned to achieve fast development.

As such, the growth rate assumed for the profit forecast of the Target Company is based on the development trend during the historical years and the profit forecast for the coming years provided by the management while taking into consideration the development trend of the industry and that of the enterprise.

1.4 Calculation of the discount rate

In addition to evaluating the enterprise free cash flow of the evaluated entity during the forecast period, we have calculated the weighted average capital cost (WACC) on the same basis. The calculation formula is as follows:

$$WACC = K_D \times (1-T) \times \frac{D}{V} + K_E \times \frac{E}{V}$$

Where: WACC – weighted average capital cost;

K_D – capital cost of interest-bearing debts;

K_E – capital cost of equity;

D – value of interest-bearing debts;

E – equity value;

V = D+E;

T – income tax rate applied by the evaluated entity.

The following indicators must be determined for the calculation of weighted average capital cost: capital cost of equity, capital cost of interest-bearing debts, and the ratio of the value of interest-bearing debts to equity value.

1.4.1 Calculation of capital cost of equity (K_E)

We used the capital asset pricing model (CAPM) to calculate the capital cost of equity.

That is: $K_E = R_F + \beta(R_M - R_F) + \alpha$

Where: K_E–capital cost of equity;

R_F– risk-free rate of return;

R_M– R_F– market risk premium;

β– Beta coefficient;

α–enterprise-specific risk.

1.4.2 Capital cost of interest-bearing debts

The capital cost of interest-bearing debts is determined based on the interest-bearing debts of the evaluated entity on the Valuation Benchmark Date.

1.4.3 Determination of the weighted average capital cost

The weighted average capital cost is calculated by determining the above indicators and using the following formula:

$$WACC = K_D \times (1-T) \times \frac{D}{V} + K_E \times \frac{E}{V}$$

According to the calculation, the weighted average capital cost is 11.20% from 2018 to 2022.

1.5 Scope of Non-operating and Surplus Assets

Under the model, the scope of non-operating and surplus assets includes long-term equity investment, surplus assets and non-operating assets. The value of such non-operating and surplus assets equals to the combined amount of long-term equity investment, surplus assets and non-operating assets.

(1) Long-term equity investment refers to the external equity investment that companies have made. In normal situations, the value of controlling long-term equity investment is determined in the following ways: the value of long-term equity investment held by the evaluated entity is measured at the estimated entire equity interests value of the investee multiplying the shareholding percentage of the investor; the value of non-controlling long-term equity investment that does not generate stable income in historical years is measured at the book value of the investee's net asset as at the Benchmark Date multiplying shareholding percentage.

(2) Surplus and Non-operating Assets

The assets of the evaluated entity are classified into two categories as at the Benchmark Date: operating and non-operating assets. Operating assets refer to the assets related to the evaluated entity's operations, and are further classified into efficient assets and inefficient assets. The efficient assets refer to assets that are being used or will be used for the entity's production and operation; inefficient assets are also named surplus assets, referring to assets that are held for operating purpose, but are not used at the Benchmark Date or will not be used in the foreseeable future. Surplus and non-operating assets are defined as follows:

Surplus assets refer to assets that are held for operational purpose, but are not indispensable for enterprises' operations and are not directly relevant to enterprises' profits during certain periods. We analyzed the evaluated entity's asset allocation and profitability status, as well as its operational status to determine whether the evaluated entity has surplus assets.

Non-operating assets refer to assets that are held for nonoperational purpose, and are not directly connected to production and operating activities, such as the properties occupied by shareholders for residential use, vehicles used by shareholders, short-term equity and bond investments concerning industrial and manufacturing companies, and transactions amounts with related companies irrelevant to principal business of the enterprise.

The valuation of long-term equity investment, surplus assets and non-operating assets is based on asset characteristics and conducted with different valuation methods.

1.6 Scope of Non-operating and Surplus Liabilities

Under the model, scope of non-operating and surplus liabilities covers surplus liabilities, non-operating liabilities, etc. The value of non-operating and surplus liabilities equals to the combined value of surplus liabilities and non-operating liabilities.

1.7 Calculation of value of total equity interests of shareholders

Formula for calculating value of total equity interests of shareholders:

Value of total equity interests of shareholders = Total enterprise value – interest-bearing debts

Total enterprise value = Principal business value + non-operating and surplus assets value – non-operating and surplus liabilities value

2 Rationale of Asset-based Approach

We have evaluated the entire shareholder equity interests of CSIMC through asset-based approach. Firstly, we properly evaluated the market values of each type of assets, and calculated the appraised value of the entire shareholder equity interests by detracting value of CSIMC's liabilities from summed-up amount of all assets values.

Valuation methods of each type of assets and liabilities are as follows:

(1) Cash and cash equivalents: Cash and cash equivalents include cash, bank deposit and other monetary funds. For RMB monetary funds, their appraised values are determined based on verified book value. Foreign currency monetary funds' appraised values are determined based on the foreign exchange rates of such foreign currencies against RMB on the Benchmark Date.

(2) Other credit assets: Other credit assets primarily include notes receivable, accounts receivable, prepayments, dividend receivable and other receivables. The value of such assets shall be determined according to their recoverable amounts, which are evaluated based on in-depth investigation into and analysis of relevant transactions, aging and repayment progress, with a particular focus on major debtors' capital use and operational status.

(3) Inventory: The inventory includes various medical equipment, medical consumables, medical test reagents, among others, which are externally procured and waiting to be sold by the enterprise. Such inventories have high turnover, and their book values approximate market prices at the Benchmark Date, so their appraised values are determined based on the verified book values.

(4) Available-for-sale financial assets: The available-for-sale financial assets include external non-controlling long-term equity investment and bond investment. The investees of external non-controlling long-term equity investments include Hangwei GE Medical Systems Co., Ltd. and others, and their appraised values are determined based on verified book values. Appraised values of bond investments are determined based on bond principal investments plus interests accrued during the holding period.

(5) Long-term equity investments

As to the evaluated entity's controlling subsidiaries, the valuation of invested enterprises are appraised based on asset-based approach and income approach. The valuation conclusions through the income approach were adopted, and the appraised value of the evaluated entity's long-term equity investment was calculated based on its shareholding percentage.

For entities that have received long-term investment from the evaluated entity but cannot be evaluated on site and comprehensively, the appraised value of long-term equity investment in them was determined based on the net assets on their financial statements multiplying the evaluated entity's shareholding percentage on the Benchmark Date.

(6) Investment properties

The investment properties are evaluated with the market approach, as they have very active transactions and similar properties nearby are put up for sale, which made the collected information very applicable to their valuation. The building's floor areas are determined based on the areas specified in the building ownership certificates.

With the market approach, we selected properties that are similar to the evaluated properties and located in the same districts and sold recently, and identified similarities and differences between the evaluated properties and such selected properties from the aspects of time, transactions, locations and individuals. Then we arrived at the appraised value of the evaluated properties through adjusting the transaction prices of the selected properties based and comprehensive analysis on the abovementioned similarities and differences.

(7) Buildings

For the purpose of valuation herein and based on characteristics of each building, we evaluated buildings within the scope of the valuation using the market approach.

(8) Equipment

For the purpose of the valuation and according to the principle of continuous uses, we have evaluated the machinery and equipment with the replacement cost approach and market approach based on market prices, characteristics of the machinery and equipment, as well as the collected information.

The replacement cost approach refers to an approach in which the appraised value of the evaluated assets shall be measured at the total costs needed for repurchasing or building a brand-new evaluated asset under existing conditions minus the depreciation by real degradation, functional degradation and economic degradation. The formula for calculating the replacement cost is as follows:

Appraised value = Full replacement cost × newness rate

The appraised value of electronic equipment that has been used for long, exceeded its economic service life and had no similar models on market was determined based on second-hand market quotations.

(9) Construction-in-progress

The construction-in-progress evaluated herein refers to the auxiliary projects of the evaluated entity's new office building, and their value have been incorporated into the entire value of the new office buildings, so their appraised value herein was zero.

(10) Intangible assets: For externally-purchased office software, appraisers need to learn about the main functions and features of such software, verify materials such as the purchase contracts, invoices and payment certificates for such software, and find out the market prices of such software by inquiring software suppliers or searching online. Such software's appraised value shall be determined based on market prices excluding taxes.

(11) Liabilities: Liabilities primarily include notes payable, accounts payable, unearned revenue, payroll payable, tax payable, other payables, expected liabilities, deferred income tax liabilities, other non-current liabilities, etc. Appraisers shall audit and verify the evaluated entity's liabilities, and determine the appraised value of its liabilities based on the actual liabilities amount that the evaluated entity needs to assume on the Benchmark Date.

6 VALUATION CONCLUSIONS AND VALIDITY PERIOD

(1) Preliminary Valuation Conclusions by Asset-Based Approach

Based on the principle of independence, fairness and objectivity, and on the premise of operating as a going concern, the following preliminary valuation findings were concluded through necessary asset valuation procedures with asset-based approach:

As at the Benchmark Date, i.e. 31 December 2017, the book value of total assets of CSIMC that are within the scope of the valuation amounted to RMB10,567.8189 million, and such assets' appraised value was RMB12,347.0006 million, with an increase of RMB1,779.1817 million and representing an appreciation rate of 16.84%. The book value of liabilities amounted to RMB4,608.0017 million, with an appraised value of RMB4,608.0017 million, representing no appreciation or depreciation. The book value of the entire shareholders' equity interests amounted to RMB5,959.8172 million, and the appraised value was RMB7,738.9989 million if CSIMC maintains its present operations, which represented an appreciation of RMB1,779.1817 million and an appreciation rate of 29.85%. Values of each asset type are as follows:

Unit: RMB0'000

Item	Book value	Appraised value	Increase or decrease	Appreciation rate (%)
Current assets	463,258.52	463,258.52	–	–
Non-current assets	593,523.37	771,441.54	177,918.17	29.98
In which: Available-for-sale financial assets	15,041.33	14,935.14	-106.19	-0.71
Held-to-maturity investment	–	–	–	
Long-term receivable	–	–	–	
Long-term equity investment	492,020.19	639,321.45	147,301.26	29.94
Investment properties	44,817.68	56,615.40	11,797.72	26.32
Fixed assets	40,285.89	59,236.30	18,950.41	47.04
Construction in progress	29.09	–	-29.09	-100.00
Project goods and materials	–	–	–	
Disposal of fixed assets	–	–	–	
Productive living assets	–	–	–	
Oil and gas assets	–	–	–	
Intangible assets	55.92	81.47	25.55	45.70
Development expenses	–	–	–	
Goodwill	–	–	–	
Long-term unamortized expenses	62.13	40.62	-21.51	-34.61
Deferred income tax assets	1,211.16	1,211.16	–	–
Other non-current assets	–	–	–	
Total assets	1,056,781.89	1,234,700.06	177,918.17	16.84
Current liabilities	440,902.84	440,902.84	–	–
Non-current liabilities	19,897.33	19,897.33	–	–
Total liabilities	460,800.17	460,800.17	–	–
Net assets (Shareholder equity)	595,981.72	773,899.89	177,918.17	29.85

(2) Preliminary Conclusions of Valuation by Income Approach

The asset valuation professionals have investigated into and analyzed the historical financial information as well as CSIMC's operational status. The appraisers have considered CSIMC's status quo and the impacts of national macro economic policies and the environment the enterprise is in, analyzed the related operational risks, and convened with the managers, financial staff and technicians of CSIMC. Based on the evaluation assumptions and the premise of continuing operation, appraisers reasonably forecasted income, discount ratio and operation period for the next few years, and concluded that the appraised value of the entire shareholder equity interests amounted to RMB8,513.1512 million.

Unit: RMB0'000

Item			**Forecast year**			**Perpetual**
	2018	**2019**	**2020**	**2021**	**2022**	**period**
Operating revenue	366,422.42	399,064.66	434,971.12	474,471.24	522,310.36	522,310.36
Operating cost	352,988.42	384,402.87	419,393.72	457,447.62	504,272.35	504,272.35
Operating cost and tax	701.52	732.50	755.59	804.77	839.79	839.79
Operating expenses	4,944.51	5,373.67	5,851.87	6,377.25	7,008.66	7,008.66
Administrative expenses	3,414.89	3,680.08	4,101.41	4,547.47	4,954.56	4,954.56
Financial expenses	-843.80	-924.00	-1,012.22	-1,109.27	-1,226.81	-1,226.81
Total profit	5,216.86	5,799.53	5,880.75	6,403.40	6,461.81	6,461.81
Income tax expenses	1,304.22	1,449.88	1,470.19	1,600.85	1,615.45	1,615.45
Net profit	3,912.65	4,349.65	4,410.57	4,802.55	4,846.36	4,846.36
Non-cash charges	1,598.81	1,540.34	1,608.62	1,665.04	1,629.95	1,629.95
Interest expenses after-tax						
Increase in working capital	22,450.15	-5,979.46	-6,342.30	-7,214.33	-8,338.93	
Capital expenditure	512.76	448.11	765.14	130.77	105.55	1,629.94
Enterprise free cash flow	-17,451.45	11,421.34	11,596.33	13,551.15	14,709.69	4,846.36
Discount rate	11.20%	11.20%	11.20%	11.20%	11.20%	11.20%
Period sequence	0.50	1.50	2.50	3.50	4.50	
Value for forecast period	-16,549.21	9,740.12	8,893.23	9,346.23	9,122.95	
Value for perpetual period						26,836.72
Value of principal business						47,390.04
Surplus assets and non-operating assets						825,512.21
Surplus liabilities and non-operating liabilities						21,587.13
Total enterprise value						851,315.12
Interest-bearing debt						–
Market value of entire equity interest						851,315.12

The above profit forecast only apply to the parent company, while the value of the companies in which the parent company holds certain or a majority of equity is posted as "long-term equity investment" in the parent's accounts and reflected in the item "Surplus assets and non-operating assets" in the above statement.

Details of the "surplus assets and non-operating assets" item in the above table are as follows:

Unit: RMB0'000

No.	Item	Valuation
1	Surplus monetary funds	67,325.92
2	Dividends receivable	39,740.71
3	Other receivables	6,362.43
4	Long-term equity investments[Note]	639,321.45
5	Deferred income tax assets	1,211.16
6	Financial assets available for sale	14,935.14
7	Investment properties	56,615.40
	Total	825,512.21

Note: The long-term equity investments were evaluated by using approaches such as income approach and asset-based approach. The assumptions for the valuation of long-term equity investments based on the income approach are in line with the valuation assumptions stated in this Valuation Report.

(3) Valuation Conclusions

We have used both asset-based approach and income approach in valuation. The appraised value under asset-based approach amounted to RMB7,738.9989 million, while the appraised value under income approach amounted to RMB8,513.1512 million. The valuation results of the methods are quite different. The variance between them results from the different perspectives of the two approaches. The asset-based approach is adopted based on the assumption of reacquiring assets, reflecting the replacement costs of existing assets, while the income approach focuses on future profitability of companies, reflecting the integrated earning power of companies.

The Valuation is for equity transfer purpose. In this project, the total enterprise value is mainly reflected in the ability to provide returns for shareholders' investments, assuming that the enterprise maintains the existing operating model and its assets will not significantly change in the future. CSIMC's current profitability is very strong, and it possess strong competitive advantages in its region. The valuation results using the income approach ideally reflects the value of the enterprise in providing returns for shareholders' investments from this perspective, while the asset-based approach fails to take into consideration other intangible assets not included in the enterprise's books.

Considering the above factors, the asset valuation professionals believed the income approach can reflect value of the entire shareholder equity interests of CSIMC more comprehensively and reasonably, so the preliminary valuation conclusions that are generated under the income approach will be used as the final appraised value, which means: the book value of the entire shareholder equity interests of CSIMC within the scope of valuation amounted to RMB5,959.8172 million as at the Benchmark Date of 31 December 2017, and the appraised value was RMB8,513.1512 million if CSIMC maintains its present operations, which represented an appreciation of RMB2,553.3340 million and an appreciation rate of 42.84%.

(4) Validity Period

The valuation conclusions will remain valid for a year, from the Benchmark Date of 31 December 2017 to 30 December 2018. Except for the special matters mentioned herein, after the Benchmark Date and within the validity period, the valuation conclusions shall be valid upon the occurrence of economic behavior, unless significant changes in operating environment materially impact CSIMC's operations.

If the market conditions or asset status that constitute the basis of the valuation conclusions experience significant changes, regardless of whether relevant economic behavior's occurrence is within one year after the Benchmark Date, the valuation conclusions shall be deemed unable to reflect the value of the appraisal target upon the occurrence of economic behavior, and the following principles shall apply:

(1) If asset quantities or the asset's use and status experience major changes, relevant adjustments shall be made based on original valuation methods;

(2) If the market conditions that constitute the basis of the valuation conclusions experience changes and the valuation conclusions are significantly impacted as a result, the client shall timely engage qualified appraisal companies to re-evaluate the appraisal target;

(3) The client shall consider changes in asset status and market conditions following the Benchmark Date, and make adjustments accordingly when determining the consideration to be paid for the appraisal target.

The above content is extracted from the Asset Valuation Report. To learn more about the valuation process and better understand the valuation conclusions, please read the complete Asset Valuation Report.

The following is the report from the Reporting Accountant prepared for the purpose of, among others, inclusion in this circular.

30 July 2018

Private & Confidential

The Board of Directors
Sinopharm Group Co. Ltd.
Sinopharm Plaza
No. 1001 Zhongshan Road (West)
Changning District
Shanghai 200051
The PRC

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF CHINA NATIONAL SCIENTIFIC INSTRUMENTS AND MATERIALS CO., LTD *

To the Board of Directors of Sinopharm Group Co. Ltd. ("Sinopharm Group")

We refer to the discounted future cash flows on which the business valuation ("**the Valuation**") dated 8 May 2018 prepared by 沃克森(北京)國際資產評估有限公司 (Vocation (Beijing) International Assets Appraisal Co., Ltd.*) in respect of the appraisal of the fair value of the entire equity interest of 中國科學器材有限公司 (China National Scientific Instruments and Materials Co., Ltd*) as at 31 December 2017 is based.

The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under Rules 14A.06 and 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITIES

The directors of Sinopharm Group (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institutes of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to report, as required by Rules 14A.68(7) and 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

BASIS OF OPINION

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedure on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

OTHER MATTERS

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of China National Scientific Instruments and Materials Co., Ltd or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rules 14A.68(7) and 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 30 July 2018

* *For identification purpose only*

The following is the letter from the Financial Adviser prepared for the purpose of, among others, inclusion in this circular.

CICC 中金公司

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

The Board of Directors
Sinopharm Group Co. Ltd.
6th Floor, No. 221 Fuzhou Road
Shanghai 200002, the PRC

30 July 2018

Dear Sirs,

We refer to the announcement of Sinopharm Group Co. Ltd. (the "**Company**") dated 11 July 2018 in relation to the proposed acquisition of 60% equity interest in China National Scientific Instruments and Materials Co. Ltd. (the "**Target**") (the "**Announcement**") and also the asset valuation report dated 8 May July 2018 prepared by Vocation (Beijing) International Assets Appraisal Co., Ltd., the independent valuer of the Company (the "**Independent Valuer**"), in respect of the valuation of the Target (the "**Valuation Report**"). We understand that the Independent Valuer has prepared the Valuation Report based on the discounted cash flow method, which is regarded as profit forecast (the "**Forecast**") under Rule 14.61 of the Hong Kong Listing Rules. Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcement shall have the same meaning when used in this letter.

We have reviewed the Forecast included in the Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Company, the management of the Target and the Independent Valuer where the historical performance of the Target, the calculations of the Forecast as well as the qualifications, bases and assumptions set out in the Valuation Report. We have also considered the report addressed solely to and for the sole benefit of the Directors from Baker Tilly Hong Kong Limited dated 30 July 2018 set out in the further announcement of the Company dated 30 July 2018 regarding the calculation of discounted future estimated cash flow on which the Forecast is based. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast included in the Valuation Report, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Hong Kong Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
China International Capital Corporation
Hong Kong Securities Limited
Barry Chan
Managing Director, Head of Investment Banking

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 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 relevant class of shares (%)	Long position/ short position
Mr. Li Zhiming	H Shares	Beneficial owner	260,000	0.01	0.02	Long position
Mr. Liu Yong	H Shares	Beneficial owner	210,000	0.01	0.02	Long position
Ms. Jin Yi	H Shares	Beneficial owner	1,200	0.00	0.00	Long position

(ii) Substantial Shareholders

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

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/ short position
CNPGC	Domestic Shares	Beneficial owner	2,728,396 *(Note 2)*	0.10	0.17	–
		Interest of controlled corporation	1,571,555,953 *(Notes 1 and 2)*	56.79	99.83	–
Sinopharm Investment	Domestic Shares	Beneficial owner	1,571,555,953 *(Notes 1 and 2)*	56.79	99.83	–
Fosun Pharma	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 3)*	56.79	99.83	–
Fosun High Technology	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 4)*	56.79	99.83	–
Fosun Company	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 5)*	56.79	99.83	–
Fosun Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 6)*	56.79	99.83	–
Fosun International Holdings	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 7)*	56.79	99.83	–
Mr. Guo Guangchang	Domestic Shares	Interest of controlled corporation	1,571,555,953 *(Notes 1 and 8)*	56.79	99.83	–
BlackRock, Inc	H Shares	Interest of controlled corporation *(Note 9)*	72,470,086	2.62	6.08	Long position
			3,210,400	0.12	0.27	Short position
JPMorgan Chase & Co.	H Shares	Beneficial owner	10,151,347	0.37	0.85	Long position
			4,340,348	0.16	0.36	Short position
		Investment manager	11,670,852	0.42	0.98	Long position
		Person having a security interest in shares	536	0.00	0.00	Long position
		Approved lending agent *(Note 10)*	252,062,853	9.11	21.13	Long position
Matthews International Capital Management, LLC	H Shares	Investment manager	71,724,400	2.59	6.01	Long position
OppenheimerFunds, Inc.	H Shares	Investment manager	201,559,809	7.28	16.90	Long position

Notes:

The information was disclosed based on the data available on the HKEXnews website of the Hong Kong 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 2,728,396 Domestic Shares directly and 1,571,555,953 Domestic Shares indirectly through Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**"). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the 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 37.94% equity interest in Fosun Pharma, and therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.

(5) Fosun International Ltd. ("**Fosun Company**") is the beneficial owner of 100% equity interest in Fosun High Technology, and therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.

(6) Fosun Holdings Ltd. ("**Fosun Holdings**") is the beneficial owner of 71.70% equity interest in Fosun Company, and therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.

(7) Fosun International Holdings Ltd. ("**Fosun International Holdings**") is the beneficial owner of 100% equity interest in Fosun Holdings, and therefore it is deemed to be interested in the Domestic Shares owned by Sinopharm Investment for the purposes of the SFO.

(8) Mr. Guo Guangchang is the beneficial owner of 65.45% equity interest in Fosun International Holdings and 0.005% 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) BlackRock, Inc. is interested in long positions of 72,470,086 H Shares and short positions of 3,210,400 H Shares indirectly through a series of controlled corporations.

(10) JPMorgan Chase & Co. is interested, as beneficial owner, investment manager, person having a security interest in shares and approved lending agent, in an aggregate of long positions of 273,885,588 H Shares (of which 252,062,853 H Shares are shares available for lending) and short positions of 4,340,348 H Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2017, 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 2017, 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 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:

	Positions held in specific companies				
Name of Director	**CNPGC**	**Sinopharm Investment**	**Fosun Pharma**	**Fosun High Technology**	**Fosun Company**
Li Zhiming		director			
Liu Yong		director			
Chen Qiyu		director	chairman of the board of directors and executive director	joint president and executive director	joint president and executive director
She Lulin	vice chairman of the board of directors, general manager and deputy secretary of Party Committee				
Wang Qunbin		director	director		chief executive officer and executive director
Ma Ping	external director				
Deng Jindong	vice general manager	chairman of the board of directors			
Wen Deyong			vice president		
Rong Yan	head of finance department	chief financial officer			
Wu Yijian		director	assistant to president		
Yao Fang			joint chairman of the board of directors and executive director		

8. EXPERTS' QUALIFICATIONS AND CONSENTS

Each of the following experts 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 each of the following experts who has given its opinions or advices which are contained in this circular:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) under Securities and Futures Ordinance
Baker Tilly Hong Kong Limited	Certified Public Accountants
Vocation (Beijing) International Assets Appraisal Co., Ltd.	Qualified Chinese valuer

9. EXPERTS' INTERESTS

To the best of the Directors' knowledge, the above-mentioned experts are third parties independent of the Company and its connected persons.

As at the LPD of the Further Announcement, to the best knowledge of the Company, each of the above-mentioned experts 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 2017, 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.

Save as disclosed below, as at the LPD of the Further Announcement, to the best knowledge of the Company, none of the above-mentioned experts was beneficially interested in the shares of any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the LPD of the Further Announcement, the aggregate shareholding positions held by CICCHKS and its subsidiaries in the Group were as follows:

Stock code	Member of the Group	Number of shares held
01099.HK	Sinopharm Group Co. Ltd.	18,400
000028.SZ	China National Accord Medicines Corporation Ltd.	260,921
200028.SZ		479,687
600511.SH	China National Medicines Corporation Ltd.	162,187

10. MISCELLANEOUS

(a) The registered office of the Company is located at 6th Floor, No. 221 Fuzhou Road, Shanghai 200002, the PRC.

(b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) The joint company secretaries of the Company are Mr. Liu Yong and Mr. Liu Wei.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1601, Emperor Group Center, 288 Hennessy Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including Monday, 20 August 2018:

(a) the Asset Purchase Agreement;

(b) the letter from the Independent Board Committee as set out on pages 18 to 19 of this circular;

(c) the letter from Octal Capital as set out on pages 20 to 40 of this circular;

(d) the valuation report prepared by the Independent Valuer, the summary of which is set out in Appendix I of this circular;

(e) the report from the Reporting Accountant as set out in Appendix II of this circular;

(f) the letter from the Financial Adviser as set out in Appendix III of this circular;

(g) the consent letters issued by each of the experts referred to in this circular; and

(h) this circular.

國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Sinopharm Group Co. Ltd. (the "**Company**") will be held at Meeting Room 1813, Sinopharm Plaza, No. 1001 Zhongshan West Road, Changning District, Shanghai, the People's Republic of China ("**PRC**"), at 9:00 a.m. on Friday, 21 September 2018, for the purpose of considering, and if thought fit, passing the following resolution:

Ordinary Resolution

"**THAT** the agreement on asset purchase by issue of shares (the "**Asset Purchase Agreement**") entered into by the Company and China National Pharmaceutical Group Co., Ltd. on 11 July 2018 and the transactions contemplated thereunder, be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the Asset Purchase Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient."

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

Shanghai, PRC
7 August 2018

As at the date of this notice, the executive directors of the Company are Mr. Li Zhiming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Rong Yan and Mr. Wu Yijian; and the independent non-executive directors of the Company are Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin.

* *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.".*

Notes:

1. For the purpose of holding the EGM, the register of members of H Shares of the Company will be closed from Wednesday, 22 August 2018 to Friday, 21 September 2018 (both days inclusive), during which period no transfer of H Shares of the Company can be registered.

   In order to be qualified to attend and vote at the EGM, for holders of H shares of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 21 August 2018.

   The Shareholders whose names appear on the register of members of the Company on Wednesday, 22 August 2018 are entitled to attend and vote at the EGM.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a member of the Company.

3. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorised in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or under the hand of its director or other attorney duly authorised to sign the same.

4. In order to be valid, the proxy form must be deposited, for holders of H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or for holders of domestic shares of the Company, to the Board Office of the Company in the PRC not less than 24 hours before the time for holding the EGM. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings should they so wish.

5. Shareholders shall produce their identity documents and supporting documents in respect of the shares of the Company held when attending the EGM. If corporate Shareholders appoint authorised representative to attend the EGM, the authorised representative shall produce his/her identity documents and a notarially certified copy of the relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate Shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the EGM.

6. Shareholders who intend to attend the EGM should complete the reply slip and return it to the Board Office of the Company in the PRC by hand, by post or by fax on or before Friday, 31 August 2018.

7. The EGM is expected to take for less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.

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

Address:	Room 1603, Sinopharm Plaza, No.1001 Zhongshan West Road, Changning District, Shanghai, 200051, the PRC
Telephone No.:	(86 21) 2305 2150
Fax No.:	(86 21) 2305 2146