
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shanghai Pharmaceuticals Holding Co., Ltd.*, you should at once hand this circular and the proxy form and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02607)

Annual Report for 2018
Report of the Board of Directors for 2018
Report of the Board of Supervisors for 2018
Final Accounts Report for 2018 and Financial Budget for 2019
Profit Distribution Plan for 2018
Payment of Auditors' Fees for 2018 and Re-appointment of Auditors
Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company
Renewal of Financial Services Agreement and Daily Related/Continuing Connected Transactions
External Guarantees for 2019
Issuance of Debt Financing Products
General Mandate of the Company
Amendments to the Articles of Association and
Rules of Procedure of the Shareholders' General Meeting
Proposed Adoption of the 2019 Share Option Scheme
Assessment Management Measures for the Implementation of the 2019 Share Option Scheme
and
Proposed Authorization to the Board to Deal with Relevant Matters in Relation to the 2019 Share
Option Scheme

The Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services under the renewed Financial Services Agreement



The Annual General Meeting and H Share Class Meeting of the Company to be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC on 27 June 2019 at 13:00. Notices, the proxy forms, independent director's proxy form and reply slips for the AGM and the H Shares Class Meeting were dispatched to H Shareholders on 10 May 2019.

Whether or not you are able to attend the above meetings, you are advised to read the notices of the meeting carefully and to complete and return the proxy form in accordance with the instructions printed thereon. For holders of H Shares, the proxy form should be returned to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, in any event served by hand or by post not less than 24 hours before the time stipulated for convening the Annual General Meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the above meetings or at any adjourned meetings thereof in person.

If you intend to attend the above meetings in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited (for holders of H Shares) on or before 17 June 2019.

21 May 2019

* For identification purpose only

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DEFINITIONS

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

“A Share(s)”	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“A Share Class Meeting”	the class meeting of the A Shareholders to be convened on 27 June 2019 at 13:00 at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC to consider and, if thought fit, approve, among other things, the adoption of the Share Option Scheme
“2018 Annual General Meeting” or “Annual General Meeting” or “AGM”	the general meeting to be held by the Company on 27 June 2019 at 13:00 at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC
“Announcement in relation to the Share Option Scheme”	the announcement in relation to the Share Option Scheme of the Company dated 10 April 2019
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Administrative Measures”	the Administrative Measures on Equity Incentives of Listed Companies
“Assessment Measures”	the Assessment Management Measures for the Implementation of the 2019 Share Option Scheme of Shanghai Pharmaceuticals Holding Co., Ltd.*
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“CBIRC”	The China Banking and Insurance Regulatory Commission, which was established in April 2018 by a merger of China’s banking and insurance regulators, i.e., the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC)
“CBRC”	The China Banking Regulatory Commission
“Class Meetings”	the A Share Class Meeting and the H Share Class Meeting

DEFINITIONS

“Company Law”	Company Law of the People’s Republic of China
“CSRC”	The China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“DTP”	Direct-to-Patient
“Exercise Conditions”	the conditions that must be fulfilled by Participants to exercise the Share Options under the Scheme
“Exercise Date”	the date on which the Participants are entitled to exercise the Share Options, which must be a trading day
“Exercise Period”	period during which the Share Option(s) can be exercised
“Exercise Price”	the price determined by the Scheme, at which the Participants shall purchase the Shares
“Existing Financial Services Agreement”	the Financial Services Agreement entered into by the Company and the Finance Company on 3 February 2016, with effect from 28 June 2016 to the date of the 2018 Annual General Meeting, under which the Finance Company provides the Group with deposit, loan and other financial services as the CBRC may approve
“Finance Company”	Shanghai Shangshi Group Finance Co., Ltd.* (上海上實集團財務有限公司), a non-banking financial institution legally established with the approval of the CBIRC, and a limited liability company incorporated in the PRC on 1 September 2014 as approved by the relevant PRC government authorities, including but not limited to the CBIRC, for the purpose of providing financial services only to Shanghai Shangshi Group
“Financial Services Agreement”	the Financial Services Agreement entered into by the Company and the Finance Company on 28 March 2019, with effect from the date of approval at the Annual General Meeting, under which the Finance Company provides the Group with deposit, loan (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) and other financial services as the CBIRC may approve
“GMP”	Good Manufacturing Practice
“Grant Date”	the date on which the Company shall grant Share Option(s) to the Participants, which must be a trading day

DEFINITIONS

“Group”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (A shares of which are listed on the Shanghai Stock Exchange with stock code 601607; and H shares of which are listed on the Main Board of the Hong Kong Stock Exchange with stock code 02607); save that reference to the “Group” in Appendix II of this circular refers to Shanghai Pharmaceuticals Holding Co., Ltd.* and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“H Share(s)”	overseas listed foreign shares in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Class Meeting”	the class meeting of the H Shareholders to be convened on 27 June 2019 at 13:00 at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC to consider and, if thought fit, approve, among other things, the adoption of the Share Option Scheme
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors (namely Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang) established to advise the Independent Shareholders in connection with the terms of the deposit services under the Financial Services Agreement and the annual cap in respect thereof
“Independent Director(s)” or “Independent Non-executive Director(s)”	independent non-executive Director(s) of the Company
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the deposit services under the Financial Services Agreement and the annual cap in respect thereof

DEFINITIONS

“Independent Shareholder(s)”	Shareholder(s) other than Shanghai Shangshi Group and its associates
“Latest Practicable Date”	17 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Participant(s)”	person(s) to be granted the Share Option(s) under the Scheme
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan
“Regulatory Notice”	Notice on Issues Concerning Regulating the Implementation of the Equity Incentive System by the State-Controlled Listed Companies
“Registration and Settlement Company”	China Securities Registration and Settlement Co., Ltd. Shanghai Branch
“Remuneration and Assessment Committee”	the remuneration and assessment committee of the Board
“Reporting Period”	the 12-month period from 1 January 2018 to 31 December 2018
“RMB”	the lawful currency of the PRC. Unless otherwise specified, all financial figures in this circular are denominated in RMB
“Scheme”, “Share Option Scheme” or “2019 Share Option Scheme”	the 2019 Share Option Scheme of Shanghai Pharmaceuticals Holding Co., Ltd.*
“Securities Law”	Securities Law of the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd.* (上海上實(集團)有限公司)
“Shanghai Shangshi Group”	Shanghai Shangshi and its subsidiaries
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Share(s)”	A Share(s) and H Share(s)

* For identification purpose only

DEFINITIONS

“Share Option(s)” or “Option(s)”	the rights to be granted by the Company to the Participants to purchase a certain number of Shares at a predetermined price and conditions within a certain period of time in the future
“Shareholder(s)”	holder(s) of the Shares of the Company
“SPHC”	Shanghai Pharma Health Commerce Co., Ltd.
“Subsidiary(ies)”	Same as defined under the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on Shanghai Stock Exchange
“SSE Guidelines on Connected Transactions”	the Guidelines for the Implementation of Connected Transactions of Listed Companies on Shanghai Stock Exchange
“Trial Measures”	Trial Measures for the Implementation of the Equity Incentive System by the State-Controlled Listed Companies (Domestic)
“Validity Period of the Scheme”	the period from the date of registration of the initial grant of the Share Option(s) to the full-exercise or cancellation of the Share Option(s)
“Vesting Period”	the period from the Grant Date to the Exercise Date
“Yuan”	Renminbi, the lawful currency of the PRC

LETTER FROM THE BOARD



上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02607)

Executive Directors:

Mr. CHO Man
Mr. LI Yongzhong
Mr. SHEN Bo

Registered Address:

No. 92 Zhangjiang Road
Pilot Free Trade Zone
China (Shanghai)

Non-executive Directors:

Mr. ZHOU Jun
Ms. LI An

*Principal Place of Business
in Hong Kong:*

31/F, Tower Two, Times Square
1 Matheson Street
Causeway, Hong Kong

Independent Non-Executive Directors:

Mr. WAN Kam To
Mr. TSE Cho Che, Edward
Mr. CAI Jiangnan
Mr. HONG Liang

To the Shareholders

Dear Sir or Madam,

Annual Report for 2018
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LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular is to provide you with the notice of the AGM and H Share Class Meeting and to provide you with all the reasonably necessary information to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM and H Share Class Meeting.

2. ANNUAL REPORT FOR 2018

The Annual Report for 2018 of the Company has been dispatched, and published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.sphchina.com) on 25 April 2019.

3. REPORT OF THE BOARD OF DIRECTORS FOR 2018

The text of the Report of the Board of Directors for 2018 is set out in the annual report for 2018 of the Company.

4. REPORT OF BOARD OF SUPERVISORS FOR 2018

Please refer to Appendix I to this circular.

5. FINAL ACCOUNTS REPORT FOR 2018 AND FINANCIAL BUDGET FOR 2019

The Final Accounts Report for 2018 and Financial Budget for 2019 are set out in the Annual Report for 2018 of the Company.

6. PROFIT DISTRIBUTION PLAN FOR 2018

As audited, in 2018, the Company's net profit attributable to Shareholders of listed companies was RMB3,881,062,861.27. The balance of the Company's consolidated undistributed profit as of 31 December 2018 amounted to RMB19,330,643,209.50 after the addition of RMB16,705,062,785.43 of consolidated undistributed profit at the beginning of the year (after adjustment), the deduction of RMB1,079,993,942.36 of cash dividend in 2017, the withdrawal of RMB166,527,477.23 of statutory surplus reserve for 2018, and the withdrawal of RMB8,961,017.61 of provision for the staff's bonus and benefits fund for 2018 by the Company's subsidiaries.

The profit distribution plan for 2018 is as follows: it is proposed that, based on the total share capital as at the registration date specified in the announcement regarding execution of profit distribution proposal, a cash dividend of RMB4.10 (tax inclusive) will be paid to all Shareholders for every ten shares, totaling RMB1,165,256,622.02, accounting for 30.02% of the consolidated profit attributable to shareholders of listed companies for 2018. After distribution, the Company's remaining consolidated undistributed profit will be RMB18,165,386,587.48. There is no conversion of capital reserve into share capital in this profit distribution.

LETTER FROM THE BOARD

7. PROPOSAL REGARDING PAYMENT OF AUDITORS' FEES FOR 2018 AND RE-APPOINTMENT OF AUDITORS

The appointment of PricewaterhouseCoopers Zhong Tian LLP by the Company as its domestic auditor and the appointment of PricewaterhouseCoopers by the Company as its overseas auditor in 2018 (“Auditors”) were considered and approved at the 2017 annual general meeting of the Company. In light of the actual situation of the Company’s business development, upon consultation with and confirmation by the Auditors, the audit fees payable by the Company and some of its subsidiaries to the Auditors for 2018 are RMB24.5 million (relevant reimbursed expenses and taxation expenses inclusive) and the audit expenses for internal control was RMB1.6 million (relevant reimbursed expenses and taxation expenses inclusive).

Since both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers are internationally reputable accounting firms qualified for securities related business that have extensive audit experience in A Shares and H Shares and in-depth understanding in respect of domestic and international accounting standards, they are capable of satisfying the requirements of the regulatory authorities and investors in both Mainland China and Hong Kong. Upon discussion with both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the Company proposes to re-appoint PricewaterhouseCoopers Zhong Tian LLP as its domestic auditor for 2019 while PricewaterhouseCoopers as its overseas auditor for 2019 and request the Shareholders’ general meeting to authorize the Board of Directors to determine their remunerations.

8. PROPOSAL REGARDING PURCHASING LIABILITY INSURANCES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

According to A.1.8 of code provisions as set out in the Corporate Governance Code Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Article 24 of the Code of Corporate Governance for Listed Companies, listed companies should arrange appropriate insurance cover in respect of legal action against their directors.

The Company proposes to buy liability insurance with a total annual premium of no more than US\$80,000 for the purpose of protecting directors, supervisors and senior management from the legal and regulatory risks arising from their performance of duties, with the final premium amount to be negotiated and agreed upon between and by the Company and insurers.

The above matter is proposed to the Shareholders’ general meeting for consideration and approval and authorization to the management of the Company to engage insurers, determine insurance terms, sign related liability insurance agreements and decide whether or not to renew such liability insurance agreements or buy liability insurance from other insurers upon or before expiration of such liability insurance agreements and subject to the aforementioned US\$80,000 premium ceiling.

9. PROPOSAL REGARDING THE RENEWAL OF FINANCIAL SERVICES AGREEMENT WITH SHANGHAI SHANGSHI GROUP FINANCE CO., LTD. AND DAILY RELATED/ CONTINUING CONNECTED TRANSACTIONS

Please refer to Appendix II to this circular.

LETTER FROM THE BOARD

10. PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

Please refer to Appendix III to this circular.

11. PROPOSAL REGARDING ISSUANCE OF DEBT FINANCING PRODUCTS

In order to further expand the financing channel, optimize the debt structure and reasonably control the financial cost of the Company, and to provide the Company with flexible choices on financial instruments to meet its needs for funds, the Company proposes, according to related regulations, to issue the debt financing products in the total amount not more than RMB10 billion or equivalent, including short-term financing bills, extra short-term financing bills, medium-term notes, perpetual capital securities, quasi perpetual debt, asset-backed security and other short-term and medium-term and long-term debt financing products.

1) Issuance Plan

① *Scale of issuance*

The Company proposes to apply for the issuance of debt financing products in the total amount not more than RMB10 billion or equivalent, including short-term financing bills, extra short-term financing bills, medium-term notes, perpetual capital securities, quasi perpetual debt, asset-backed security and other short-term, medium-term and long-term debt financing products.

② *Time of issuance*

The Company will, according to the actual needs for funds, issue the products once or through multi-tranche offering within the term approved by or registered at the regulatory authorities for related products.

③ *Use of proceeds*

The funds raised through the debt financing products issued by the Company will be used for replenishing working capital and repaying debts, etc.

④ *Term of issuance*

The term of various short-term debt financing products that the Company proposes to register and issue shall not be more than 1 year (inclusive) and that of all kinds of medium-term and long-term debt financing products shall not be more than 5 years (inclusive). The specific term of issuance will be determined based on the Company's needs for funds and market conditions.

LETTER FROM THE BOARD

⑤ *Term of validity of the resolution*

This resolution shall be valid for 12 months from the date on which it is approved at the shareholders' general meeting, or the date on which the Annual General Meeting makes a new resolution, whichever is earlier.

2) Authorizations Related to the Issuance

In order to better seize the opportunities for issuance of debt financing products and enhance the financing efficiency, the Shareholders' general meeting is now requested to authorize the Company's Board of Directors, which shall then authorize its executive committee to deal with all specific issues related to the said issuance of debt financing products with full authority, including but not limited to:

- ① To prepare and implement the specific proposal according to the laws and regulations of the PRC, related provisions and policies of the regulatory authorities as well as the resolutions of the Shareholders' general meeting and the Company's Board of Directors, and determine specific issues concerning the issuance and listing of debt financing products, including but not limited to negotiating with the principal underwriter and determining or adjusting the varieties to be issued, amount of each variety and whether they should be issued in tranches according to the Company's needs and market conditions, determining the arrangements of issuance amount in each tranche, timing of issuance, term and way of principal and interest repayment, way of issuance and whether there should be any put or redemption provision within the term of registration notice or regulatory approval, as well as determining and engaging the intermediaries, way of underwriting, way of pricing, coupon interest rate or its determination, details of use of the raised funds, measures to ensure repayment, credit-related issues such as guarantee and the issuance and listing of debt financing products.
- ② To modify and adjust the issuance proposal and related documents as necessary according to advices of the regulatory authorities and/or changes in market conditions.
- ③ To carry out negotiations on issuance and listing of the debt financing products on behalf of the Company, enter into legal documents such as contracts and agreements related to the issuance and listing of the debt financing products and appropriate information disclosure.
- ④ To take all necessary actions to determine/handle all other specific issues related to the issuance and listing.
- ⑤ The above authorizations shall be valid for 12 months from the date on which the resolution is approved by the Shareholders' general meeting.

LETTER FROM THE BOARD

3) Approval Procedures for the Issuance

The issuance proposal and authorization issues related to the said debt financing products should be submitted to the Shareholders' general meeting of the Company for consideration and approval and could not be implemented before being submitted to the related authorities for approval. The Company will disclose information on issuance in a timely manner according to related laws and regulations.

This proposal shall be effectively resolved upon approval by the AGM as a special resolution.

12. PROPOSAL REGARDING THE GENERAL MANDATE OF THE COMPANY

To facilitate further capitalization of the Company in the future, the following motions are proposed for consideration and approval by the Shareholders' general meeting:

Subject to the terms and conditions set out in the following provisions ①, ② and ③, and in compliance with the regulations stipulated in the Hong Kong Listing Rules and the Articles of Association, it is proposed that the Shareholders' general meeting grant an unconditional general mandate to the Board to allot, issue and/or deal with A Shares and/or H Shares separately or concurrently, and to enter into the relevant agreements, make offers for Shares, or grant options or conversion rights to purchase or convert Shares (including convertible corporate bonds):

- ① The mandate is valid for the period from the date of passing of this resolution at the Shareholders' general meeting to approve the grant of such mandate until whichever is the earliest of:
 - a. the conclusion of the next annual general meeting of the Company following the passing of this resolution at the Shareholders' general meeting; or
 - b. the expiration of the 12-month period following the passing of this resolution at the Shareholders' general meeting; or
 - c. the date on which the mandate granted to the Board is revoked or varied by a resolution of the shareholders of the Company at any Shareholders' general meeting,

Should the Board, during the validity period of the mandate, enter into agreements, make offers for Shares, or grant options or conversion rights to purchase or convert shares which might require to be carried out or exercised upon or after the end of the validity period, the validity period of the mandate will be extended accordingly;

- ② The total face value of the A Shares and/or H Shares which the Board proposes to allot, issue and/or deal with, or conditionally or unconditionally agrees to allot, issue and/or deal with (by exercising its rights to purchase or otherwise) should not exceed 20% of the respective total face value of the A Shares and/or H Shares of the Company in issue as at the date of passing of this resolution at the Shareholders' general meeting (not including Shares otherwise issued under rights issue or any share option schemes or similar arrangements);

LETTER FROM THE BOARD

- ③ The Board shall exercise the mandate pursuant to the Company Law of the PRC, the Hong Kong Listing Rules or all applicable laws, regulations and requirements of any other government or regulatory authorities and with the approval by China Securities Regulatory Commission and/or other relevant governmental authorities in the PRC. According to the relevant laws and regulations in the PRC, even if a general mandate is granted to the Board, an issue of new A Shares by the Company is still subject to approval by the Shareholders' general meeting.

With respect to an issue of Shares pursuant to the general mandate set out in this resolution, a proposal is made to the Shareholders' general meeting to authorise the Board to increase the Company's registered capital corresponding to the number of Shares issued under the general mandate, to make amendments to the Articles of Association of the Company where applicable and necessary in response to the increase of the Company's registered capital, and to take any other necessary actions and complete any other necessary procedures.

This proposal shall be effectively resolved upon approval by the AGM as a special resolution.

LETTER FROM THE BOARD

13. PROPOSAL REGARDING THE AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND RULES OF PROCEDURE OF THE SHAREHOLDERS' GENERAL MEETING

Pursuant to provisions and requirements of the Guidelines for the Articles of Association of Listed Companies (“**Articles Guidelines**”, amended in 2019), Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (the “Mandatory Provisions”), and the SSE Listing Rules, the Company has made the following amendments to the Articles of Association and Rules of Procedure of the Shareholders’ General Meeting based on its actual conditions:

Articles of Association	
Original Articles	Amended Articles
<p>Article 25 The Company may, based on its needs of operation and development, approve an increase in its capital in accordance with the relevant provisions of this AOA.</p> <p>The Company may increase its capital in the following ways:</p> <p>(i) offering new share to non-specialty-designated investors for subscription;</p> <p>(ii) placing new share to its existing shareholders;</p> <p>(iii) distributing new share to its existing shareholders; and</p> <p>(iv) any other way permitted by laws and administrative regulations.</p> <p>The Company’s increase of capital by issuing new share shall, after being approved in accordance with the provisions of this AOA, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.</p>	<p>Article 25 The Company may, based on its needs of operation and development <u>and in accordance with the relevant provisions of the laws and regulations, having obtained the approval of the shareholder’s general meeting, increase its registered capital in the following ways: approve an increase in its capital in accordance with the relevant provisions of this AOA</u></p> <p>The Company may increase its capital in the following ways:</p> <p>(i) <u>offering new share to non-specialty designated investors for subscription</u> open offer of Shares;</p> <p>(ii) <u>placing new share to its existing shareholders</u> non-open offer of Shares;</p> <p>(iii) distributing new-bonus share to its existing shareholders; and</p> <p>(iv) <u>transferring capital reserve fund into capital; or</u></p> <p>(ivv) <u>any other way required and permitted</u> by laws and administrative regulations and approved by the CSRC.</p> <p>The Company’s increase of capital by issuing new share shall, after being approved in accordance with the provisions of this AOA, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.</p>

LETTER FROM THE BOARD

Articles of Association	
Original Articles	Amended Articles
<p>Article 29 The Company may, in accordance with the provisions set out in the laws, administrative regulations, departmental rules and this AOA, repurchase its shares under any of the following circumstances:</p> <p>(i) reduction of its registered capital;</p> <p>(ii) merging with another company that holds shares in the Company;</p> <p>(iii) giving shares to the Company's employees as a reward;</p> <p>(iv) being requested to repurchase the shares of the Company by shareholders who object to a resolution adopted at the Shareholders' general meeting concerning any merger or division of the Company; or</p> <p>(v) other circumstances permitted by laws, administrative regulations, Hong Kong Codes on Takeovers, Mergers and Share Repurchases, and Hong Kong Listing Rules.</p> <p>Except for the above-mentioned circumstances, the Company may not purchase or sell its own shares.</p> <p>Repurchase of the Company's shares in accordance with the above-mentioned sub-paragraph (i) to (iii) shall be subject to resolution by the Shareholders' general meeting.</p> <p>Shares repurchased in accordance with sub-paragraph (i) of the first paragraph by the Company shall be cancelled within ten (10) days from the date of repurchase, while shares repurchased in accordance with sub-paragraph (ii) or (iv) shall be transferred or cancelled within six (6) months from the date of repurchase.</p> <p>.....</p>	<p>Article 29 The Company may, in accordance with the provisions set out in the laws, administrative regulations, departmental rules and this AOA, repurchase its shares under any of the following circumstances:</p> <p>(i) reduction of its registered capital;</p> <p>(ii) merging with another company that holds shares in the Company;</p> <p>(iii) giving <u>granting</u> shares to the Company's employees as a reward for employee shareholding scheme or as share incentives;</p> <p>(iv) being requested to repurchase the shares of the Company by shareholders who object to a resolution adopted at the Shareholders' general meeting concerning any merger or division of the Company; or</p> <p>(v) <u>using the shares to satisfy the conversion of those corporate bonds convertible into shares issued by our Company;</u></p> <p>(vi) <u>to safeguard corporate value and shareholders' equity as our Company deems necessary; or</u></p> <p><u>(vii)</u> other circumstances permitted by laws, administrative regulations, Hong Kong Codes on Takeovers, Mergers and Share Repurchases, and Hong Kong Listing Rules.</p> <p>Except for the above-mentioned circumstances, the Company may not purchase or sell its own shares.</p> <p>Repurchase of the Company's shares in accordance with the above-mentioned sub-paragraph (i) to and (iii) shall be subject to resolution by the Shareholders' general meeting; <u>repurchase of the Company's shares in accordance with the above-mentioned sub-paragraphs (iii), (v) and (vi) may be resolved by the Board meeting attended by more than two thirds of the Directors in accordance with requirements of the AOA or the mandate of the Shareholder's general meeting, subject to the compliance with the laws, regulations, the AOA, and relevant requirements of the securities regulatory authority of the place where the Company is listed.</u></p> <p>Shares repurchased in accordance with sub-paragraph (i) of the first paragraph by the Company shall be cancelled within ten (10) days from the date of repurchase, while; shares repurchased in accordance with sub-paragraph (ii) or (iv) shall be transferred or cancelled within six (6) months from the date of repurchase; <u>shares repurchased in accordance with sub-paragraph (iii), (v) or (vi) where the shares of the Company held by the Company do not exceed 10% of the Company's total issued shares shall be transferred or cancelled within three years from the date of repurchase.</u></p> <p>.....</p>

LETTER FROM THE BOARD

Articles of Association	
Original Articles	Amended Articles
<p>Article 30 The Company may, upon the approval of the relevant competent authority of the State, repurchase its shares, in one of the following ways:</p> <p>(i) making a pari passu offer for repurchase to each of its shareholders;</p> <p>(ii) collectively trading through bidding at a stock exchange;</p> <p>(iii) repurchasing by an off-market agreement; or</p> <p>(iv) other ways approved by CSRC and the regulators of the place where the Company is listed.</p>	<p>Article 30 The Company may, upon the approval of the relevant competent authority of the State, repurchase its shares, in one of the following ways:</p> <p>(i) making a pari passu offer for repurchase to each of its shareholders;</p> <p>(ii) collectively <u>and openly</u> trading through bidding at a stock exchange; or other ways approved by <u>the laws and regulations and the CSRC, and the regulators of the place where the Company is listed. Shares repurchased by the Company in accordance with sub-paragraph (iii), (v) or (vi) under Clause 1 of Article 29 of the AOA shall be carried out through open collective trading;</u></p> <p>(iii) repurchasing by an off-market agreement.</p>
<p>Article 75 When the Company convenes a Shareholders' general meeting, written notice of the general meeting shall be given twenty (20) days (exclusive of the date of the notice and the meeting) before the date of the meeting, written notice of the extraordinary general meeting shall be given fifteen (15) days (exclusive of the date of the notice and the meeting) before the date of the extraordinary general meeting, to notify all of the shareholders in the share register of the matters to be reviewed and the date and the place of the meeting.</p> <p>A shareholder who intends to attend the meeting shall deliver his/her written reply concerning the attendance of the meeting to the Company ten (10) days (exclusive of the date of the notice and the meeting) before the date of the meeting.</p> <p>When calculating the starting date and ending date by the Company, the date when the meeting is held shall be excluded.</p>	<p>Article 75 When the Company convenes a Shareholders' general meeting, written notice of the general meeting shall be given twenty (20) days (exclusive of the date of the notice and the meeting) before the date of the meeting, written notice of the extraordinary general meeting shall be given fifteen (15) <u>45 days (exclusive of the date of the notice and the meeting)</u> before the date of the extraordinary general meeting, to notify all of the shareholders in the share register of the matters to be reviewed and the date and the place of the meeting.</p> <p>A shareholder who intends to attend the meeting shall deliver his/her written reply concerning the attendance of the meeting to the Company ten (10) days (exclusive of the date of the notice and the meeting) before the date of the meeting.</p> <p>When calculating the starting date and ending date by the Company, the date when the meeting is held shall be excluded.</p>

LETTER FROM THE BOARD

Articles of Association	
Original Articles	Amended Articles
<p>Article 131 Written notices of a class meeting shall be given twenty (20) days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered and the date and the venue of the class meeting. A shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to the Company ten (10) days before the date of the class meeting.</p> <p>.....</p>	<p>Article 131 Written notices of a class meeting shall be given twenty (20) <u>45</u> days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered and the date and the venue of the class meeting. A shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to the Company ten (10) days before the date of the class meeting.</p> <p>.....</p>
<p>Article 135 Directors shall be elected or removed by the Shareholders' general meeting and each of them shall have a term of office for three years. Upon the expiry, a director is eligible for re-appointment subject to re-election.</p> <p>.....</p>	<p>Article 135 Directors shall be elected or removed by the Shareholders' general meeting and <u>may be dismissed by the Shareholders' general meeting prior to the expiration of their each of them shall have</u> a term of office, which is for three years. Upon the expiry, a director is eligible for re-appointment subject to re-election.</p> <p>.....</p>
<p>Article 150 The Board may establish an audit committee, a remuneration and appraisal committee, a corporate strategy committee and other special committees in accordance with relevant laws, regulations and regulatory documents. Special committees shall only comprise directors. The audit committee shall only comprise and be chaired by independent directors, and at least one independent director shall be an accounting professional (i.e. those holding senior professional title or CPA qualification). The independent directors shall constitute the majority of the remuneration and appraisal committee and also chair the committee.</p> <p>.....</p>	<p>Article 150 The Board may establish an audit committee, a remuneration and appraisal committee, a corporate strategy committee, <u>a nomination committee</u> and other special committees in accordance with relevant laws, regulations and regulatory documents. <u>Special committees shall be accountable to the Board and perform their responsibilities in accordance with the AOA and the authorization of the Board. Proposals by special committees shall be submitted to the Board for determination.</u> Special committees shall only comprise directors. The audit committee, <u>nomination committee, and remuneration and appraisal committee</u> shall only be <u>mostly of and be</u> chaired by independent directors, and at least one independent director. <u>The chairman of the audit committee shall be an accounting professional (i.e. those holding senior professional title or CPA qualification). The Board is responsible for formulating the working procedures of the special committees and regulating the operation.</u> The independent directors shall constitute the majority of the remuneration and appraisal committee and also chair the committee.</p> <p>.....</p>
<p>Article 153</p> <p>Connected transactions of the Company or its controlled subsidiaries (other than those between the Company and its controlled subsidiaries or among its controlled subsidiaries) shall also be discussed and determined by the Board except for being subject to the approval of the Shareholders' general meeting. The Board may authorize the executive committee or the president to approve relevant connected transactions within its scope of authorization.</p> <p>.....</p>	<p>Article 153</p> <p>Connected transactions of the Company or its controlled subsidiaries (other than those between the Company and its controlled subsidiaries or among its controlled subsidiaries) shall also be discussed and determined by the Board except for being subject to the approval of the shareholders' general meeting. The Board may authorize the executive committee or the president to approve relevant connected transactions within its scope of authorization.</p> <p>.....</p>

LETTER FROM THE BOARD

Articles of Association	
Original Articles	Amended Articles
<p>Article 185 Persons serving in the controlling shareholders or de facto controllers of the Company, except the directors, cannot take the position of senior management in the Company.</p>	<p>Article 185 Persons serve <u>assuming administrative positions</u> in the controlling shareholders or de facto controllers of the Company, except the directors, <u>and supervisors</u> cannot take the position of senior management in the Company.</p>
RULES OF PROCEDURE OF THE SHAREHOLDERS' GENERAL MEETING	
Original Rules	Amended Rules
<p>Article 9 The Company shall hold the Shareholders' general meeting at the Company's domicile or other places designated in the notice of the Shareholders' general meeting.</p> <p>The Shareholders' general meeting shall be held at a meeting place in the form of on-site meeting. The company may provide convenience for shareholders attending the Shareholders' general meeting by means of a safe, economic and convenient on-line facility or otherwise. Shareholders attending the Shareholders' general meeting by using the above-mentioned facility shall be deemed present in person at the meeting.</p>	<p>Article 9 The Company shall hold the Shareholders' general meeting at the Company's domicile or other places designated in the notice of the Shareholders' general meeting.</p> <p>The Shareholders' general meeting shall be held at a meeting place in the form of on-site meeting. The company may <u>also</u> provide convenience for shareholders attending the Shareholders' general meeting by means of a safe, economic and convenient on-line <u>voting facility or otherwise</u>. Shareholders attending the Shareholders' general meeting by using the above-mentioned facility shall be deemed present in person at the meeting.</p>

The proposed amendments for Article 29 regarding share repurchase and treasury shares apply only to the Company's repurchase of A Shares. In the event of the Company's repurchase of H shares, the Company will strictly follow relevant provisions of the Hong Kong Listing Rules. This proposal shall be effectively resolved upon approval by the AGM as a special resolution.

14. PROPOSAL REGARDING PROPOSED ADOPTION OF THE 2019 SHARE OPTION SCHEME

Please refer to Appendix IV to this circular.

15. PROPOSAL REGARDING THE ASSESSMENT MANAGEMENT MEASURES FOR THE IMPLEMENTATION OF THE 2019 SHARE OPTION SCHEME

Please refer to Appendix V to this circular.

16. PROPOSAL REGARDING PROPOSED AUTHORIZATION TO THE BOARD TO DEAL WITH RELEVANT MATTERS IN RELATION TO THE 2019 SHARE OPTION SCHEME

Please refer to Appendix VI to this circular.

17. PROXY

Notices, the proxy form, independent director's proxy form and reply slips for the AGM and the H Share Class Meeting were dispatched to H Shareholders on 10 May 2019.

LETTER FROM THE BOARD

If you intend to appoint a proxy to attend the AGM and the H Share Class Meeting, you are required to complete and return the relevant proxy form in accordance with the instructions printed thereon. For holders of H Shares, the relevant proxy form should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, in any event served by hand or by post not less than 24 hours before the time stipulated for convening the AGM or any adjourned meetings thereof. Completion and return of the relevant proxy form will not preclude you from attending and voting at the AGM or at any adjourned meetings thereof in person if you so wish.

Please note that Mr. HONG Liang, an Independent Non-executive Director, has sent out independent director's proxy form according to relevant laws and regulations of the PRC to solicit votes from Shareholders on special resolutions regarding 2019 Share Option Scheme and its related matters at the AGM, A Share Class Meeting and H Share Class Meeting. If you wish appoint Mr. HONG Liang as the proxy to vote on your behalf at the AGM and/or H Share Class Meeting on special resolutions regarding 2019 Share Option Scheme and its related matters, please complete the independent director's proxy form.

18. VOTING BY POLL

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the chairman of the AGM will demand a vote by poll in relation to all the proposed resolutions at the AGM in accordance with the requirements of Article 104 of the Articles of Association.

19. RECOMMENDATION OF THE BOARD

The Board of Directors considers that all resolutions to be proposed at the AGM are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board of Directors recommends that you vote in favor of all the resolutions to be proposed at the AGM.

By order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
ZHOU Jun
Chairman

Shanghai, the PRC, 21 May 2019

REPORT OF BOARD OF SUPERVISORS FOR 2018¹**I. BUSINESS OPERATION REVIEW FOR 2018**

In 2018, the healthcare system underwent tremendous changes as the National Healthcare Security Administration officially commenced operation and quickly implemented the centralized drug procurement policy, tightened control over the quality and cost of drugs and accelerated the substitution of imported drugs to ensure reasonable cost of healthcare insurance. In terms of pharmaceutical services, the two-invoice system was fully implemented, which reshaped the commercial ecosystem, causing resources to gradually concentrate in leading enterprises.

During the Reporting Period, we at Shanghai Pharmaceuticals tackled challenges, overcame obstacles, and aggressively forged ahead. Under the leadership of the Board of Directors, focusing on the four major development strategies of “intensification, innovation, internationalization and industry & finance integration”, the Company focused on improvement in all aspects and cohesion of resultant development forces, advanced the implementation of major strategies, further optimized its industrial product structure, constantly enriched its innovation product pipelines, sped up its layout of its commercial network across China, took a solid step in its international business and smoothly completed its annual operation goals and all priorities.

II. WORK OF THE BOARD OF SUPERVISORS IN 2018

During the Reporting Period, all members of the Board of Supervisors fulfilled their duties as Supervisors diligently supervised the Group’s operation and financial position, monitored the compliance with laws and regulations by Directors and senior management in performing their duties, visited and investigated in some enterprises and promoted the construction of governance structure of subordinate corporations, thus safeguarding the interests of the Group and the Shareholders as a whole.

- (I) During the Reporting Period, the Board of Supervisors held a total of four meetings, at which nine resolutions were considered and approved. Details are as follows:
1. The followings were approved at the 8th meeting of the 6th session of the Board of Supervisors: Report of the Board of Supervisors for 2017, Final Accounts Report for 2017 and Financial Budget for 2018, Annual Report and Summary for 2017, Profit Distribution Plan for 2017, and Proposal regarding the Payment of Auditor’s Fees and Re-appointment of Accounting Firm for 2017.
 2. The First Quarterly Report of 2018 and the Proposal in relation to the Changes of Accounting Polity were approved at the 9th meeting of the 6th session of the Board of Supervisors.
 3. The Interim Report of 2018 and Summary was approved at the 10th meeting of the 6th session of the Board of Supervisors.

¹ The Report of Board of Supervisors is based on data from financial statements that are prepared according to China’s Accounting Standards for Business Enterprises.

4. The Third Quarterly Report of 2018 and Summary was approved at the 11th meeting of the 6th session of the Board of Supervisors.
- (II) Independent opinions of the Board of Supervisors:
1. Independent opinions of the Board of Supervisors on the lawful operation of the Company: according to the Company Law of the PRC and the Articles of Association and other relevant laws and regulations, the Board of Supervisors supervised the convening procedures and resolutions of the shareholders' general meetings and Board meetings, and implementation of resolutions of the Shareholders' general meeting by the Board of Directors. The Board of Supervisors considers that resolutions of the Shareholders' general meetings had been implemented effectively; the governance system of the Company had been further improved, and the modern enterprise system had been enhanced; and the Board of Directors were well operated with decision made rigorously. Directors and senior management were diligent, responsible, pragmatic and enterprising in performing their duties, and played an important role in improving the Company's governance, promoting decision effectiveness and maintaining shareholders' interest.
 2. Independent opinions of the Board of Supervisors on the financial position of the Company: during the Reporting Period, the Annual Financial Statements of 2018 of the Group thoroughly and truthfully reported the financial situation and operation results of the Group. The standard unqualified auditor's reports, and the analysis and evaluation of the relevant matters issued by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers were objective and fair.
 3. Independent opinions of the Board of Supervisors on the acquisitions or disposals of assets by the Company: during the Reporting Period: the acquisitions or disposals of assets by the Group were operated in standardised procedures, with no insider dealing.
 4. Independent opinions of the Board of Supervisors on related party/connected transactions of the Company: during the Reporting Period, the related party transactions of the Group were conducted in the principles of fairness, impartiality and openness, priced according to market prices and operated with standardised procedures with fully disclosed information, and did not harm the interests of the Company and minority shareholders.
 5. Independent opinions of the Board of Supervisors on the modified opinion of the accounting firms: PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued standard unqualified auditor's reports.
 6. Independent opinions of the Board of Supervisors on evaluation report of internal control: the Board of Supervisors has reviewed the Evaluation Report on Internal Control of Shanghai Pharmaceuticals Holding Co., Ltd. for 2018 and had no objection to the report.

III. VISION FOR 2019

In 2019, the Board of Supervisors will, with diligence and in strict compliance with the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies and other laws and regulations, perform its duty of supervising the operation and financial position of the Company, monitor the compliance with laws and regulations by Directors and senior management in performing their duties, and safeguard the interests of the Company and its Shareholders as a whole.

**PROPOSAL REGARDING RENEWAL OF FINANCIAL SERVICES
AGREEMENT WITH SHANGHAI SHANGSHI GROUP FINANCE CO., LTD
AND CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 29 March 2019. In order to optimize the financial management, improve capital efficiency and reduce financing costs and risks of Shanghai Pharmaceuticals, the Company intends to renew the Financial Services Agreement with the Finance Company, pursuant to which the Finance Company will provide Shanghai Pharmaceuticals and its subsidiaries (the “**Group**” or “**Group Members**”) with deposit, loan and other financial services as the CBIRC may approve. The Financial Services Agreement will expire on the date of the 2021 annual general meeting of the Company. During the term of the Financial Services Agreement, the maximum daily balance of deposits of the Group Members with the Finance Company shall not exceed RMB3.0 billion, and the maximum outstanding balance of comprehensive credit facilities provided to the Group Members by the Finance Company shall not exceed RMB4.0 billion.

I. BACKGROUND AND SUMMARY OF THE CONTINUING CONNECTED TRANSACTIONS

On 3 February 2016, the Company renewed the Existing Financial Services Agreement with the Finance Company, pursuant to which the Finance Company will provide the Group Members with deposit, loan and other financial services as the CBIRC may approve. The Existing Financial Services Agreement became effective on 28 June 2016 and will expire on the date of the 2018 Annual General Meeting. As the Existing Financial Services Agreement will soon expire, the Company renewed the Financial Services Agreement with the Finance Company on 28 March 2019, pursuant to which: during the term of the Financial Services Agreement, the maximum daily balance of deposits of the Group Members with the Finance Company shall not exceed RMB3.0 billion, and the maximum outstanding balance of comprehensive credit facilities provided to the Group Members by the Finance Company shall not exceed RMB4.0 billion. The Financial Services Agreement will be effective from the date on which it is considered and passed at the 2018 Annual General Meeting of the Company to the date of the 2021 Annual General Meeting of the Company.

Shanghai Shangshi (Group) Co., Ltd. (“**Shanghai Shangshi**”), the Company, Shanghai Industrial Capital Co., Ltd. (“**SI Capital**”) and SIIC Dongtan Investment & Development (Holdings) Co., Ltd. (“**SIIC Dongtan**”) hold 40%, 30%, 20% and 10% equity interest of Finance Company, respectively. Shanghai Shangshi is one of the controlling shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. As a result, the Finance Company is a connected person of the Company under the Shanghai Listing Rules, the Guidelines on Connected Transactions and the Hong Kong Listing Rules. Accordingly, the Financial Services Agreement entered into between the Company and the Finance Company constitutes a connected transaction of the Company. The connected transaction does not constitute a major asset restructuring under the Administrative Rules Governing Major Asset Restructuring (as amended in 2016).

In respect of the provision of deposit services under the Financial Services Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be more than 5%. Such services are subject to the relevant reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As deposit services under the Financial Services Agreement also constitute transactions under Rule 14.04(1)(e) of the Hong Kong Listing Rules and given the highest applicable percentage ratios exceed 5% but are less than 25%, the deposit services under the Financial Services Agreement also constitute discloseable transactions of the Company and are subject to the notification and announcement but are exempt from circular and independent shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

II. BASIC INFORMATION OF PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS

1. Basic information of the Company

Headquartered in Shanghai, the Company is the only national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company's business mainly covers three segments, namely, pharmaceutical industry, pharmaceutical distribution and pharmaceutical retail. The A Shares and H Shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively.

2. Basic information of the Finance Company

Company name:	Shanghai Shangshi Group Finance Co., Ltd.*
Company type:	a non-bank financial institution with financial license, under industrial regulation by CBIRC and the People's Bank of China
Registered capital:	RMB1 billion
Capital contribution:	RMB400 million (40%) by Shanghai Shangshi, RMB300 million (30%) by the Company, RMB200 million (20%) by SI Capital and RMB100 million (10%) by SIIC Dongtan

Business scope:

Operation covers the following local and foreign currency businesses: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount to members of the group; approved insurance agency business; guarantee provided to members of the group; entrusted loans among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; portfolio investment (except stock investment); underwriting corporate bonds of member units. (For the projects requiring approvals in accordance with the law, operations are subject to the approval by the relevant regulatory authorities)

III. ANNUAL CAPS AND BASIS OF DETERMINATION

For the period from the Effective Date of the Financial Services Agreement (i.e. the date on which the continuing connected transactions under the Financial Services Agreement to be approved by the shareholders on the AGM, as defined below) to the date of the 2021 annual general meeting of the

**PROPOSAL REGARDING RENEWAL OF
FINANCIAL SERVICES AGREEMENT WITH
SHANGHAI SHANGSHI GROUP FINANCE CO., LTD.
AND DAILY RELATED/CONTINUING CONNECTED TRANSACTIONS**

Company, the annual caps for the deposits and loans (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) of the Group with the Finance Company are as follows:

	The year ending on the date of the 2019 annual general meeting	The year ending on the date of the 2020 annual general meeting	The year ending on the date of the 2021 annual general meeting
Maximum daily balance of deposits of the Group with the Finance Company	RMB3.0 billion	RMB3.0 billion	RMB3.0 billion
Maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group	RMB4.0 billion	RMB4.0 billion	RMB4.0 billion

In arriving at the proposed annual caps for the deposit services, the following factors have been considered by the Directors:

- (i) For the three years ended 31 December 2016, 2017 and 2018, the historical amounts for the maximum daily balance of deposits of the Group with the Finance Company were approximately RMB1,984 million, RMB1,992 million and RMB1,992 million, representing a utilisation rate of previous annual caps amounting to approximately 99.2%, 99.6% and 99.6%, respectively.
- (ii) For the two years ended 31 December 2017 and 2018, (a) the total amount of Group's cash and cash equivalents was RMB16.6 billion and RMB13.6 billion, respectively, and (b) the trade and other receivables^(Note) was RMB44.8 billion and RMB34.0 billion, respectively. The sum of the aforesaid item (a) and (b) was RMB61.4 billion and RMB47.6 billion, respectively, indicating the Group's potential demand on deposit services.

Note: Trade and other receivables is calculated by the sum of trade receivables (net), other receivables (net) and amounts due from related parties (net).

- (iii) The Group's latest full-year financial performance and latest financial position (which were available to the public) immediately prior to the date of Existing Financial Services Agreement and the Latest Practicable Date respectively.
- (iv) The Finance Company, as a member of Shangshi Group, could have a more thorough understanding of the business development and capital needs of the Group at a lower cost and in a more timely manner, which would customize financial services solutions for the Group based on the possible increase in the future use of funds for business development.

In arriving at the proposed annual caps for the loan services, the following factors have been considered by the Directors:

- (i) For the three years ended 31 December 2016, 2017 and 2018, the historical amounts for the maximum daily balance of comprehensive credit facilities provided by the Finance Company amounted to approximately RMB1,237 million, RMB1,573 million and RMB1,683 million, respectively.
- (ii) the Shanghai Pharmaceuticals Group Members' current financing condition and the possible increase in the future use of funds for business development.

IV. MAIN CONTENTS OF THE FINANCIAL SERVICES AGREEMENT

1. Pricing principles

- (1) Deposit services: the Finance Company undertakes to offer favourable interest rates for the Group's deposits with reference to the prevailing market rates, which should not be lower than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.
- (2) Loan services (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables): the Finance Company undertakes to offer favourable interest rates for the loans provided to the Group with reference to the prevailing market rates, which should not be higher than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of loans.
- (3) Other financial services: in respect of financial services other than deposit and loan services, the Finance Company undertakes to charge the Group discounted fees with reference to the prevailing market rates, which should not be higher than those prescribed by the relevant supervisory authorities (if any), nor higher than those it offers to third parties of the same credit ratings, for the same type of services.

2. Conditions of the Financial Services Agreement and subsequent arrangements

- (1) The Financial Services Agreement shall be effective upon the affixation of the official stamps of the Company and the Finance Company along with the signature of their respective legal representatives or authorised representatives, commencing from the date on which it is considered and passed at the 2018 Annual General Meeting of the Company (the “**Effective Date**”).
- (2) The Financial Services Agreement will take effect on the Effective Date and terminate on the date of the 2021 annual general meeting of the Company. Should each party agree, and it be approved or exempted by the Shanghai Stock Exchange or The Stock Exchange of Hong Kong Limited and/or approved by the general meeting of the Company (if applicable) and/or in compliance with the other relevant provisions of the Shanghai Listing Rules and the Hong Kong Listing Rules, the Financial Services Agreement may be renewed. The period for each renewal of the Financial Services Agreement shall not exceed three years.

V. MEASURES TO ENSURE COMPLIANCE WITH THE HONG KONG LISTING RULES

The Company has taken the following measures to ensure the continuing connected transactions under the Financial Services Agreement are conducted in compliance with the Hong Kong Listing Rules. The Company has established comprehensive internal control system and adopted various internal control rules, including connected transaction management measures and procurement and tender administration measures, to ensure that the continuing connected transactions under the Financial Services Agreement are conducted in accordance with its terms and condition.

In particular, the Group has taken the following specific measures in relation to the continuing connected transactions in respect of financial services contemplated under the Financial Services Agreement. The Finance Department of the Company is primarily responsible for monitoring the continuing connected transactions under the Financial Services Agreement and the measures taken include but not limited to:

For Deposit Services:

1. confirming the current accumulated deposits balance with the Finance Company and making a deposit estimate prior to each deposit to ensure that the deposit amount does not exceed the annual cap for deposit services under the Financial Services Agreement.
2. reviewing the interest rate provided by the Finance Company to the Group prior to each deposit to ensure that under the same conditions, the interest rate provided by the Finance Company for deposit services under the Financial Services Agreement is not lower than those published by the People’s Bank of China, nor that offered by other major commercial banks in China in the same period for the same type of deposits.

In particular, the finance department of the Company will select at least two commercial banks (e.g. Bank of Communications, Industrial and Commercial Bank of China, Bank of China, etc.) that have maintained business relations with the Company for the interest rates comparison purpose.

3. asking the Finance Company by email or telephone prior to each deposit to ensure that the interest rate provided by the Finance Company for deposit services under the Financial Services Agreement is not lower than that offered to third parties by Finance Company for the same type of deposits.
4. regularly reviewing the finance information feedback form provided by the Finance Company (including the business development and activities between the Group and the Finance Company, accounting opening situation, deposit situation, etc.) on a monthly basis.

In addition, the head of the Finance Department is in charge of measure mentioned above to ensure that the finance services provided by the Finance Company are in accordance with the provisions of the Financial Services Agreement.

For Loan Services:

1. ensuring that the loan services (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) carried out by the Company and the Finance Company does not exceed the annual cap for loan services under the Financial Services Agreement, and the interest rates for the loans provided are not higher than (a) those published by the People's Bank of China; (b) those offered by other major commercial banks in China in the same period, or (c) by the Finance Company to third parties for the same type of loans.

The Board considers the above methods and procedures constitute necessary components of an internal control system, in which the head of the Financial Department is in charge of the abovementioned measures, which can form a clear confirmation process and reviewing system and ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Financial Services Agreement, and explore the best price of such services available to the Company. Therefore, the Board is of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the Financial Services Agreement, and safeguard the interests of the Shareholders as a whole. Since the Company has established adequate and appropriate internal control procedures to review the transactions as listed above, the Directors are of the view that such methods and procedures can ensure and safeguard that the continuing connected transactions contemplated under the Financial Services Agreement will be conducted on normal commercial terms and in interests of the Company and the Shareholders.

The independent non-executive Directors shall review and will continue to review the implementation of the specific agreements to ensure that they have been entered into on normal commercial terms or better, and according to the Financial Services Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Company's annual report.

The Company believes that such measures can effectively safeguard the Company's interest in the transactions under the Financial Services Agreement, and ensure that the terms of the specific agreements under the Financial Services Agreement would be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

VI. PURPOSES OF, REASONS FOR AND BENEFITS FROM CONDUCTING THE TRANSACTIONS

1. The Group can further expand its financing channels through business corporation with the Finance Company;
2. The favourable interest rates for deposits and loans provided by the Finance Company are conducive to improving the Group's deposit income and lowering financing costs;
3. Services provided by the Finance Company to the Group, including the provision of financing sources, involve more efficient processing procedures, and enable the Group to make economical arrangements in respect of the financing term; and
4. Through its business cooperation with the Finance Company, the Group can further strengthen its bargaining power against external banks.

Based on the foregoing, the business cooperation of the Group with the Finance Company will enhance its economic efficiency and offer financial support to its further development.

VII. EFFECTS OF THE CONTINUING CONNECTED TRANSACTIONS ON THE COMPANY

1. Regulated by the CBIRC and the People's Bank of China, the Finance Company provides services only to members of Shanghai Shangshi Group based on operational requirements within its permitted scope of business. Therefore, the risk exposure of the Finance Company is relatively controllable.
2. When providing deposit, loan (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) and other financial services to Group Members, the level of fees charged by the Finance Company are equal to or more favorable than those of comparable financial services provided to Group Members by domestic commercial banks, and no less favorable than those of comparable services provided by the Finance Company to other members of the Shanghai Shangshi Group.

3. The continuing connected transactions under the Financial Services Agreement will help optimize the financial management of Group Members, improve their capital use efficiency and reduce its financing costs and risks. The transactions were entered into on normal commercial terms and in the ordinary and usual course of business, are fair and reasonable, and do not prejudice the interests of the Company and its minority shareholders as well as the independence of the Company.

VIII. THE APPROVAL PROCEDURES OF THE TRANSACTIONS

The continuing connected transactions under the Financial Services Agreement and its annual caps were considered and approved at the meeting of the Board of the Company held on 28 March 2019. All nine directors of the Company attended the meeting, which comply with the quorum requirement for board meetings under the Company Law of the People's Republic of China and the articles of association of the Company. The interested directors, namely Mr. ZHOU Jun voluntarily abstained from voting. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the continuing connected transactions under the Financial Services Agreement and all other disinterested directors voted in favour of the above continuing connected transactions.

Pursuant to the requirements of the SSE Listing Rules and the SSE Guidelines on Connected Transactions, independent Directors, namely Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang, have provided independent opinions on the connected transactions under the Financial Services Agreement which are set out as follows:

1. The continuing connected transaction is beneficial to the Group by optimizing financial management, improving the capital utilization efficiency of the Group and reducing the financing cost and risk.
2. The continuing connected transaction has been entered into on normal commercial terms and in the ordinary and usual course of business of the Company, is fair and reasonable and do not prejudice the interests of the Company and its Shareholders, especially those of the minority Shareholders.
3. The continuing connected transaction has obtained prior approval from the independent Directors.
4. The connected transaction was considered at the Board meeting in accordance with the principle of fairness, impartialness and transparency, and all connected Directors have abstained from voting, therefore the voting process is lawful and valid.

Pursuant to the requirements of the Hong Kong Listing Rules, an Independent Board Committee comprising Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the deposit services under the Financial Services Agreement and their annual cap, and its advice is

set out in Appendix II of this circular. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of renewal of annual caps for Deposit Services under the Financial Services Agreement and their annual cap, and its recommendation is set out in Appendix II of this circular.

In light of the interests held by Shanghai Shangshi and its associates in the Financial Services Agreement (as mentioned above), Shanghai Shangshi and its associates (holding approximately 33.6% of the entire issued share capital of the Company in aggregate at the Latest Practicable Date) as connected Shareholders will abstain from voting on the resolution for approving the transactions contemplated under the Financial Services Agreement at the Annual General Meeting.

IV. DELIBERATIONS AND RECOMMENDATIONS

The Board of Directors is of the view that the terms of the Financial Services Agreement and the relevant annual caps are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors advise the Independent Shareholders to vote for the relevant resolutions proposed at the Annual General Meeting.

Your attention is drawn to (i) the letter from the Independent Board Committee set out in Appendix II B of this circular which contains the Independent Board Committee's advice to the Independent Shareholders in respect of the terms of the deposit services under the Financial Services Agreement and their annual cap; and (ii) the letter from Gram Capital set out in Appendix II C of this circular which contains its opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of the deposit services under the Financial Services Agreement and their annual cap. Your attention is also drawn to the general information set out in Appendix VII of this circular.

In order to facilitate implementation, it is proposed that the Shareholders authorize the Board of Directors of the Company, who will in turn authorize the management of the Company, to execute the Financial Services Agreement and related documents and to carry out the relevant steps for implementation.



上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02607)

21 May 2019

To the Independent Shareholders

Dear Sir or Madam,

**RENEWAL OF FINANCIAL SERVICES AGREEMENT AND
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 21 May 2019 issued by Shanghai Pharmaceuticals Holding Co., Ltd.* (the “**Circular**”) of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee by the Board to advise the Independent Shareholders in respect of the terms of the deposit services under the Financial Services Agreement and their annual cap.

Having considered (a) the reasons for and benefits from the renewal of the Financial Services Agreement set out in the Circular and (b) the terms of the Financial Services Agreement, and having taken into account the advice from Gram Capital, we consider that the terms of the deposit services under the Financial Services Agreement and their annual cap are fair and reasonable so far as the Independent Shareholders are concerned, are on normal commercial terms and in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole. Therefore, we advise you to vote for the relevant resolutions proposed at the Annual General Meeting to approve such transactions and their annual cap.

* *For identification purpose only*

APPENDIX IIB LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We draw the attention of the Independent Shareholders to (1) Appendix IIA to this Circular pages 22 to 46 of the Circular and (2) the letter from Gram Capital set out on pages 34 to 44 of the Circular, which sets out the factors and reasons which have been taken into account in arriving at its advice to the Independent Board Committee and the Independent Shareholders.

Yours faithfully,

For and on behalf of

The Independent Board Committee

Mr. WAN Kam To

*Independent Non-
executive Director*

**Mr. TSE Cho Che,
Edward**

*Independent Non-
executive Director*

Mr. CAI Jiangnan

*Independent Non-
executive Director*

Mr. HONG Liang

*Independent Non-
executive Director*

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



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

21 May 2019

*To: The independent board committee and the independent shareholders
of Shanghai Pharmaceuticals Holding Co., Ltd.*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the deposit services (the “**Deposit Services**”) under Financial Services Agreement, details of which are set out in the letter from the Board contained in the circular dated 21 May 2019 (the “**Circular**”) issued by the Company to the Shareholders and Appendix IIA to the Circular, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 3 February 2016, the Company renewed the Existing Financial Services Agreement with the Finance Company, pursuant to which the Finance Company may, among other things, provide deposit services to the Company and its subsidiaries and other affiliates. The Existing Financial Services Agreement will expired on 26 June 2019. As such, on 28 March 2019, the Company entered into the Financial Services Agreement with the Finance Company.

With reference to the Circular, the Deposit Services constitute discloseable and continuing connected transactions and are subject to the reporting and announcement, annual review and the independent shareholders’ approval requirement under the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent

Shareholders should vote in respect of the resolution(s) to approve the Deposit Services at the AGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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 is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Deposit Services. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement in this circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Business overview of the Group

With reference to the Circular, the Company is the only national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company's business mainly covers three segments, namely, pharmaceutical industry, pharmaceutical distribution and pharmaceutical retail. The A shares and H shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2018 as extracted from the annual report of the Company for the year ended 31 December 2018 (the "2018 Annual Report"):

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change from 2017 to 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	159,084,397	130,847,179	21.6
Profit attributable to owners of the Company	3,881,063	3,520,644	10.2
	As at 31 December 2018	As at 31 December 2017	Change from 2017 to 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Cash and cash equivalents	16,605,555	13,569,414	22.4
Total equity	46,433,271	39,675,848	17.0

As illustrated by the above table, the Group recorded an increase of approximately 21.6% in revenue for the year ended 31 December 2018 ("FY2018") as compared to that for the year ended 31 December 2017 ("FY2017"). With reference to the 2018 Annual Report, the increase in revenue was mainly due to the increase in sales revenue during the FY2018. The Group also recorded an increase in profit attributable to owners of the Company for FY2018 as compared to that for FY2017.

As at 31 December 2018, the Group recorded cash and cash equivalents and total equity of approximately RMB16.6 billion and RMB46.4 billion respectively.

Information on the Finance Company

With reference to the Circular, the Finance Company is a non-bank financial institution with financial license, under industrial regulation by the CBIRC and the People's Bank of China (PBOC). The operation of the Finance Company covers the following local and foreign currency businesses: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount to members to the group; approved insurance agency business; guarantee provided to members of the group; entrusted loans among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; portfolio investment (except stock investment); underwriting corporate bonds of member units. For the projects requiring approvals in accordance with the law, operations are subject to the approval by the relevant regulatory authorities.

As further advised by the Directors, the Finance Company is required to operate in compliance with Administration of the Finance Companies of Enterprise Groups Procedures^(Note) (the "Measures") issued by China Banking Regulatory Commission to regulate the operation of group financing companies and reduce the possible financial risk. We noted that the Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times.

The table below sets out the key financial ratio requirements of the Measures and the respective financial ratios of Finance Company for the two years ended 31 December 2018 as provided by the Company.

Financial ratio	Requirements	Financial ratios of Finance Company	
		For the year ended 31 December 2017 (approximate %)	For the year ended 31 December 2018 (approximate %)
Capital adequacy ratio	Not less than 10%	28.00	25.82
		<i>Lowest during the respective period</i>	
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	Nil
		<i>Highest during the respective period</i>	
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	16.40	13.01
Long-term and short-term investment to total capital ratio	Not more than 70%	61.84	65.24
Self-owned fixed assets to total capital ratio	Not more than 20%	0.32	0.19

Note: http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/2007011750670C770F203E8AFFA5FF582569BE00.html

As shown in the table above, the Finance Company complied with the relevant financial ratio requirements as set out in the Measures during 2017 and 2018. The non-performing loan ratio of the Finance Company was zero during 2017 and 2018.

As also confirmed by the Directors, they are not aware of any record of non-compliance with the Measures on the Finance Company in recent three years. After searching over the internet, we were not aware of any non-compliance of the Measures by the Finance Company.

Being a group finance company, the Finance Company provides financial services as mentioned above to members of Shanghai Shangshi group. As such, the Finance Company may face a higher customer concentrations risk than the PRC commercial banks (whose customers are the general public). The default of any one of the Finance Company's customers may cause a greater negative impact to the Finance Company than the default of any one of the PRC commercial banks' customers. However, as a subsidiary of Shanghai Shangshi, the Finance Company is able to access to the details of financial positions of its customers (i.e. Shanghai Shangshi group members), and can obtain sufficient information in advance to determine whether to grant the loan to the applicant. The situation is different for most of the PRC commercial banks as limited information is available to the commercial banks to evaluate their customers. As such, the high customer concentration risk may be mitigated with additional information available to the Finance Company.

As mentioned above, the Finance Company is a non-banking financial institution authorised and regulated by the PBOC and CBIRC, and provides financial services in compliance with the rules and other operational requirements of these regulatory authorities. Pursuant to the Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need. We noted from Finance Company's articles of association that Shanghai Shangshi, being the controlling shareholder of the Company, undertook to adopt remedies measures such as increasing Finance Company's capital for solving any urgent payment difficulties in the event that the Finance Company experiences any urgent payment difficulties. We also obtained document showing the relevant undertaking made by Shanghai Shangshi.

As advised by the Directors, a risk management committee under the board of directors of the Finance Company has been established to, among other things, (i) review and amend the overall objectives, policies and procedures of the Finance Company's comprehensive risk management work; (ii) conduct research on the Finance Company's internal control system and proposing amendments; (iii) review risk management strategies and major risk management solutions; (iv) submit comprehensive risk management report; (v) report major risk events to the board of directors of Finance Company in a timely manner and submit relevant solution. The risk management committee comprises three members (i.e. one committee chairman (主任委員) and two committee members), who are the Finance Company's directors. The committee chairman (主任委員) is the Finance Company's director, who was nominated by the Company.

We also noted from Finance Company's articles of association that as a shareholder of the Finance Company, the Company has the right to access the financial records of the Finance Company, so as to understand the general financial and operational conditions of the Finance Company. We understood from the Directors that a report showing the Group's deposit and

borrowing status will be prepared and provided to the Company by the Finance Company on a monthly basis. For our due diligence purpose, we obtained the monthly reports for October 2018, November 2018 and December 2018.

Based on the above factors, in particular (i) the Finance Company is required to operate in compliance with the Measures, which set out certain compliance and risk control requirements/ measures in relation to the operation of group financing companies; (ii) Shanghai Shangshi's undertaking to adopt remedies measures for solving any urgent payment difficulties in the event that the Finance Company experiences any urgent payment difficulties, we consider that the credit risk in respect of the Deposit Services may be mitigated.

Reasons for and benefit of the Deposit Services

With reference to the Circular, the Company entered into the Financial Services Agreement due to the following reasons:

- (i) the Company can further expand its financing channels through business corporation with the Finance Company;
- (ii) the favourable interest rates^(Note) for deposits provided by the Finance Company are conducive to improving the Company's deposit income;
- (iii) services provided by the Finance Company to the Company, including the provision of financing sources, involve more efficient processing procedures, and enable the Company to make economical arrangements in respect of the financing term; and
- (iv) through its business corporation with the Finance Company, the Company can further strengthen its bargaining power against external banks.

As discussed with the Directors, the Finance Company has been providing the various types of financial services to the Group since its formal establishment on 1 September 2014. The Finance Company understands well the financial conditions of the Group and will be able to cater the financial needs of the Group more efficiently.

Also, the Financial Services Agreement does not restrict the Group to deposit services provided by third parties and therefore offers an additional option to the Group and increases the financial flexibility of the Group. The Company advised that its criteria in making the choice in the deposit services could be made on benefits and quality of services. Therefore, the Group may, but is not obliged to, continue to use the Finance Company's services if the service quality provided continues to be competitive. Having such flexibility under the Financial Services Agreement, the Group is able to better manage its current capital and cashflow position.

Note: Pursuant to the Financial Services Agreement, the interest rates for deposit should not be lower than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.

In addition, pursuant to the Existing Financial Services Agreement and the Financial Services Agreement, among other things, the Finance Company undertakes to offer favorable interest rates for the Shanghai Pharmaceuticals Group Members' deposits with reference to the prevailing market rates, which should not be lower than those published by the PBOC, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits. As advised by the Directors, the finance department of the Company will select at least two commercial banks (e.g. Bank of Communications, Industrial and Commercial Bank of China, Bank of China, etc.) that have maintained business relations with the Company for the interest rates comparison purpose.

Upon our request, we obtained documents/deposit records showing (i) the Company placed deposits in the Finance Company; (ii) the bank's internal documents regarding the approval of agreement deposits for the Group; (together with (i), the "**Group's Deposit Records**"); and (iii) members of Shanghai Shangshi placed deposits in Finance Company. We noted from the deposit records and the deposit rates as published by the PBOC that the deposit rates as shown in the documents/deposit records for same type of deposits are in line with the aforesaid requirements under the Existing Financial Agreement ("**Our Findings on Deposit Rates**").

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

Principal terms of the Financial Services Agreement

Date:	28 March 2019
Parties:	(i) The Finance Company (as provider of services); and (ii) The Company (as recipient of services)
Subject matter:	The Finance Company shall provide the Group with deposit, loan and other financial services as CBRC may approve.
Term:	The Financial Services Agreement shall be effective upon the affixation of the official stamps of the Company and the Finance Company along with the signature of their respective legal representatives or authorised representatives, commencing from the date on which it is considered and passed at the 2018 Annual General Meeting of the Company and expire on the date of the 2021 annual general meeting of the Company.

Pricing principles: the Finance Company undertakes to offer favourable interest rates for the Group's deposits with reference to the prevailing market rates, which should not be lower than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.

We reviewed the Existing Financial Services Agreement and the Financial Services Agreement. We noted that other than term and annual caps, other key terms in the Financial Services Agreement are similar to the Existing Financial Services Agreement entered into by the parties.

With reference to the Circular, the Group has taken the measures in relation to the Deposit Services. The Finance Department of the Company is primarily responsible for monitoring the Deposit Services. Details of the steps were set out under the section headed "MEASURES TO ENSURE COMPLIANCE WITH THE HONG KONG LISTING RULES" of Appendix IIA to the Circular.

As the Finance Department will conduct deposit rates comparison procedures prior to each deposit (i.e. reviewing the interest rate provided by the Finance Company to the Group prior to each deposit; and asking the Finance Company by email or telephone prior to each deposit) to ensure the interest rate provided by the Finance Company for the Deposit Services is not be lower than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits, we consider that the effective implementation of the Deposit Services Measures would help to ensure fair pricing of the transactions contemplated under the Deposit Services according to the pricing policies.

Having also considered that Our Findings on Deposit Rates, we do not doubt the effectiveness of the implementation of the internal procedures for fair pricing of the Deposit Services.

In addition, we also noted that the Group will confirm the current accumulated deposits balance with the Finance Company and making a deposit estimate prior to each deposit to ensure that the deposit amount does not exceed the annual cap for deposit services under the Financial Services Agreement. According to the Company's annual reports for each of 2017 and 2018, auditors of the Company has submitted a comment letter on continuing connected transactions to the board of directors for connected transactions pursuant to Rule 14A.56 of the Hong Kong Listing Rules, and confirmed that the connected transactions (including deposit services under the Existing Financial Services Agreement), among other things, no transactions exceeded caps. Having also considered that the maximum daily deposit balance for the three years ended 31 December 2018 were approximately RMB1,984 million, RMB1,992 million and RMB1,992 million respectively, we do not doubt the effectiveness of the implementation of the internal procedures for avoiding the exceeding the annual caps under Deposit Services.

In light of the above, we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The historical amounts and the proposed annual caps

Set out below are (i) the historical maximum daily deposit balance of (including any interest accrued thereon) and the previous annual caps under the Existing Financial Services Agreement; and (ii) the proposed annual caps for provision of Deposit Services under the Financial Services Agreement (the “**Deposit Cap(s)**”) for the three years ending on the date of the 2021 annual general meeting:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
Historical transaction amounts	<i>(in RMB'million)</i>	<i>(in RMB' million)</i>	<i>(in RMB' million)</i>
Maximum daily deposit balance	1,984	1,992	1,992
Previous annual caps	2,000	2,000	2,000
Utilisation rate (%)	99.2	99.6	99.6
	For the year ending on the date of the 2019 annual general meeting	For the year ending on the date of the 2020 annual general meeting	For the year ending on the date of the 2021 annual general meeting
The Deposit Caps	<i>(in RMB'million)</i>	<i>(in RMB' million)</i>	<i>(in RMB'million)</i>
Maximum daily deposit balance	3,000	3,000	3,000

Details of the bases for determining the Deposit Caps for the three years ending on the date of the 2021 annual general meeting are set out under the section headed “ANNUAL CAPS AND BASIS OF DETERMINATION” of Appendix IIA to the Circular.

According to the above table, we noted that the relevant utilisation rate of the previous annual caps were approximately 99.2%, 99.6% and 99.6% for each of the three years ended 31 December 2018. The Deposit Caps increased to RMB3 billion for each of the three years ending on the date of the 2021 annual general meeting.

We noted from the 2018 Annual Report that as at 31 December 2018 (i) total amount of Group’s cash and cash equivalents amounted to RMB16.6 billion (as at 31 December 2017: RMB13.6 billion); and (ii) trade and other receivables^(Note) amounted to RMB44.8 billion (as at 31 December 2017: RMB34.0 billion). The sum of the aforesaid two items (the “**Sum**”) amounted to RMB61.4 billion (as at 31 December 2017: RMB47.6 billion). Each of the Deposit Caps, which indicate the possible demand on deposit services, for each of the three years ending on the date of the 2021 annual general meeting, are less than the Sum.

Note: trade and other receivables is calculated by the sum of trade receivables (net), other receivables (net) and amounts due from related parties (net).

The Deposit Caps of RMB3,000 million represent an increase of 50% (the “**Increase**”) as compared to the existing Deposit Caps of RMB2,000 million. To further assess the fairness and reasonableness of the Increase, we summarised the relevant financial information (i) for the year ended 31 December 2018, being the latest available public full-year financial information immediately prior to the Latest Practicable Date; (ii) for the year ended 31 December 2014, being the latest available public full-year financial information immediately prior to the date of Existing Financial Services Agreement; and (iii) for the nine months ended 30 September 2015, being the latest available public financial information immediately prior to the date of Existing Financial Services Agreement, as follows:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2014 RMB'000	Increase rate
Revenue	159,084,397	92,398,894	72.2%
	As at 31 December 2018 RMB'000	As at 30 September 2015 RMB'000	Increase rate
Cash and cash equivalents	16,605,555	10,297,469	61.3%

Based on the above table, we noted that there was a substantial increase in revenue for FY2018 (being the latest available public full-year financial information immediately prior to the Latest Practicable Date) as compared to that for 2014 (being the latest available public full-year financial information immediately prior to the date of Existing Financial Services Agreement). The Group’s cash and cash equivalents as at 31 December 2018 also substantially increased as compared to that as at 30 September 2015 (being the latest available public financial information immediately prior to the date of Financial Service Framework Agreement). As such, we consider that the Increase to be acceptable.

As further advised by the Directors, it is difficult to forecast the total cash level for the three years ending on the date of the 2021 annual general meeting of the Company. Nevertheless, should there be any substantial increase in total cash of the Group, the Group may deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Deposit Caps for the three years ending on the date of the 2021 annual general meeting.

Having considered that (i) the high utilisation rate for existing Deposit Caps for the three years ended 31 December 2018 as mentioned above; (ii) the Deposit Caps, which indicate the possible demand on deposit services, for each of the three years ending on the date of the 2021 annual general meeting, are less than the Sum; and (iii) should there be any substantial increase in total cash of the Group, the Group may deposit larger portion of cash in commercial banks or re-comply with the

applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Deposit Caps for the three years ending on the date of the 2021 annual general meeting, we consider that the Deposit Caps for the three years ending on the date of the 2021 annual general meeting to be fair and reasonable.

Hong Kong Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the maximum values of the Deposit Services must be restricted by the Deposit Caps for the period concerned under the Financial Services Agreement; (ii) the terms of the Deposit Services must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Financial Services Agreement must be included in the Company's subsequent published annual reports and financial accounts.

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

In the event that the maximum amounts of the Deposit Services are anticipated to exceed the Deposit Caps, or that there is any proposed material amendment to the terms of the Financial Services Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

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

Recommendation on the Deposit Services

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the AGM to approve the Deposit Services and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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

PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

In order to accommodate the needs of the business development and reduce financing costs, Shanghai Pharmaceuticals Holding Co., Ltd. has negotiated with related parties according to applicable laws and regulations, and proposes to provide external guarantees in 2019 as follows on the premise of standard operation and controllable risks:

I SUMMARY OF GUARANTEE PROFILE

In order to accommodate the needs of the business development of Shanghai Pharmaceuticals and meet the security and financing requirements of Shanghai Pharmaceuticals and its subsidiaries, Shanghai Pharmaceuticals and its subsidiaries have proposed to provide external guarantee of approximately RMB31,212.2996 million (including RMB24,566.33 million, US\$888 million, NZ\$120 million, based on the average price as published by the PBOC on 31 December 2018) in 2019, including (I) the external guarantee to be provided by Shanghai Pharmaceuticals headquarter amounted to RMB1,200 million, US\$888 million, NZ\$80 million in 2019; (II) the external guarantee to be provided by the controlled subsidiaries of Shanghai Pharmaceuticals amounted to RMB9,366.33 million and NZ\$40 million in 2019; and (III) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2019 amounted to RMB3,000 million; (IV) Shanghai Pharmaceutical headquarter and its controlled subsidiaries provided the international business expansion with new planned financing guarantees in 2019 amounted to RMB10,000 million; (V) the guarantee to be provided by Shanghai Pharmaceutical headquarter and its controlled subsidiaries to expected bill pool in 2019 amounted to RMB1,000 million. Details are as follows:

(I) External guarantee provided by headquarter of Shanghai Pharmaceuticals in 2019 is amounted to RMB1,200 million, US\$888 million and NZ\$80 million.

Detail of the above external guarantee of 8 parties are as follows:

Unit: RMB0'000

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
1	Shanghai Pharmaceuticals Holding Co., Ltd.	SIIC Medical Science and Technology (Group) Limited	Yes	80,000	Joint guarantee	Provision of guarantee according to percentage
2	Shanghai Pharmaceuticals Holding Co., Ltd.	China International Pharmaceutical (Holding) Corporation Limited	Yes	US\$5,000	Joint guarantee	Provision of guarantee according to percentage
3	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Pharmaceuticals (HK) Investment Limited (上海醫藥(香港)投資有限公司)	Yes	US\$46,800	Joint guarantee	Provision of guarantee according to percentage
4	Shanghai Pharmaceuticals Holding Co., Ltd.	CARDINAL HEALTH (H.K.) CO. LIMITED	Yes	US\$34,000	Joint guarantee	Provision of guarantee according to percentage

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
5	Shanghai Pharmaceuticals Holding Co., Ltd.	Vitaco Health Limited	Yes	NZ\$8,000	Joint guarantee	With counter guarantee and charge on credit of other shareholders
6	Shanghai Pharmaceuticals Holding Co., Ltd.	Beijing Xinhai Keyuan Pharmacy Co., Ltd. or	Yes	40,000	Joint guarantee	Provision of guarantee according to percentage
7	Shanghai Pharmaceuticals Holding Co., Ltd.	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.				
8	Shanghai Pharmaceuticals Holding Co., Ltd.	Honour Drug House Joint (H.K.) Limited	Yes	US\$3,000	Joint guarantee	Provision of guarantee according to percentage

SIIC Medical Science and Technology (Group) Limited is a wholly-owned subsidiary of Shanghai Pharmaceuticals, and in order to ensure its business support for overseas acquired enterprises, Shanghai Pharmaceuticals headquarter proposed to provide guarantee of an amount of RMB800 million.

China International Pharmaceutical (Holding) Corporation Limited is a wholly-owned subsidiary of Shanghai Pharmaceuticals and a platform for overseas business expansion of the Company, and is primarily engaged in import and export trading business for medicine. Shanghai Pharmaceuticals headquarter proposed to provide it US\$50 million or equivalent guarantees for the purpose of safeguarding and propelling a smooth proceed of its business and helping it obtain a preferential financing cost in the overseas financial market.

Shanghai Pharmaceuticals (H.K.) Investment Co., Ltd. is a wholly-owned overseas subsidiary of Shanghai Pharmaceuticals. To ensure that it has adequate capital for overseas acquisitions and mergers, Shanghai Pharmaceuticals headquarter proposed to provide it a guarantee of US\$468 million or equivalent.

Cardinal Health (H.K.) Co. Limited is a newly-acquired wholly-owned subsidiary for the Company's acquisition of the business of Cardinal China. Shanghai Pharmaceuticals headquarter proposed to provide it US\$340 million or equivalent guarantee for the purpose of securing the follow-up financing arrangement and supporting the business development of its domestic subsidiaries.

VITACO HEALTH LIMITED is a controlled subsidiary of Shanghai Pharmaceuticals. Shanghai Pharmaceuticals headquarter proposed to provide them with guarantee in an amount of NZ\$80 million or equivalent for the purpose of cooperating with their business development in Australia and obtaining a preferential financing cost.

APPENDIX III PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

Beijing Xinhai Keyuan Pharmacy Co., Ltd. and its wholly-owned subsidiary Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd. are wholly-owned subsidiaries of Shanghai Pharmaceuticals, and have primarily engaged in drugs distribution business. Shanghai Pharmaceuticals headquarter proposed to provide them no more than RMB400 million guarantee for the purpose of safeguarding business development and controlling financing cost.

Honour Drug House Joint (H.K.) Limited is a wholly-owned subsidiaries of Shanghai Pharmaceuticals, and serves as an international business development platform of the Company. It primarily engaged in drugs importation and exportation, as well as drugs trade. Shanghai Pharmaceuticals headquarter proposed to provide it US\$30 million or equivalent guarantee for the purpose of facilitating its business development and helping it obtain a preferential financing cost in overseas financial market.

(II) External guarantee provided by Shanghai Pharmaceutical's controlled subsidiaries in 2019 is amounted to RMB9,366.33 million and NZ\$40 million.

Details of the above external guarantee of the 134 parties are as follows:

Unit: RMB0'000

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
1	Shanghai Pharma Co., Ltd.	Shanghai Jinshi Medicine & Medicinal Materials Co., Ltd.	Yes	200	Joint guarantee	Provision of guarantee according to percentage of shareholding
2	Shanghai Pharma Co., Ltd.	SPH Keze (Shanghai) Pharmaceutical Co., Ltd. (上藥科澤(上海)醫藥有限公司)	Yes	6,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
3	Shanghai Pharma Co., Ltd.	Jiangxi Nanhua (ShanghaiPharma) Medicines Co., Ltd.	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
4	Shanghai Pharma Co., Ltd.	SPH Jiangxi Shangrao Pharmaceutical Co., Ltd.	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
5	Shanghai Pharma Co., Ltd.	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	Yes	20,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
6	Shanghai Pharma Co., Ltd. Shanghai Suzuken Chinese Medicine Co., Ltd. (上藥鈴謙滬中(上海)醫藥有限公司)	Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (上藥控股青島有限公司)	Yes	11,970	Joint guarantee	Provision of guarantee according to percentage of shareholding
			Yes	22,530	Joint guarantee	Provision of guarantee according to percentage of shareholding

APPENDIX III PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
7	Shanghai Pharma Co., Ltd.	Shandong SPH Shanglian Pharmaceuticals Co., Ltd.	Yes	13,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
8	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Nantong Huashi Growful Pharmaceutical Co., Ltd. (上藥控股南通有限公司)	Yes	23,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
9	Shanghai Pharma Co., Ltd.	Shanghai Pharma Zhenjiang Co., Ltd.	Yes	30,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
10	Shanghai Pharma Co., Ltd.	Zhejiang Xinxin Pharmaceutical Co., Ltd.	Yes	20,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
11	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd. (上藥控股寧波醫藥股份有限公司)	Yes	646	Joint guarantee	Provision of guarantee according to percentage of shareholding
12	Shanghai Pharma Co., Ltd.	Hangzhou Kailun Pharmaceutical Co., Ltd.	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
13	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Wenzhou Co., Ltd. (上藥控股溫州有限公司)	Yes	25,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
14	Shanghai Pharma Co., Ltd.	Hunan Jiawang Pharmaceutical Co., Ltd.	Yes	16,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
15	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Yunnan Huashi Growful Pharmaceutical Co., Ltd. (上藥控股雲南有限公司)	Yes	15,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
16	Shanghai Pharma Co., Ltd.	SPH Guangdong Pharmaceutical Co., Ltd (上藥控股廣東有限公司)	Yes	2,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
17	Shanghai Pharma Co., Ltd.	Fujian Pharmaceutical Co., Ltd.	Yes	30,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
18	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Co., Ltd. Anqing Company	Yes	20,600	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
19	Shanghai Pharma Co., Ltd.	SPH Holding (Anhui) Biologicals Co., Ltd. (上藥控股安徽生物製品有限公司)	Yes	5,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
20	Shanghai Pharma Co., Ltd.	SPH Holding (Anhui) Co., Ltd. (上藥控股安徽有限公司)	Yes	16,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
21	Shanghai Pharma Co., Ltd.	SPH Sichuan Pharmaceutical Co., Ltd.	Yes	53,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
22	Shanghai Pharma Co., Ltd.	SPH Sichuan Biological Products Co., Ltd.	Yes	15,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
23	Shanghai Pharma Co., Ltd.	Shanghai New Century Pharmaceutical Co., Ltd.	Yes	500	Joint guarantee	Provision of guarantee according to percentage of shareholding
24	Shanghai Pharma Co., Ltd.	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	Yes	10,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
25	Shanghai Pharma Co., Ltd.	SPH Zunyi Pharmaceutical Co., Ltd. (上藥控股遵義有限公司)	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
26	Shanghai Pharma Health Commerce Co., Ltd.	SPH Zhongxie Pharmaceutical Co., Ltd.	Yes	15,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
27	Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd.	SPH (Yantai) Co., Ltd. (上藥控股(煙台)有限公司)	Yes	275	Joint guarantee	Provision of guarantee according to percentage of shareholding
28	Shanghai Pharmaceutical Co., Ltd. Anqing Company	Anqing Huashi Medical Devices Co., Ltd. (安慶華氏醫療器械有限公司)	Yes	500	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
29	Shanghai Pharmaceutical Co., Ltd. Anqing Company	Anqing Huashi Herbal Co., Ltd. (安慶華氏中藥飲片有限公司)	Yes	500	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
30	Shanghai Pharmaceutical Co., Ltd. Anqing Company	SPH Wuhu Pharmaceutical Co., Ltd.	Yes	1,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
31	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	SPH Yancheng Co., Ltd. (上藥控股鹽城有限公司)	Yes	16,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
32	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	SPH Yiyu Pharmaceutical Co., Ltd. (上藥控股宜興有限公司)	Yes	5,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
33	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	Wuxi Shanhe Boda Pharmaceutical Co., Ltd. (無錫山禾博達醫藥有限公司)	Yes	3,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
34	SPH Sichuan Pharmaceutical Co., Ltd. (上藥控股四川有限公司)	SPH Luzhou Pharmaceutical Co., Ltd. (上藥控股瀘州有限公司)	Yes	8,500	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
35	Hangzhou Kailun Pharmaceutical Co., Ltd.	Hangzhou Kanglun Herbal Co., Ltd. (杭州康侖中藥飲片有限公司)	Yes	2,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
36	Shanghai Huashi Pharmacy Co., Ltd. (上海華氏大藥房有限公司)	Shanghai Huashi Pharmacy Nantong Chain Co., Ltd. (上海華氏大藥房南通連鎖有限公司)	Yes	1,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
37	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	SPH Linyi Pharmaceutical Co., Ltd. (上藥控股臨沂有限公司)	Yes	2,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
38	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Qiangongnan Pharmaceutical Co., Ltd. (上藥控股黔東南有限公司)	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
39	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Bijie Pharmaceutical Co., Ltd. (上藥控股畢節有限公司)	Yes	1,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
40	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Anshun Pharmaceutical Co., Ltd. (上藥控股安順有限公司)	Yes	400	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
41	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Liupanshui Pharmaceutical Co., Ltd. (上藥控股六盤水有限公司)	Yes	400	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
42	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Qiannan Pharmaceutical Co., Ltd. (上藥控股黔南有限公司)	Yes	1,200	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
43	SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司)	Shanghai Zhongxie Pharmacy Co., Ltd. (上海眾協藥店有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
44	SPH Zhongxie Pharmaceutical Co., Ltd.	Xuzhou SPH Zhongxie Pharmacy Co., Ltd. (徐州上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
45	SPH Zhongxie Pharmaceutical Co., Ltd.	Beijing Zhongxie Sun Pharmacy Co., Ltd. (北京眾協陽光大藥房有限公司)	Yes	150	Joint guarantee	Provision of guarantee according to percentage of shareholding
46	SPH Zhongxie Pharmaceutical Co., Ltd.	Hangzhou Quandetang Pharmacy Co., Ltd. (杭州全德堂藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
47	SPH Zhongxie Pharmaceutical Co., Ltd.	Dalian SPH Zhongxie Pharmacy Co., Ltd. (大連上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
48	SPH Zhongxie Pharmaceutical Co., Ltd.	Nanjing SPH Zhongxie Pharmacy Co., Ltd. (南京上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
49	SPH Zhongxie Pharmaceutical Co., Ltd.	Qingdao SPH Zhongxie Pharmacy Co., Ltd. (青島上藥眾協大藥房有限公司)	Yes	200	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
50	SPH Zhongxie Pharmaceutical Co., Ltd.	Jinan SPH Zhongxie Pharmacy Co., Ltd. (濟南上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
51	SPH Zhongxie Pharmaceutical Co., Ltd.	Harbin Zhongxie Pharmacy Co., Ltd. (哈爾濱市眾協大藥房有限公司)	Yes	10	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
52	SPH Zhongxie Pharmaceutical Co., Ltd.	Hunan SPH Jiuwang Zhongxie Pharmacy Co., Ltd. (湖南上藥九旺眾協大藥房有限公司)	Yes	200	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
53	SPH Zhongxie Pharmaceutical Co., Ltd.	Changzhou SPH Zhongxie Pharmacy Co., Ltd. (常州上藥眾協大藥房有限公司)	Yes	52	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
54	SPH Zhongxie Pharmaceutical Co., Ltd.	Hefei SPH Zhongxie Pharmacy Co., Ltd. (合肥市上藥眾協大藥房有限公司)	Yes	30	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
55	SPH Zhongxie Pharmaceutical Co., Ltd.	Nanchang Shangpu Pharmacy Co., Ltd. (南昌市上普大藥房有限責任公司)	Yes	200	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
56	SPH Zhongxie Pharmaceutical Co., Ltd.	Guangzhou SPH Zhongxie Pharmacy Co., Ltd. (廣州上醫眾協藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
57	SPH Zhongxie Pharmaceutical Co., Ltd.	Wuxi SPH Zhongxie Pharmacy Co., Ltd. (無錫上藥眾協大藥房有限公司)	Yes	50	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
58	SPH Zhongxie Pharmaceutical Co., Ltd.	Jilin SPH Zhongxie Pharmacy Co., Ltd. (吉林省上藥眾協大藥房有限公司)	Yes	500	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
59	SPH Zhongxie Pharmaceutical Co., Ltd.	Nantong SPH Zhongxie Pharmacy Co., Ltd. (南通上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
60	SPH Zhongxie Pharmaceutical Co., Ltd.	Yangzhou SPH Zhongxie Pharmacy Co., Ltd. (揚州上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
61	SPH Zhongxie Pharmaceutical Co., Ltd.	Suzhou Zhongxie Pharmacy Co., Ltd. (蘇州眾協大藥房有限公司)	Yes	50	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
62	SPH Zhongxie Pharmaceutical Co., Ltd.	Zhenjiang SPH Zhongxie Pharmacy Co., Ltd. (鎮江上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
63	SPH Zhongxie Pharmaceutical Co., Ltd.	Bengbu SPH Zhongxie Pharmacy Co., Ltd. (蚌埠上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
64	SPH Zhongxie Pharmaceutical Co., Ltd.	Shenyang SPH Zhongxie Pharmacy Co., Ltd. (瀋陽上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
65	SPH Zhongxie Pharmaceutical Co., Ltd.	Yanbian SPH Zhongxie Pharmacy Co., Ltd. (延邊上藥眾協大藥房有限公司)	Yes	100	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
66	SPH Anhui Pharmaceutical Co., Ltd. (上藥控股安徽有限公司)	SPH Chizhou Pharmaceutical Co., Ltd. (上藥控股池州有限公司)	Yes	1,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
67	Shanghai Pharma Co., Ltd.	SPH Cardinal Luoda (Shanghai) Pharma Co., Ltd. (上藥康得樂羅達(上海)醫藥有限公司)	Yes	1,760	Joint guarantee	Provision of guarantee according to percentage of shareholding
	SPH Cardinal (Shanghai) Pharma Co., Ltd. (上藥康得樂(上海)醫藥有限公司)		Yes	7,040	Joint guarantee	Both controlled subsidiaries of CARDINAL HEALTH (H.K.) CO. LIMITED
68	Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限責任公司)	No	2,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
69	Shanghai Pharma Co., Ltd.	SPH Cardinal (Shanghai) Pharma Co., Ltd (上藥康得樂(上海)醫藥有限公司)	Yes	1,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
	SPH Cardinal (Beijing) Pharma Co., Ltd (上藥康得樂(北京)醫藥有限公司) (Note 1)		Yes	60,000	Joint guarantee	Both wholly-owned subsidiaries of CARDINAL HEALTH (H.K.) CO. LIMITED (Note 1)
70	Shanghai Pharma Co., Ltd.	SPH Cardinal (Shanghai) Pharma Logistics Co., Ltd (上藥康得樂(上海)醫藥物流有限公司)	Yes	1,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
71	Shanghai Pharma Co., Ltd.	SPH Cardinal (Beijing) Pharma Co., Ltd (上藥康得樂(北京)醫藥有限公司)	Yes	8,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
	SPH Cardinal (Shanghai) Pharma Co., Ltd (上藥康得樂(上海)醫藥有限公司) (Note 2)		Yes	3,000	Joint guarantee	Both wholly-owned subsidiaries of CARDINAL HEALTH (H.K.) CO. LIMITED (Note 2)
72	Shanghai Pharma Co., Ltd.	SPH Cardinal (Zhejiang) Pharma Co., Ltd (上藥康得樂(浙江)醫藥有限公司)	Yes	5,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma

APPENDIX III PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
73	Shanghai Pharma Co., Ltd.	SPH Cardinal (Hubei) Pharma Co., Ltd (上藥康得樂(湖北)醫藥有限公司)	Yes	10,600	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
	SPH Cardinal (Shanghai) Pharma Co., Ltd (上藥康得樂(上海)醫藥有限公司) (Note 2)		Yes	5,600	Joint guarantee	Both controlled subsidiaries of CARDINAL HEALTH (H.K.) CO. LIMITED (Note 2)
74	Shanghai Pharma Co., Ltd.	SPH Cardinal (Chongqing) Pharma Co., Ltd (上藥康得樂(重慶)醫藥有限公司)	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
	SPH Cardinal (Shanghai) Pharma Co., Ltd (上藥康得樂(上海)醫藥有限公司) (Note 2)		Yes	3,600	Joint guarantee	Both controlled subsidiaries of CARDINAL HEALTH (H.K.) CO. LIMITED (Note 2)
75	Shanghai Pharma Co., Ltd.	SPH Cardinal (Sichuan) Pharma Co., Ltd (上藥康得樂(四川)醫藥有限公司)	Yes	5,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
76	Shanghai Pharma Co., Ltd.	SPH Cardinal Hedan (Shenzhen) Pharma Co., Ltd (上藥康得樂合丹(深圳)醫藥有限公司)	Yes	5,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
77	Shanghai Pharma Co., Ltd.	Cardinal (Tianjin) Pharma Co., Ltd (康得樂(天津)醫藥有限公司)	Yes	5,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
78	Shanghai Pharma Co., Ltd.	Guangzhou Baijixinte Pharmacy Chain Co., Ltd. (廣州百濟新特藥業連鎖有限公司)	Yes	5,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
79	Shanghai Pharma Co., Ltd.	Beijing Baijixinte Pharmacy Co., Ltd. (北京市百濟新特藥房有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
80	Shanghai Pharma Co., Ltd.	Beijing Yongyu Pharmacy Co., Ltd. (北京永裕大藥房有限公司)	Yes	250	Joint guarantee	Provision of guarantee according to percentage of shareholding
81	Shanghai Pharma Co., Ltd.	Shenyang Cardinal Pharmacy Co., Ltd. (瀋陽康得樂大藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
82	Shanghai Pharma Co., Ltd.	Xian Baijixinte Pharmacy Co., Ltd. (西安百濟新特藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
83	Shanghai Pharma Co., Ltd.	Tianjin Cardinal Pharmacy Co., Ltd. (天津康得樂大藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding

APPENDIX III PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2019

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
84	Shanghai Pharma Co., Ltd.	Shanghai Baiwei Pharmacy Co., Ltd. (上海百微藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
85	Shanghai Pharma Co., Ltd.	Shanghai Cardinal Baiwei Pharmacy Co., Ltd. (上海康得樂百微藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
86	Shanghai Pharma Co., Ltd.	Cardinal (Shanghai) Pharmacy Co., Ltd. (康得樂(上海)大藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
87	Shanghai Pharma Co., Ltd.	Hangzhou Baijixinte Pharmacy Co., Ltd. (杭州百濟新特藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
88	Shanghai Pharma Co., Ltd.	Jinan Baiji Pharmacy Co., Ltd. (濟南百濟藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
89	Shanghai Pharma Co., Ltd.	Nanjing Baijixinte Pharmacy Co., Ltd. (南京百濟新特藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
90	Shanghai Pharma Co., Ltd.	Wuxi Yongyu Pharmacy Co., Ltd. (無錫永裕大藥房有限公司)	Yes	20	Joint guarantee	Provision of guarantee according to percentage of shareholding
91	Shanghai Pharma Co., Ltd.	Fuzhou Baiji Pharmacy Co., Ltd. (福州百濟藥業有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
92	Shanghai Pharma Co., Ltd.	Xiamen Cardinal Baiwei Pharmacy Co., Ltd. (廈門市康得樂百微藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
93	Shanghai Pharma Co., Ltd.	Nanning Baijixinte Pharmacy Co., Ltd. (南寧百濟新特藥房有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
94	Shanghai Pharma Co., Ltd.	Chengdu Baijixinte Pharmacy Co., Ltd. (成都百濟新特藥房有限公司)	Yes	50	Joint guarantee	Provision of guarantee according to percentage of shareholding
95	Shanghai Pharma Co., Ltd.	Chengdu Cardinal Pharmacy Co., Ltd. (成都康得樂大藥房有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
96	Shanghai Pharma Co., Ltd.	Chongqing Cardinal Pharmacy Co., Ltd. (重慶康得樂大藥房有限責任公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
97	Shanghai Pharma Co., Ltd.	Kunming Baijixinte Pharmacy Co., Ltd. (昆明百濟新特藥業有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
98	Shanghai Pharma Co., Ltd.	Wuhan Baijixinte Pharmacy Co., Ltd. (武漢百濟新特藥房有限公司)	Yes	100	Joint guarantee	Provision of guarantee according to percentage of shareholding
99	CARDINAL HEALTH (H.K.) CO. LIMITED	SPH Cardinal (Dalian) Pharma Co., Ltd. (上藥康得樂(大連)醫藥有限公司)	Yes	5,600	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
100	Beijing Keyuan Xinhai Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司)	Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	Yes	1,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
101	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Heilongjiang Co., Ltd.	Yes	30,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
102	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Shaanxi Co., Ltd.	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
103	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Dalian Pharmaceutical Company Limited	Yes	2,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
104	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd.	Yes	15,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
105	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical Hebei Co., Ltd.	Yes	10,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
106	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Inner Mongolia Co., Ltd.	Yes	15,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
107	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Medical Device (Beijing) Co., Ltd.	Yes	5,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
108	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Medical Device Jiangsu Co., Ltd.	Yes	5,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
109	Beijing Keyuan Xinhai Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司)	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Yes	110,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
110	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	Yes	20,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
111	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Pharmaceutical Hubei Medical Device Co., Ltd	Yes	20,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
112	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Huanggang Pharmaceutical Company Limited	Yes	4,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
113	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Yichang Pharmaceutical Company Limited	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
114	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Xiangyang Pharmaceutical Company Limited	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
115	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Pharmaceutical (Enshi) Co., Ltd.	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
116	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai (Huangshi) Pharmaceutical Co., Ltd. (上藥科園信海醫藥(黃石)有限公司)	Yes	1,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
117	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai (Jingzhou) Pharmaceutical Co., Ltd. (上藥科園信海醫藥荊州有限公司)	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
118	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Pharmaceutical Shiyuan Co., Ltd.	Yes	4,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
119	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai (Tianmen) Pharmaceutical Co., Ltd. (上藥科園信海醫藥(天門)有限公司)	Yes	1,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
120	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Beifang Commercial Factoring Co., Ltd. (上藥北方商業保理有限公司)	Yes	10,000	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharma
121	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai (Hohhot) Pharmaceutical Co., Ltd. (上藥科園信海呼和浩特醫藥有限公司)	Yes	5,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
122	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical (Hainan) Co., Ltd. (上藥科園信海醫藥海南有限公司)	Yes	5,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders

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NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
123	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai (Tongliao) Pharmaceutical Co., Ltd. (上藥科園信海通遼醫藥有限公司)	Yes	6,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
124	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai SPH HuaYu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Yes	5,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
125	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai Leiyunshang Pharmaceutical Co., Ltd.	Yes	8,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
126	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai SPH Leiyunshang Pharmaceutical Co., Ltd.	Yes	3,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
127	Shanghai SPH HuaYu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	Yes	1,000	Joint guarantee	With counter guarantee and charge on inventory
128	Shanghai SPH HuaYu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai Huaying Pharmaceutical Co., Ltd.	Yes	1,000	Joint guarantee	With counter guarantee and charge on inventory
129	Shanghai SPH HuaYu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai Huapu Herbal Co., Ltd. (上海華浦中藥飲片有限公司)	Yes	1,000	Joint guarantee	With counter guarantee and charge on inventory
130	Shanghai Traditional Chinese Medicine Co., Ltd.	Dujiangyan Shendu Traditional Chinese Medicine Co., Ltd. (都江堰申都中藥有限公司)	Yes	3,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
131	Shanghai Traditional Chinese Medicine Co., Ltd.	SPH (Liaoning) Ginseng Resource Development Co., Ltd. (上藥(遼寧)參業資源開發有限公司)	Yes	2,500	Joint guarantee	With counter guarantee and charge on plants and lands
132	Shanghai Traditional Chinese Medicine Co., Ltd.	Chongqing Huiyuan Pharmacy Co., Ltd. (重慶慧遠藥業有限公司) (Note 3)	Yes	13,500	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
133	Chongqing Huiyuan Pharmacy Co., Ltd. (重慶慧遠藥業有限公司) (Note 3)	Chongqing Tianbao Pharmacy Co., Ltd. (重慶天寶藥業有限公司) (Note 3)	Yes	2,000	Joint guarantee	With counter guarantee and charge on equity interest of other shareholders
134	Vitaco Group Companies	Vitaco Health Limited	Yes	NZ\$4,000	Joint guarantee	Both controlled subsidiaries of Zeus Investment Limited

Note 1: SPH Cardinal (Beijing) Pharma Co., Ltd. is a company newly acquired in 2018. The RMB600 million guarantee provided by it in favor of SPH Cardinal (Shanghai) Pharma Co., Ltd. was provided before the acquisition and has not been fulfilled completely.

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Note 2: SPH Cardinal (Shanghai) Pharma Co., Ltd. is a company newly acquired in 2018. The RMB30 million guarantee provided by it in favor of SPH Cardinal (Beijing) Pharma Co., Ltd., RMB36 million guarantee provided by it in favor of SPH Cardinal (Chongqing) Pharma Co., Ltd. and RMB56 million guarantee provided by it in favor of SPH Cardinal (Hubei) Pharma Co., Ltd. came into force before the acquisition and are still valid.

Note 3: Shanghai Traditional Chinese Medicine Co., Ltd. acquired 75.76% stake of Chongqing Huiyuan Pharmacy Co., Ltd. in January 2019, and gained control over its subsidiary Chongqing Tianbao Pharmacy Co., Ltd. Therefore, Chongqing Huiyuan Pharmacy Co., Ltd. and Chongqing Tianbao Pharmacy Co., Ltd. are now controlled subsidiaries of Shanghai Pharmaceuticals.

In respect of the above (I), (II), the external guarantee provided by Shanghai Pharmaceuticals and its controlled subsidiaries amounted to RMB17,212.2996 million (including RMB10,566.33 million, US\$888 million, NZ\$120 million, based on the average price as published by the PBOC on 31 December 2018) in 2019. Guarantees between members in the consolidated statements of the Company amounted to RMB17,192.2996 million, accounting for 99.9% of the total guarantees. Total guarantees provided by the controlled subsidiaries of the Company to companies out of the consolidated statements (including associates, etc.) amounted to RMB20 million, accounting for 0.1% of the total guarantees.

(III) THE GUARANTEE TO BE PROVIDED BY SHANGHAI PHARMACEUTICALS HEADQUARTER AND ITS CONTROLLED SUBSIDIARIES TO EXPECTED NEW MEMBERS ADDED TO CONSOLIDATED STATEMENTS IN 2019 AMOUNTED TO RMB3,000 MILLION.

In view of new projects and mergers and acquisitions to be possibly proceeded by Shanghai Pharmaceuticals and its controlled subsidiaries in 2019 and with reference to the business volume to be possibly generated, Shanghai Pharmaceuticals and its controlled subsidiaries shall provide those newly-founded and acquired business in 2019 with planned guarantees up to RMB3,000 million, so as to ensure business development.

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(IV) THE GUARANTEES PROVIDED BY THE SHANGHAI PHARMACEUTICALS HEADQUARTER AND ITS CONTROLLED SUBSIDIARIES TO THE NEW GUARANTEE FINANCING BUSINESS PLAN OF THE INTERNATIONAL BUSINESS EXPANSION WHOLLY-OWNED SUBSIDIARIES IN 2019 AMOUNTED TO RMB10 BILLION. DURING THE YEAR, BASED ON THE ACTUAL DEMAND OF INTERNATIONAL BUSINESS EXPANSION, THE COMPANY CAN ESTABLISH NEW WHOLLY-OWNED SUBSIDIARIES TO PROVIDE GUARANTEES, OR USE THE GUARANTEE PLAN AMOUNT BETWEEN NEW WHOLLY-OWNED SUBSIDIARIES AND THE FOLLOWING WHOLLY-OWNED SUBSIDIARIES UNDER THE PREMISE OF NOT EXCEEDING THE TOTAL AMOUNT. THE SPECIFIC DETAILS ARE:

Unit: RMB0'000

NO.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope of consolidated statements of the Company	Planned amount of guarantee	Guaranteed method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
1	Shanghai Pharmaceuticals Holding Co., Ltd.	SIC Medical Science and Technology (Group) Limited	Yes	100,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
2	Shanghai Pharmaceuticals Holding Co., Ltd.	SHANGHAI PHARMACEUTICALS (HK) INVESTMENT LIMITED	Yes	600,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
3	Shanghai Pharmaceuticals Holding Co., Ltd.	SPH BIOTHERAPEUTICS (HK) LTD	Yes	100,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
4	Shanghai Pharmaceuticals Holding Co., Ltd.	SHANGHAI PHARMACEUTICAL (USA) INC.	Yes	200,000	Joint guarantee	Provision of guarantee according to percentage of shareholding

(V) THE GUARANTEE TO BE PROVIDED BY SHANGHAI PHARMACEUTICAL HEADQUARTER AND ITS CONTROLLED SUBSIDIARIES TO EXPECTED BILL POOL IN 2019 AMOUNTED TO RMB1,000 MILLION.

Given that Shanghai Pharmaceutical headquarter and its controlled subsidiaries are expected to start group bill pool operation in 2019, Shanghai Pharmaceutical headquarter and its controlled subsidiaries proposed to provide no more than RMB1,000 million guarantees for the group bill pool operation in 2019. The quota shall be shared between Shanghai Pharmaceutical headquarter and its controlled subsidiaries.

The guaranteed contents of the aforementioned guarantee proposals in respect of the above (I), (II), (III), (IV) and (V) include comprehensive credit facilities, loans, guarantee letters, acceptance bills and trading facilities, payables, with guarantee period subject to financing needs of the guaranteed parties and the guarantee contracts to be executed.

II. BRIEF DESCRIPTION OF GUARANTEED PARTIES

The guarantees proposal has involved 142 entities as guaranteed parties in total specifically, including 1 associate and the rest being entities included in the consolidated statements.

III. THE ACCUMULATED AMOUNT OF EXTERNAL GUARANTEES AND THE AMOUNT OF OVERDUE GUARANTEES

As of the disclosure date of the announcement of the Board of the Company of 29 March 2019, the total amount of the external guarantees provided by the Company and its subsidiaries is RMB32,651.212 million, representing 83.69% of the Company's audited net assets attributed to the shareholders of the listed companies as at 31 December 2018, the total amount of guarantee to the subsidiaries provided by the Company is RMB7,978.154 million, representing 20.45% of the Company's audited net assets attributed to the shareholders of the listed companies as at 31 December 2018.

As of the disclosure date of the announcement of the Board of the Company of 29 March 2019, the actual balance of the external guarantees provided by the Company and its subsidiaries is RMB9,581.5151 million, representing 24.56% of the Company's audited net assets attributed to the shareholders of the listed companies as at 31 December 2018.

As of the disclosure date of the announcement of the Board of the Company of 29 March 2019, the Company and its controlled subsidiaries have no overdue guarantee matter.

The above resolutions will be presented to the shareholders' general meeting and will be valid from the date of the approval at the Annual General Meeting up to the date of the next annual general meeting.

Meanwhile, in order to facilitate operation, it is proposed that the shareholders' general meeting authorize the management of the Company, to implement, in line with the rules of guarantee management system of the Company, the specific guarantee proposals within the aforementioned guarantee amount.

SUMMARY OF THE 2019 SHARE OPTION SCHEME

The following summarises all principal terms of the Share Option Scheme.

1. PROPOSED ADOPTION OF THE SHARE OPTION SCHEME

1.1 Purpose of the Share Option Scheme

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions on the Directors, senior management, mid-level management and key employees in technique and business of the Company, fully encourage their initiative and creativity, effectively align their interests with the Company's long term development, prevent the loss of talents, and achieve sustainable development of the Company, Shanghai Pharmaceuticals formulated the Share Option Scheme in accordance with the relevant laws, regulations and regulatory documents, and the Articles of Associations.

1.2 Basis for Determining the Participants and the Scope of the Participants

(1) *Legal Basis for Determining the Participants*

Participants are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, Regulating Notice and other relevant laws, regulations and regulatory documents, as well as provisions of the Articles of Association with reference to the actual situations of the Company.

(2) *Position Basis for Determining the Participants*

In principle, the Participants include the Directors, senior management, mid-level management and key employees in technique and business of the Company. The Participants do not include independent non-executive Directors, Supervisors, external Directors who are not from the controlling companies, and any substantial Shareholders or actual controller individually or jointly holding more than 5% of the Shares of the Company and their respective spouse, parents and children. All Participants are employed by the Company or its holding subsidiaries and branches, and have entered into labour contracts with and received remuneration from the Company or its holding subsidiaries.

The Participants of the reserved grant will be determined within 12 months after the Scheme is reviewed and approved by the Shareholders at the AGM all at once. Upon the proposal by the Board and after the independent non-executive Directors and the board of Supervisors provide clear opinions and the legal advisors provide professional opinions and legal opinions, the Company shall disclose relevant information of the current Participants on the designated website in a timely and accurately manner. If the Participants are not determined for more than 12 months, the reserved interests will lapse.

(3) *Assessment Basis for Determining the Participants*

In respect of the assessment matters for the Scheme, the Board has formulated the Assessment Measures as the assessment basis. According to the Assessment Measures, Participants will be assessed in accordance with the Assessment Measures and will be eligible to be granted the Share Option under the Scheme only if their assessment results are competent or above.

(4) *Scope of Participants*

The Participants of the initial grant under the Scheme are Directors, senior management, mid-level management and key employees in technique and business of the Company, totaling 215 individuals and accounting for 0.45% of the 47,580 registered employees of the Company as of 31 December 2018.

The criteria for determining the Participants of the reserved grant refers to the criteria for the initial grant. Those who have been granted under initial grant and promoted subsequently shall not be allowed to use the reserved Shares to make up the shortfall in number of Shares granted.

In addition, persons who are under the following circumstances may not be Participants under the Scheme, if he or she:

- (i) is an independent non-executive Directors, Supervisors, and external Directors who are not from the controlling companies;
- (ii) is the Shareholder or actual controller individually or jointly holding more than 5% of the Shares and their respective spouse, parents and children;
- (iii) has been determined by Shanghai Stock Exchange as an ineligible person in the last 12 months;
- (iv) has been determined by CSRC and its delegated agencies as an ineligible person in the last 12 months;
- (v) has been imposed by the CSRC or its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months due to material non-compliance of laws or regulations;
- (vi) is prohibited from acting as a director or a member of the senior management as required by the Company Law;
- (vii) fails to achieve competent or above in respect of the performance assessment results according to the Company's corresponding performance assessment measures;

- (viii) trade the Shares with aware of insider information, except where the laws, administrative regulations and relevant judicial interpretations stipulate that it is not insider dealing;
- (ix) leaks insider information that leads to insider trading;
- (x) is prohibited from participating in incentive schemes as required by laws and regulations; or
- (xi) has commitment other circumstances determined by the CSRC.

Should any of the above circumstances occurs to a Participant during the implementation of the Scheme, the Company shall terminate his/her rights to participate in the Scheme in advance.

1.3 Source of Shares and Number of Share Options

(1) Source of Shares

The source of the underlying Shares of the Scheme shall be ordinary A Shares to be directly issued to the Participants.

(2) Number of the Share Options

The number of A Share Options to be granted under the Scheme is 28,420,900 Shares, representing approximately 1.00% of the total issued Shares of the Company as at the date of the Announcement in relation to the Share Option Scheme, i.e. 2,842,089,322 shares. Among them, 25,960,000 Shares shall be granted initially, representing approximately 0.913% of the total issued Shares of the Company as at the date of Announcement in relation to the Share Option Scheme and approximately 91.34% of the total Share Options to be granted under the Scheme; the number reserved is 2,460,900 shares, representing approximately 0.087% of the total issued shares of the Company as at the date of Announcement in relation to the Share Option Scheme and representing approximately 8.66% of the total Share Options granted under the Scheme. Subject to the fulfilment of the Exercise Conditions, each Share Option entitles the Participants to acquire one A Share, which shall enjoy all rights and fulfil all obligations as ordinary Shareholders of the Company at the Exercise Price during the Exercise Period. The total number of Shares to be granted to any Participant under the Scheme which are still in the Validity Period of the Scheme shall not exceed 1% of the Company's total share capital at the time of the approval by the AGM on a cumulative basis.

1.4 Validity Period, Validity Period of the Share Options, Grant Date, Vesting Period, Exercise Date and the Lock-up Requirements of the Scheme**(1) *Validity Period of the Scheme***

The Scheme will take effect after it has been considered and approved by the AGM, and will expire on the date on which the Share Options granted under the Scheme have been exercised or cancelled.

(2) *Validity Period of the Share Options*

The Validity Period of the Share Options granted under the Scheme commences from the registration date of the grant, which shall not exceed 60 months.

(3) *Grant Date*

The Grant Date shall be determined by the Board upon the consideration and approval of the Scheme by the Shanghai SASAC and the AGM. The Company shall grant the Share Options, publish announcements and complete registration within 60 days after the consideration and approval of the Scheme by the AGM. Should the Company fails to complete the above-mentioned matters within 60 days, the Scheme shall be terminated and the Share Options not granted will lapse.

The Grant Date of reserved Share Options shall be determined separately by the Board, and the announcement and registration procedures for the grant shall be completed within 12 months from the date of consideration and approval of the Scheme by the AGM.

The Grant Date must be a trading day.

(4) *Vesting Period*

The Vesting Period shall be the period commencing from the registration date of the grant of Share Options to the first Exercise Date. The Vesting Period for the Scheme shall be 24 months.

(5) *Exercise Period and Exercise Date*

The Share Options granted to the Participants can be Exercised after the Vesting Period. The Exercise Date must be a trading day and shall not fall into the following periods:

- (i) the period commencing on 30 days prior to the announcements of periodic reports of the Company, or in the event of postponement in publishing the periodic reports for special reasons, 30 days prior to the original announcement date and end on one day prior to the actual announcement date;

- (ii) the period commencing on 10 days prior to the announcements of results forecast and preliminary results of the Company;
- (iii) the period commencing on the date of the occurrence of material events that may have significant impacts on price of Shares and derivatives of the Company, or the date of entering into the decision-making process, and end on two business days after such events have been lawful disclosed; and
- (iv) other periods prescribed by the CSRC and Shanghai Stock Exchange.

During the Exercise Period, the Participants are able to Exercise according to the following exercising arrangement upon the fulfillment of the Exercise Conditions under the Scheme. The Exercise Period of the Share Options and timetable for each Exercise are set out below:

Exercise Period	Time Arrangement	Proportion of Exercisable Share
First Exercise Period	Commencing from the first trading day upon the expiry of 24 months from the Grant Date to the last trading day upon the expiry of 36 months from the Grant Date	33%
Second Exercise Period	Commencing from the first trading day upon the expiry of the 36 months from the Grant Date to the last trading day upon the expiry of 48 months from the Grant Date	33%
Third Exercise Period	Commencing from the first trading day upon the expiry of the 48 months from the Grant Date to the last trading day upon the expiry of 60 months from the Grant Date	34%

The Participants shall Exercise the Share Options during the Exercise Period. If the Exercise Conditions are not fulfilled, such Share Options shall not be Exercised. If the Exercise Conditions are fulfilled nevertheless not all of the relevant Share Options have been Exercised during the above period, such Share Options shall be cancelled by the Company.

(6) Relevant Lock-up Provisions

The lock-up period refers to the period during which there is sale restriction on Shares obtained by the Participants upon the Exercise, while the Options granted to the Participants shall not be transferred, be used for guarantee or debt repayment. Lock-up provisions of the Scheme shall be implemented in accordance with the relevant laws, regulations and regulatory documents such as the Company Law and the Securities Law, as well as the Articles of Association, of which details are set out below:

- (i) where a Participant is a Director or a member of the senior management of the Company, the number of Shares that may be transferred each year during his or her terms of office shall not exceed 25% of the total number of Shares held by him or her in the Company. No Shares held may be transferred within half a year upon his or her termination of office;

- (ii) Share Options of not less than 20% of the total Share Options granted to a Director or senior management can only be Exercised after such Participant has passed his or her performance assessment at the end of terms of office.;
- (iii) where a Participant is a Director or a member of the senior management of the Company and he or she disposes of any Shares within six months after any purchase of Shares from the Company, or if he or she purchases Shares within six months after disposal thereof, all gains deriving therefrom should be vested with the Company and the Board will forfeit all such gains;
- (iv) where, during the Validity Period of the Scheme, there is any change to the requirements regarding the transfer of shares by Directors and senior management under applicable laws, regulations and regulatory documents such as the Company Law and the Securities Law, and under the Articles of Association, the transfer by such Participants shall comply with the amended Company Law, Securities Law and other relevant laws, regulations and regulatory documents and requirements under the Articles of Association.

1.5 Exercise Price and Basis of Determination

The Exercise Price of the Share Options under the Scheme is RMB21.54 per A Share for the initial grant, i.e. upon the fulfillment of the Exercise Conditions, the Participants are able to purchase the Shares issued by the Company to the Participants at the price of RMB21.54 per A Share. In cases of capitalisation issue, bonus issue and shares subdivision, share consolidation and rights issue, Exercise Price shall be adjusted accordingly.

The Exercise Price of the Share Options for the initial grant under the Scheme shall not be less than the nominal value of the A Shares and shall not be lower than the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the announcement in relation to the Share Option Scheme, being RMB21.54 per A Share;
- (ii) the average trading price of the A Shares for 20, 60 or 120 trading days immediately preceding the date of the announcement in relation to the Share Option Scheme, being RMB19.48 per A Share.

The Share Options for the reserved grant shall be approved by the meetings of the Board before each grant, of which the Exercise price shall be not be less than the nominal value of the Shares and determined with reference to the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the announcement of the Board's resolution of granting the reserved Share Options;

- (ii) the average trading price of the A Shares for 20, 60 or 120 trading days immediately preceding the date of the announcement of the Board's resolution of granting the reserved Share Options.

1.6 Grant Conditions of the Grant and Exercise of the Share Options

(1) *Conditions of the Grant*

The following conditions must be simultaneously fulfilled before the Share Options granted to the Participants.

- a. There is no occurrence of any of the following in respect of the Company:
 - (i) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the financial report of the Company for its most recent accounting year;
 - (ii) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public account with respect to the internal control of the Company in its financial report for the most recent accounting year;
 - (iii) violation of laws and regulations, the Articles of Association or any public undertaking in respect of distribution of profits within 36 months;
 - (iv) under applicable laws and regulations, no equity incentive is allowed; and
 - (v) such other circumstances as determined by the CSRC.
- b. There is no occurrence of any of the following in respect of a Participant:
 - (i) he or she has been held by the Shanghai Stock Exchange to be an ineligible person in the last 12 months;
 - (ii) he or she has been held by the CSRC or its delegated agencies as an ineligible person for the last 12 months;
 - (iii) he or she has been imposed by the CSRC or its delegated agencies with administrative penalties or measures prohibiting access into the market for the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is prohibited from acting as a Director or a member of the senior management of a company as required by Company Law;
 - (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations; or

- (vi) such other circumstance as determined by the CSRC.
- c. Performance assessment of the grant

Performance conditions at the Company level

- (i) The operating revenue growth rate of the Company for the last financial year prior to the announcement in relation to the Share Option Scheme shall not be lower than 10.0%;
- (ii) The average weighted rate of return on common Shareholder's equity for the last financial year prior to the announcement in relation to the Share Option Scheme shall not be lower than 12.0% and no less than 50 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year;
- (iii) Research and development expenses for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be lower than RMB850 million; and
- (iv) Performance composite index of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be less than 50 percentile of benchmark enterprises.

Performance targets at the Participants Level

The assessment result of the Participants shall achieve competent or above according to the assessment results of the performance assessment of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme.

The assessment year and performance conditions for grant for the reserved Share Options shall be the same as those for the initial grant.

(2) *Exercise Conditions of the Share Options*

Share Options granted to the Participants are able to be Exercised upon the fulfilment of the following conditions during the Exercise Period:

- a. There is no occurrence of any of the following circumstance in respect of the Company;
 - (i) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public account with respect to the financial report of the Company for its most recent accounting year;

- (ii) issue of the auditors' report with qualified opinion or which indicates an inability to give opinion by a certified public account with respect to the internal control of the Company in its financial report for the most recent accounting year;
- (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months;
- (iv) under applicable laws and regulations, no equity incentive is allowed; or
- (v) such other circumstances as determined by the CSRC.

In the event any of the circumstances specified above occurs, the Share Options granted to all Participants under the Scheme but not Exercised shall be cancelled by the Company.

- b. There is no occurrence of any of the following circumstance in respect of the Participants:
 - (i) he or she has been held by the Shanghai Stock Exchange to be an ineligible person in the last 12 months;
 - (ii) he or she has been determined by the CSRC or its delegated agencies as an ineligible person for the last 12 months;
 - (iii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market in the last 12 months by reason of material violation of laws and regulations;
 - (iv) he or she is prohibited from acting as a Director or a member of the senior management of a company as required by Company Law;
 - (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations; or
 - (vi) such other circumstance as determined by the CSRC.

In the event any of the circumstances specified above occurs, the Share Options granted to all Participants under the Scheme but not Exercised shall be cancelled by the Company.

c. Performance assessment for the Company

The performance conditions for the Exercise of the Share Options are set out below:

Exercise Period	Targets of performance assessment
First Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2020 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating revenue of the Company shall not be less than the RMB175 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2020 shall not be lower than 12.0% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2020 shall not be lower than RMB900 million; and 4) Performance composite index of the Company for the year of 2020 shall not be lower than 75 percentile of benchmark enterprises.
Second Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2021 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating income of the Company shall not be lower than the RMB185 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2021 shall not be lower than 12.2% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2021 shall not be lower than RMB950 million; and 4) Performance composite index of the Company for the year of 2021 shall not be lower than 75 percentile of benchmark enterprises.
Third Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2022 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB200 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2022 shall not be lower than 12.4% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2022 shall not be lower than RMB1 billion; and 4) Performance composite index of the Company for the year of 2022 shall not be lower than 75 percentile of benchmark enterprises.

Note 1: If the growth rate of Chinese medicine terminal consumption is lower than 5% in the assessment year, and the scale of the Company's operating revenue reaches the 90 percentile of benchmark enterprises; the operating revenue and its growth rate shall be deemed to reach the standard. The growth rate of Chinese medicine terminal consumption is the growth rate of China's drug terminal consumption in the assessment years of each exercise conditions according to the official statistics of the Southern Institute of Pharmaceutical Economics of the State Drug Administration.

Note 2: During the Validity Period of the Scheme, if the Company conducts public or private offerings that affect net assets, the newly added net assets and corresponding net profits will not be included in the calculation of increase of net assets and net profits increase during the Validity Period of the Scheme. The average weighted rate of return on common Shareholder's equity thereof is calculated based on the statistical caliber that research and development expenses are regarded as profits. The average weighted rate of return on common Shareholder's equity = (the net profit attributable to Shareholders + research and development expenses)/the average equity attributable to Shareholders.

Note 3: During the Validity Period of the Scheme, in the event that potential future actions may affect the performance of the Company (such as changes in national accounting policies, fulfillment of important social responsibilities and matters that can be adjusted appropriately in accordance with relevant government regulations, etc.), the Board is authorized to recover the original performance indicators when the relevant performance indicators are incomparable, which shall come into effective upon approval at the general meetings of the Company.

Note 4: The Performance composite index assesses the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, commercial sales revenue and research and development expenses comprehensively. The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 5: The Exercise Conditions shall not be fulfilled unless all the other annual targets set by the Board has been satisfied at the same time.

In terms of the performance assessment, a system of the performance composite assessment comprising the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, commercial sales revenue and research and development expenses are built up to assess the comprehensive strength of ability of Shanghai Pharmaceutical, in accordance with the comprehensive businesses composition and strategic requirements of Shanghai Pharmaceutical's various segments such as research and development, manufacturing, segmenting distribution and retail. The Specific assessment rules is as following:

Strategic orientation	Quality	Scale		Innovation
Segmented indexes	Rate of return on common stockholder's equity	Industrial sales revenue growth rate	Sales revenue of distribution	Research and development expense
Strategic importance weigh	40	30	10	20

The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index in benchmark enterprises.

Note 1: Industrial sales revenue, commercial sales income, and research and development expenses are all from annual report disclosures; the average weighted return rate of return on common stockholder's equity = (net profits attributable to stockholders of the Company + research and development expense)/average equity attributable to Shareholders.

Note 2: In terms of the granting assessment, the industrial sales revenue growth rate equals to the year-on-year growth rate of the financial year preceding the announcement in relation to the Share Option Scheme; in terms of the exercise conditions, the industrial sales revenue growth rate equals to the compound sales revenue growth rate on the basis of average industrial sales revenue for the year 2016 to 2018.

Note 3: In terms of the benchmark enterprises, the scale weight for pure industrial enterprise is calculated by using 40 as the industrial sales revenue competitive index; and the scale weight for pure commercial enterprise is calculated by using 60 as the business sales revenue competitiveness index, excluding the innovation weight.

30 top-ranking A share listed or H share listed companies in respect of comprehensive strength, scale, profitability in pharmaceutical industry and commercial fields have been selected as the benchmark enterprises. During the annual assessment, if there is any material change in the principal business of the benchmark enterprises, the Board are authorized to delete or change the sampling according to actual situation.

Participants may Exercise the Share Options proportionately under the Scheme upon fulfillment of the Exercise Conditions of the Share Options.

d. Participants' performance assessment requirements

The Company shall assess the individual performance of the Participants based on the Assessment Measures approved by the Board. The assessment results of the Participants' performance for previous year is the prerequisite for the exercisable part of the Share Options, and in general, the performance assessment results can be divided into three levels: competent or above, to be improved and fail.

Assessment Result	Competent or above	To be improved	Fail
Exercise quota	1.0	0.8	0

The actual Exercise quota of the individual in the current year = the individual's planned Exercise quota for the year × the employee's Exercisable coefficient for the year.

Meanwhile, to put emphasis on the significance of the drug safety, as for the Participant who is directly responsible for major quality and safety accidents, the assessment of exercise conditions of him or her for the period, as determined by the Board, may be "one-vote veto".

To better achieve the dual purposes of incentives and constraints, the Company will further enhance the supporting management system for individual performance assessment. Based on the position setting, the investment effectiveness, achievements of research milestones and the numbers of patent applications are key indicators for assessing research and development key staffs; and the sales revenue growth rate and key products market shares are indicators for assessing the marketing key staffs.

The assessment year and performance conditions for reserved Share Options are the same as those for the initial granting of Share Options under the Scheme.

If the Company performance assessment or the individual performance assessment fail in reaching the standard, resulting in the failure of the fulfillment of the Exercise Conditions of the Share Options, the corresponding Share Options shall not be Exercised or postponed to the next period, and shall be cancelled by the Company.

1.7 Methods of and Procedures for Adjustment

(1) Adjustment to the number of the Share Options

In the event of capitalisation issue, bonus issue, share subdivision, rights issue or share consolidation of the Company after the Announcement in relation to the Share Option Scheme and prior to any Exercise by the Participants, the number of the Share Options shall be adjusted accordingly. The adjustment methods are as follows:

a. *Capitalisation issue, bonus issue, share subdivision*

$$Q = Q_0 \times (1 + n)$$

Where: Q_0 represents the number of the Share Options prior to the adjustment; n represents the ratio of increase per Share resulting from capitalisation issue, bonus issue or share subdivision (i.e. the number of increased share(s) per share upon capitalisation issue, bonus issue or share subdivision); and Q represents the number of the Share Options after adjustment.

b. *Rights issue*

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

Where: Q_0 represents the number of the Share Options prior to adjustment; P_1 represents the closing price of the Share Options on the registration date; P_2 represents the subscription price in respect of the rights issue; n represents the basis of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and Q represents the number of Share Options after adjustment.

c. *Share consolidation*

$$Q = Q_0 \times n$$

Where: Q_0 represents the number of the Share Options prior to the adjustment; n represents the ratio of consolidation of Shares (i.e. one Share of the Company be consolidated into n shares); and Q represents the number of the Share Options after the adjustment.

d. *Dividend distribution and new shares issuance*

In the case of dividend distribution or new Shares issuance by the Company, number of the Share Options shall not be adjusted.

(2) *Adjustment methods of the Exercise Price*

In the event of capitalisation issue, bonus issue, share subdivision, rights issue or share consolidation of the Company after the Announcement in relation to the Share Option Scheme and prior to any Exercise by the Participants, the Exercise Price should be adjusted accordingly. The adjustment methods are as follows:

a. *capitalisation issue, bonus issue, share subdivision*

$$P = P_0 \div (1 + n)$$

Where: P_0 represents the Exercise Price of the Share Options prior to the adjustment; n represents the ratio of increase per share resulting from the capitalisation issue, bonus issue or Share Option subdivision; and P represents the Exercise Price after the adjustment.

b. Rights issue

$$P = P_0 \times (P_1 + P_2 \times n) \div [P_0 \times (1 + n)]$$

Where: P_0 represents the Exercise Price prior to the adjustment; P_1 represents the closing price of the Share Options as at the registration date; P_2 represents the subscription price in respect of the rights issue; n represents the ratio of the rights issue (i.e. the number of Shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); and P represents the Exercise Price after the adjustment.

c. Share consolidation

$$P = P_0 \div n$$

Where: P_0 represents the Exercise Price prior to the adjustment; n represents the ratio of share consolidation; and P represents the Exercise Price after the adjustment.

d. New shares issuance

In the event of issue of new Shares by the Company, the Exercise price shall not be adjusted.

(3) Procedures for adjustment

The general meeting of the Company authorizes the Board to make adjustments to the Exercise Price and number of the Share Options upon occurrence of any of the aforementioned circumstances. The Board shall publish announcements timely upon they made adjustments to the numbers of the Share Options and the Exercise Price under abovementioned regulations. The legal advisers shall give professional advice to the Board regarding whether such adjustments are in compliance with the Management Method, the Articles of Association and the requirements under the Scheme.

Any other adjustments to the number of Share Options, Exercise Price or other conditions for other reasons shall be proposed by the Board, considered and approved by the General Meeting and approved by Shanghai SASAC.

1.8 Accounting Treatment of the Share Options under the Scheme

(1) *Accounting Treatment*

According to the requirements of the *Accounting Standards for Business Enterprises No. 11 – Share-based Payments*, the Company will measure and audit the expense of the Scheme in accordance with the following accounting method:

(i) *Grant Date*

Since the Share Options shall not be Exercised on the Grant Date, no relevant accounting treatment is required. The Company shall determine the fair value of the Share Options on the Grant Date.

(ii) *Vesting Period*

On each balance sheet date during the Vesting Period, the services obtained in the current period shall, based on the best estimate of the number of the Share Options, be included in cost of the relevant assets or expenses and the other capital reserves in capital reserves at the fair value of the Share Options on the Grant Date.

(iii) *Exercise Period*

No adjustment shall be made to the relevant costs or expense, and the total amount of the owner's equities, which have been recognized.

(iv) *Exercise Date*

Share capital and share premium shall be recognized with reference to the actual exercise of the Share Options, and upon which, the amount recognized as "Capital Reserves – Other capital reserves" during the Vesting Period shall be transferred to "Capital Reserves – Capital premium".

(2) *Calculation of the Fair Value of the Share Options*

According to the relevant requirements on determination of fair value in the *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the Company is required to select an appropriate pricing model to calculate the fair value of the Share Options. The Company has selected the Black-Scholes model ("**BS Model**") to calculate the fair value of the Share Options, and predict the fair value of the Share

Options granted under the Initial Grant on 10 April 2019 as RMB4.64 per A share using this model (the fair value will be measured on the Grant Date) and arrived. Relevant parameters are set out below:

- (i) Price of the Underlying Shares: RMB21.60 per share (assuming the Grant Date is 10 April 2019, on which the closing price of the Company was RMB21.60 per share);
 - (ii) Exercise Price: RMB21.54 per A share
 - (iii) Validity Period: 3.5 years (determined based on the weighted average Validity Period of Exercise)
 - (iv) Volatility rate: 29.25% (using the volatility rate of the Company for the last 3.5 years)
 - (v) Risk-free interest rate: 3.00% (using the 3.5-year deposit benchmark interest rate of financial institutions formulated by the People's Bank of China)
 - (vi) Dividend rate: 1.93% (using the dividend rate of the company for 2017)
- (3) *Estimated Impacts on the Operating Performance of Each of the Period due to Implementation of the Share Options*

The fair value of the Share Options on the Grant Date which is determined in accordance with the relevant valuation method, and the costs of payment of Shares under the Scheme which is determined finally, will be amortized in accordance with the percentage of Share Options exercised during the implementation of the Scheme. The incentive costs incurred from the Scheme will be charged to the recurring profit and loss.

According to the accounting standards of the PRC, the effects of the costs of Share Options under the initial Grant of the Scheme on each accounting period are as follows:

Year	2019	2020	2021	2022	2023	Total
Costs to be amortized (RMB 0'000)	2,174.87	4,349.74	3,345.96	1,672.98	501.89	12,045.44

According to the preliminary evaluation by the Company based on the information available, without taking into account the stimulus effects of the Scheme on the results of the Company, the amortization of the costs of Share Options shall affect the net profit of each year during the Validity Period, although the extent of such impact would not be substantial. Taking into consideration the positive impact of the Scheme on the development of the Company, such as motivating the management team, increasing the operational efficiency, and reducing agent costs, the benefits generated from the improvement in the Company's results due to the Scheme shall far exceed the increase in expenses.

The accounting treatment of the reserved Share Options are the same as the accounting treatment of the Share Options under the initial Grant of the Scheme.

Note: This incentive cost is calculated based on the price determined with the date of the Announcement in relation to the Share Option Scheme, i.e. 10 April 2019. The actual share and cost will be adjusted according to the relevant rules based on the Announcement in relation to the Share Option Scheme. Shareholders shall be aware that any calculation of the value of the Share Options as at the Latest Practicable Date is subjective and uncertain, subject to a number of assumptions and determination of the pricing model and the Grant Date.

1.9 Procedures of amendments and termination

(1) Procedures of amendments

If the Company proposes to amend the Scheme prior to the consideration of the Scheme at the AGM, such amendments shall be considered and approved by the Board.

If the Company proposes to amend the Scheme after the consideration and approval of the Scheme at the AGM, such amendments shall be considered and decided at the general meeting of the Company, and the circumstances set out below shall not be included:

- (i) that will result in accelerating the Exercise; and
- (ii) that will lower the Exercise Price

(2) Procedures of termination

- (i) If the Company proposes to terminate the Scheme prior to the consideration of the Scheme at the AGM, such termination shall be considered and approved by the Board.
- (ii) If the Company proposes to terminate the Scheme after the consideration and approval of the Scheme at the AGM, such termination shall be considered and approved by the general meetings of the Company.

2. PROPOSED GRANT

Key terms of the proposed grant are set out in details in this section. The proposed grant set out herein complies with the terms and provisions of the Scheme.

(1) Distribution details of the proposed grant

The distribution details of the Share Options of each Participant are set out as follows:

Name	Position(s)	Number of the Share Options proposed to be granted (in 10,000 A Shares)	Percentage to total number of the Share Options proposed to be granted (%)	Percentage to total issued share capital of the Company as of the date of the announcement in relation to the Share Option Scheme (%)
Cho Man	Executive director, president	48.00	1.69%	0.017%
Li Yongzhong	Executive director, vice president	39.00	1.37%	0.014%
Shen Bo	Executive director, vice president, chief financial officer	39.00	1.37%	0.014%
Liu Yanjun	Vice president	33.00	1.16%	0.012%
Mao Jianyi	Vice president	33.00	1.16%	0.012%
Gu Haoliang	Vice president	33.00	1.16%	0.012%
Liu Dawei	Vice president, secretary of the board of director, joint company secretary	33.00	1.16%	0.012%
Zhang Yaohua	Vice president	33.00	1.16%	0.012%
Middle level management and key employees of the Company (207 persons in total)		2,305.00	81.10%	0.811%
Reserved Shares		246.09	8.66%	0.087%
Total		2,842.09	100.00%	1.000%

Note 1: None of the Participants have attended two or more than two equity incentive schemes of listed companies; none of them is a substantial shareholder or an actual controller of the Company who owns or controls more than 5% Shares, or the parents, spouse, son or daughter of such substantial shareholder or actual controller.

Note 2: None of the abovementioned Participant will be granted Shares with more than 1% of the Company's total Share capital at the time of the approval by the AGM on a cumulative basis through the Scheme.

Note 3: The Participants of the reserved Shares will be determined within 12 months all at once after the Scheme is reviewed and approved by the Shareholders at the AGM. If the Participants are not determined after 12 months, the reserved interests will expire. The criteria for determining the Participants of the reserved grant is made with reference to the criteria for the initial grant. Those who have been granted at the time of the initial grant and who have been promoted subsequently shall not be allowed to use the reserved grant Shares to make up the shortfall in number of Shares granted.

3. MECHANISM FOR SPECIFIC OCCURRENCES TO THE COMPANY OR THE PARTICIPANTS**3.1 Occurrences in respect of the Company**

On occurrence of any of the following circumstances in respect of the Company, the Scheme shall be terminated and the outstanding Share Options granted and not Exercised by the Participants shall be cancelled by the Company:

- (i) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
- (ii) issue of the auditors' report with an adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the Company in its financial report for the most recent accounting year;
- (iii) violation of laws and regulations, the Articles of Association or any undertaking publicly made in respect of distribution of profits within 36 months;
- (iv) under applicable laws and regulations, no equity incentive is allowed; and
- (v) such other circumstances as determined by the CSRC.

On occurrence of any of the following circumstances in respect of the Company, the Scheme shall proceed as usual:

- (i) change of control of the Company; and
- (ii) merger and spin-off of the Company.

Where false statements, misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with grant conditions or Exercise arrangements of the Share Options, all outstanding Share Options shall be cancelled by the Company. In respect of the Share Options already Exercised by relevant Participants, all Participants concerned shall return to the Company all interests gained. The Participants who bear no responsibility for the aforementioned matters and incur losses as a result of the return of the interests may seek compensation from the Company or responsible parties in accordance with relevant arrangements under the Scheme.

3.2 Occurrences in respect of the Participants

During the Validity Period of the Scheme, on occurrence of any of the following circumstances in respect of the Participants, the outstanding Share Options granted and not Exercised by the relevant Participants shall be cancelled by the Company:

- (i) termination of engagement due to lay-off by the Company;
- (ii) termination of the labor contract or engagement letter with the Company due to expiration; and
- (iii) termination or discharge of the labor contract or engagement letter upon mutual agreement with the Company.

During the Validity Period of the Scheme, on occurrence of any of the following circumstances in respect of the Participants, the outstanding Share Options granted and not Exercised by the relevant Participants shall be cancelled by the Company; the Board could request the Participant to compensate for any loss of the Company according to the actual circumstances if the situation is severe:

- (i) he or she has been publicly condemned by or determined by Shanghai Stock Exchange as ineligible person in last three years;
- (ii) he or she has been imposed by the CSRC or any of its delegated agencies with administrative penalties or measures prohibiting access into the market due to material violation of laws and regulations;
- (iii) he or she is under the Company Law prohibited from acting as a director or a member of the senior management of a company as required by the Company Law;
- (iv) he or she has received decision in writing from the governmental departments or the Company for the reason of dereliction of duty or misconduct;
- (v) he or she is prohibited from participating in equity incentive schemes of listed companies as required by laws and regulations;
- (vi) such other circumstances as determined by laws and regulations or CSRC;
- (vii) the Participant has not reached mutual agreement with the Company and unilaterally terminate or discharge the labor contract or engagement letter with the Company, including but not limited to resignation for no reason;
- (viii) the Company is entitled to require the Participant to work in accordance with the requirements of its position, and if persons are excluded from the scope of the Participants due to that performance of the Company or the Participants did not achieve the targets; and

- (ix) his or her labor contract is dismissed due to violations of the Company's rules and regulations.

In the event that the Participant discharges or terminates the employment relationship with the Company due to objective reasons such as ordinary job transfer, retirement, death or loss of civil capacity, and the Options are able to meet the time limit and performance assessment conditions for the Exercise at that year, the exercisable part may be Exercised within half year since the resignation date and the Options that are not Exercised will be invalid after half year and shall be cancelled by the Company. If the granted Options are not able to meet the time limit or performance assessment conditions for the Exercise, the Participant can no longer Exercise and such Share Options shall be cancelled by the Company. In the event that laws and regulations change, the arrangements of the Share Options held by Participants upon his/her retirement shall be executed by the Board according to the latest relevant regulations.

Other circumstances not stated above together with the methods dealing with such circumstances shall be determined by the Board.

4. THE IMPLICATION OF THE HONG KONG LISTING RULES

The Scheme constitutes a share option scheme under Chapter 17 of the Hong Kong Listing Rules, which is subject to the announcement and Shareholders' approval requirements. Any grant of Share Options under the Scheme to any Participant who is a connected person of the Company will be exempted from all the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.92(3)(a) of the Hong Kong Listing Rules.

According to Note 1 to Rule 17.03(9) of the Listing Rules, the exercise price of the relevant share options must be at least the higher of (i) the closing price of the securities as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant.

The Company has applied for, and the Stock Exchange has granted a waiver from strict compliance with Note 1 to Rule 17.03(9) of the Listing Rules in respect of the exercise price of the Share Options on the basis that, among other things, (i) the Shares to be issued upon the exercise of the Share Options are A Shares traded on the Shanghai Stock Exchange; (ii) the basis of determination of the exercise price of the Share Options is required by and in accordance with the relevant laws and regulations in the PRC; and (iii) the proposed adoption of the Share Option Scheme will be subject to the approval of the Shareholders at the AGM and the Class Meetings, whereby the H Shareholders will have the opportunity to fully consider and evaluate the terms of the Share Option Scheme based on its merits and the interest of the H Shareholders will not be prejudiced. For details of the determination of the Exercise Price under the Share Option Scheme, please refer to the paragraph headed "1.5 Exercise Price and basis of determination" in this Appendix IV to this circular.

5. INFORMATION ABOUT THE COMPANY

Headquartered in Shanghai, the Company is the only national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company's business mainly covers three segments, namely, pharmaceutical industry, pharmaceutical distribution and pharmaceutical retail. The A shares and H shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively.

6. AGM AND CLASS MEETINGS

The AGM and Class Meetings will be convened to consider, among other things, (i) the proposed adoption of the Scheme, (ii) the Assessment Measures as set out in Appendix V; and (iii) the proposed authorization to the Board to deal with relevant matters in relation to the Scheme as set out in Appendix VI. Such resolutions will be proposed by way of special resolutions.

As at the Latest Practicable Date, three of the Participants, namely, Cho Man, Shen Bo and Liu Yanjun are A Shareholders of the Company. Each of them is entitled to exercise control over the voting rights of the Company in respect of 20,009 A Shares, 71,700 A Shares and 60,000 A Shares, respectively. Cho Man, Shen Bo and Liu Yanjun and their associates (to the extent any of them owns any shares of the Company as at the date of the AGM) shall abstain from voting in relation to the resolutions regarding Share Options Scheme at the AGM and A Share Class Meeting, respectively. Save as disclosed herein, to the best knowledge and belief of the Directors, none of the Shareholders would be required to abstain from voting on the proposed resolutions at the AGM and the Class Meetings.

**ASSESSMENT MANAGEMENT MEASURES
FOR THE IMPLEMENTATION OF 2019 SHARE OPTION SCHEME**

Shanghai Pharmaceuticals Holding Co., Ltd.* (“**Shanghai Pharmaceuticals**” or the “**Company**”) formulated the Assessment Management Measures for the Implementation of 2019 Share Option Scheme (the “**Assessment Measure**”) in accordance with the relevant requirements and actuation of the Company to facilitate the implementation of the Share Option Scheme, further optimize the corporate governance structure of the Company, formulate good and balanced value distribution system, fully arouse the enthusiasm of the Directors, senior management, mid-level management and key employees in technique and business of the Company, enhance the stable increase of the performance of the Company and ensure the achievement of the development strategy and operation target.

I. ASSESSMENT PURPOSES

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions, and ensure the implementation of the Share Option Scheme, maximize the role of equity incentives to ensure the Company’s development strategy and business objectives.

II. ASSESSMENT PRINCIPLES

Assessment and evaluation must adhere to the principles of transparency, fairness and impartiality, and evaluate strictly in accordance with the Assessment Measures and the performance of the assessment object in order to achieve the solid combination between the Share Option Scheme and the performance and contribution of the assessment object, thus enhancing the management performance, and maximizing the benefits of the Company and all stockholders as a whole.

III. ASSESSMENT SCOPE

The Assessment Measures apply to the all Participants including the Directors, senior management, mid-level management and key employees in technique and business of the Company.

IV. ASSESSMENT DEPARTMENT

The Remuneration and Assessment Committee of the Board shall be responsible for leading and organizing the assessment work. The Human Resources Department of the Company is responsible for the specific assessment work, and is responsible for the collection and provision of relevant assessment data together with the Finance Department and other relevant departments.

V. PERFORMANCE CONDITIONS AND STANDARDS**(I) Performance conditions at the Company level****1. Performance conditions**

- 1) The operating revenue growth rate of the Company for the last financial year prior to the announcement of the Share Option Scheme shall not be lower than 10.0%;
- 2) The average weighted rate of return on common Shareholder's equity for the last financial year prior to the announcement of the Share Option Scheme shall not be lower than 12.0% and no less than 50 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year;
- 3) Research and development expenses for the last financial year prior to the Announcement in relation to Share Option Scheme shall not be lower than RMB850 million.
- 4) Performance composite index of the Company for the last financial year prior to the Announcement in relation to the Share Option Scheme shall not be less than 50 percentile of benchmark enterprises.

The assessment year and performance conditions for the reserved Share Options shall be the same as those for the initial grant.

2. *Exercise conditions*

Exercise Period	Targets of performance assessment
First Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2020 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating revenue of the Company shall not be less than the RMB175 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2020 shall not be lower than 12.0% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be less than that of the previous year; 3) Research and development expenses for the year of 2020 shall not be less than RMB900 million; and 4) Performance composite index of the Company for the year of 2020 shall not be less than 75 percentile of benchmark enterprises.
Second Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2021 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB185 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2021 shall not be lower than 12.2% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2021 shall not be lower than RMB950 million; and 4) Performance composite index of the Company for the year of 2021 shall not be less than 75 percentile of benchmark enterprises.
Third Exercise Period	<ol style="list-style-type: none"> 1) The compound growth rate on operating revenue of the Company for 2022 shall not be lower than 10.0%, as compared to the average operating revenue for the year of 2016 to 2018, and the operating revenue of the Company shall not be lower than the RMB200 billion; 2) The average weighted rate of return on common Shareholder's equity for the year of 2022 shall not be lower than 12.4% and no less than 75 percentile of benchmark enterprises; and the net profits attributable to Shareholders shall not be lower than that of the previous year; 3) Research and development expenses for the year of 2022 shall not be less than RMB1 billion; and 4) Performance composite index of the Company for the year of 2022 shall not be less than 75 percentile of benchmark enterprises.

Note 1: If the growth rate of Chinese medicine terminal consumption is lower than 5% in the assessment year, and the scale of the Company's operating revenue reaches the 90 percentile of benchmark enterprises; the operating revenue and its growth rate shall be deemed to reach the

standard. The growth rate of Chinese medicine terminal consumption is the growth rate of China's drug terminal consumption in the assessment years of each exercise conditions according to the official statistics of the Southern Institute of Pharmaceutical Economics of the State Drug Administration.

Note 2: During the Validity Period of the Scheme, if the Company conducts public or private offerings that affect net assets, the newly added net assets and corresponding net profits will not be included in the calculation of increase of net assets and net profits increase during the Validity Period of the Scheme. The average weighted rate of return on common Shareholder's equity thereof is calculated based on the statistical caliber that research and development expenses are regarded as profits. The average weighted rate of return on common Shareholder's equity = (the net profit attributable to Shareholders+ research and development expenses)/the average equity attributable to Shareholders.

Note 3: During the Validity Period of the Scheme, in the event that potential future actions may affect the performance of the Company (such as changes in national accounting policies, fulfillment of important social responsibilities and matters that can be adjusted appropriately in accordance with relevant government regulations, etc.), the Board is authorized to recover the original performance indicators when the relevant performance indicators are incomparable, which shall come into effective upon approval at the general meetings of the Company.

Note 4: The Performance composite index assesses the average weighted rate of return on common Shareholders' equity, industrial sales revenue growth rate, sales revenue of distribution and research and development expenses comprehensively. The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 5: The Exercise Conditions shall not be fulfilled unless all the other annual targets set by the Board has been satisfied at the same time.

The assessment year and performance conditions for the reserved Share Options shall be the same as those for the initial grant.

3. *The performance composite index*

In order to evaluate the comprehensive performance ability of the Company, a system of comprehensive index assessment comprising four specific indicators of competitive index has been formulated in accordance with the comprehensive businesses composition and strategic requirements of Shanghai Pharmaceutical covering various segments such as research and development, manufacturing, segmenting distribution and retail. The specific assessment rules is as following:

Strategic orientation	Quality	Scale		Innovation
Segmented indexes	Rate of return on common shareholder's equity	Industrial sales revenue growth rate	Sales revenue of distribution	Research and development expense
Strategic importance weigh	40	30	10	20

The performance composite index = The performance composite index = Σ (each of the Company's segmented competitiveness index \times strategic importance weight), among which, each of the Company's segmented competitiveness index = the percentile of each of the Company's segmented index among benchmark enterprises.

Note 1: Industrial sales revenue, sales revenue of distribution, and research and development expenses are all consistent with annual report disclosures; the average weighted return rate of return on common stockholder's equity = (net profits attributable to Shareholders + research and development expense)/ average equity attributable to Shareholder.

Note 2: In terms of the granting assessment, the industrial sales revenue growth rate equals to the year-on-year growth rate of the financial year preceding this announcement; in terms of the Exercise Conditions, the industrial sales revenue growth rate equals to the compound sales revenue growth rate on the basis of average industrial sales revenue for the year 2016 to 2018.

Note 3: In terms of the benchmark enterprises, the scale weight for pure industrial enterprise is calculated by using 40 as the industrial sales revenue competitive index; and the scale weight for pure commercial enterprise is calculated by using 60 as the business sales revenue competitiveness index, excluding the innovation weight.

30 top-ranking A share listed or H share listed companies in respect of comprehensive strength, scale, profitability in pharmaceutical industry and commercial fields have been selected as the benchmark enterprises. During the annual assessment, if there is any material change in the principal business of the benchmark enterprises, the Board is authorized to delete or change the sampling according to actual situation.

(II) Performance targets at the Participants level

4. Participants' performance assessment requirements:

The Company shall assess the individual performance of the Participants based on the Assessment Measures approved by the Board. If Participants' performance in the fiscal year prior to the Announcement in relation to the Share Option Scheme is competent or above, he/ she is qualified to be a Participant.

5. Exercise Conditions:

The Company shall assess the individual performance of the Participants based on the Assessment Measures approved by the Board. The assessment results of the Participants' performance for previous year is the prerequisite for the exercisable part of the Share Options, and in general, the performance assessment results can be divided into three levels: competent or above, to be improved and fail.

Assessment Result	Competent or above	To be improved	Fail
Exercise quota	1.0	0.8	0

The actual Exercise quota of the individual for the year = the individual's planned Exercise quota for the year × the employee's Exercisable coefficient for the year.

Meanwhile, to put emphasis on the significance of the drug safety, as for the Participant who is directly responsible for major quality and safety accidents, the assessment of Exercise Conditions of him or her for the period, as determined by the Board, may be "one-vote veto".

To better achieve the dual purpose of incentives and constraints, the Company will further enhance the supporting management system for individual performance assessment. Based on the position setting, the investment effectiveness, achievements of research milestones and the numbers of patent applications are key indicators for assessing research and development key staffs; and the sales revenue growth rate and key products market shares are indicators for assessing the marketing key staffs.

If the Company performance assessment or the individual performance assessment fail in reaching the standard, resulting in the failure of the fulfillment of the Exercise Conditions of the Share Options, the corresponding Share Options shall not be Exercised or postponed to the next period, and shall be cancelled by the Company.

VI. ASSESSMENT PERIOD AND FREQUENCY

1. Assessment Period

The assessment year for granting the Share Option Scheme shall be the fiscal year (i.e. the fiscal year 2018) prior to the announcement of the Share Option Scheme. The three fiscal years (i.e. the three fiscal years of 2020-2022) starting from the day after the registration of the grant of Share Options is completed shall be taken as the examination year for each exercise condition.

2. Assessment Frequency

Once a year during the period of implementation of the Share Option Scheme.

VII. ASSESSMENT PROCEDURES

The Human Resources Department shall, under the leadership of the Remuneration and Assessment Committee of the Board, be responsible for the specific implementation of the assessment and the preservation of the assessment results, and on this basis, form a performance assessment report and submit it to the Remuneration and Assessment for examination and approval.

VIII. FEEDBACK AND APPLICATION OF ASSESSMENT RESULTS

1. The Participants shall have the right to know their own assessment results, and the Company shall notify the Participates of the assessment results after the assessment.

2. If the Participant has any objection to the result of the assessment, he/she may file a complaint with the Company within five business days after receiving the notice of the assessment results. According to the actual situation, the Company may recheck its assessment results, and revise the assessment results according to the review results.
3. The results of assessment shall be taken as the basis for the whether the Share Options can be Exercised.

IX. FILING OF ASSESSMENT RESULTS

1. The Human Resources Department shall keep all performance appraisal records after the assessment;
2. In order to guarantee the effectiveness of performance incentives, the performance records shall not be altered, and the parties' signature is needed if it is necessary to modify or re-record them.

X. SUPPLEMENTARY PROVISIONS

1. The Assessment Measures shall be formulated, interpreted and revised by the Board.
2. The Assessment Measures shall be implemented after the consideration and approval of the general meeting and the Share Option Scheme going into effect.

**PROPOSED AUTHORIZATION TO THE BOARD TO DEAL WITH
RELEVANT MATTERS IN RELATION TO THE SCHEME**

To ensure the smooth implementation of the Scheme, it is proposed to the AGM to authorize the Board to deal with all issues in relation to the Scheme at their full discretion, including but not limited to:

- (i) to determine the Grant Date of the Scheme;
- (ii) on the occurrence of capitalisation issue, bonus issue, share subdivision or share consolidation, right issues or dividend distribution, to make corresponding adjustments to the number of the Share Options and the number of the underlying Shares and the Exercise price in accordance with the methods stipulated in the Share Option Scheme considered and approved by the AGM;
- (iii) on the occurrence of capitalisation issue, bonus issue, share subdivision or share consolidation or right issues, to make corresponding adjustments to the Exercise price in accordance with the methods stipulated in the Share Option Scheme;
- (iv) to grant Share Options to Participants when he/she meets the grant conditions and to deal with all matters required related to such grant, including signing the relevant agreements in relation to the Share Option Scheme with the Participants;
- (v) to examine and confirm whether the Company and the Participants are qualified to Exercise and whether the Company and Participants fulfill the grant conditions, to authorize the Board to grant such rights to the Remuneration and Assessment Committee;
- (vi) to determine whether the Participants are able to Exercise;
- (vii) to deal with all necessary matters in relation to the Exercise, including but not limited to submission of the Exercise application to the Shanghai Stock Exchange, application to the Registration and Settlement Company for registration and settlement, amendments to the Articles of Association and registration of changes in the registered capital of the Company;
- (viii) to determine and deal with the matters in relation to the changes and termination of the Scheme, including but not limited to the cancellation of Exercise qualification of the Participants, cancellation the Share Options that are not Exercised by the Participants yet, dealing with succession issues in respect to the Share Options that are not Exercised by Participants who met the Exercise Conditions but are already dead, and the determination of withdrawal the interests of the Participants obtained from the Exercise in accordance with the Share Option Scheme;

- (ix) to manage the Scheme, and to formulate or amend the management and implementation requirements of the Scheme in accordance with the terms of the Scheme; However, if the laws, regulations and relevant regulatory authorities require such amendments to be approved by the shareholders' general meeting or/and relevant regulatory authorities, the amendments of the Board must be approved accordingly;
- (x) other necessary matters in relation to the execution of the Scheme, except that the rights of the shareholders' general meeting clearly stipulated in relevant documents; and
- (xi) procedures for consideration, registration, filling, approval, consent, etc.; signing, implementing, modifying and completing documents submitted to relevant governments, institutions, organizations and individuals; amendments of the Articles of Association, changes of the registered capital of the Company and all actions it considers necessary, appropriate or suitable in relation to the Scheme. Matters may be directly exercised by the execution committee of the Board on behalf of the Board excluding those matters shall be approved by the resolutions of the Board, which are clearly stipulated in the laws, regulations, regulatory documents of CSRC, normative documents, the Share Option Scheme and Articles of Association which is valid at that time.

The validing period of the above authorization is consistent with that of the Scheme.

1. RESPONSIBILITY STATEMENT

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 enquires, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

As at the Latest Practicable Date, the following Directors and Supervisors of the Company hold shares of the Company:

Name	Position	Number of Shares held as at the Latest Practicable Date
CHO Man	Executive Director, President	20,009 A Shares
SHEN Bo	Executive Director, Vice President, Chief Financial Officer	71,700 A Shares
CHEN Xin	Supervisor	10,000 A Shares
LIU Yanjun	Vice President	60,000 A Shares
SHU Chang	No longer as Vice President	4,600 A Shares

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be 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 were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors and supervisors of the Company are directors, supervisors or employees of the following companies, each of which has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Name of Shareholder	Position in the Shareholder
ZHOU Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	Executive director, president
	Shanghai Shangshi (Group) Co., Ltd.	Vice Chairman and president
	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president
LI An	Shanghai Guosheng Group Co., Ltd.	Vice president
	Shanghai Guosheng Group Co., Ltd.	Director
	Shanghai Shengrui Investment Co., Ltd.	Executive director
XU Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president
CHEN Xin	Shanghai Pharmaceutical (Group) Co., Ltd.	Supervisor
XIN Keng	Shenergy (Group) Co., Ltd.	Principal of the finance department

4. COMPETING INTERESTS

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

5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any assets which have, since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting at such date and which was significant in relation to the business of the Group.

6. EXPERT AND CONSENT

The following are the qualifications of the expert who has given a letter which is contained or referred to in this circular:

Name	Qualifications
Gram Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

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

As at the Latest Practicable Date, Gram Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interest, direct or indirect, in any assets which have, since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from 9:00 a.m. to 5:00 p.m. on any business day (Saturdays and public holidays excepted) from the date of this circular up to and including the date of the Annual General Meeting:

- (a) the Existing Financial Services Agreement;
- (b) the Financial Services Agreement;
- (c) the letter from the Independent Board Committee, refer to Appendix II B;
- (d) the letter from Gram Capital Limited, refer to Appendix II C;
- (e) the written consent referred to in the section headed “Expert and Consent” in this appendix;
- (f) the Share Option Scheme; and
- (g) the Assessment Management Measures for the Implementation of the Share Option Scheme.