
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 accompanying 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 2020
REPORT OF THE BOARD OF DIRECTORS FOR 2020
REPORT OF THE BOARD OF SUPERVISORS FOR 2020
FINAL ACCOUNTS REPORT FOR 2020 AND FINANCIAL BUDGET FOR 2021
PROFIT DISTRIBUTION PLAN FOR 2020
RE-APPOINTMENT OF AUDITOR
EXTERNAL GUARANTEES FOR 2021
ISSUANCE OF DEBT FINANCING PRODUCTS
SATISFACTION OF CONDITIONS FOR ISSUING CORPORATE BONDS
PUBLIC ISSUANCE OF CORPORATE BONDS
GENERAL MANDATE OF THE COMPANY
PROPOSAL REGARDING THE PROPOSED ACQUISITION OF 100% EQUITY
INTEREST IN A WHOLLY-OWNED SUBSIDIARY OF A CONTROLLING
SHAREHOLDER AND RELATED/CONNECTED TRANSACTION
AND
NOTICE OF ANNUAL GENERAL MEETING**

Independent Financial Adviser to the Independent Shareholders



Notice, the proxy form and reply slip for the Annual General Meeting of the Company have been dispatched to the H Shareholders on 28 May 2021. Such proxy form and reply slip are also published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sphchina.com>).

For holders of H Shares, whether or not you are able to attend the Annual General Meeting, you are advised to read the notice of the Annual General Meeting carefully. If you intend to attend the Annual General Meeting by proxy, please complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending and voting at the Annual General Meeting or at any adjourned meeting thereof in person.

For holders of H Shares, if you intend to attend the Annual General Meeting in person or by proxy, you are required to complete and return the reply slip.

11 June 2021

* 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
“Acquisition”	the acquisition of 100% equity interest in SPH Biological Medicine by the Company pursuant to the Equity Transfer Agreement
“AGM” or “Annual General Meeting”	the annual general meeting or any adjourned meeting thereof to be held by the Company on 29 June 2021 at 13:00 at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, the PRC
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“Closing Date”	the date on which SPH Biological Medicine completed the industrial and commercial registration pursuant to the Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Equity Transfer Agreement”	the Equity Transfer Agreement entered into between the Company and Shanghai Asia Pioneer dated 27 May 2021 in respect of the Acquisition
“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) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	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
“Independent Director(s)” or “Independent Non-executive Director(s)”	the independent non-executive Director(s) of the Company
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Shareholders in respect of the Acquisition
“Independent Shareholder(s)”	Shareholder(s) other than Shanghai Shangshi, Shanghai Pharmaceutical (Group) and their associates
“Latest Practicable Date”	11 June 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“PRC” or “China”	the People’s Republic of China, for the purposes of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Reference Date”	31 March 2021
“Reporting Period”	the 12-month period from 1 January 2020 to 31 December 2020
“RMB” or “Yuan”	the lawful currency of the PRC. Unless otherwise specified, all financial figures in this circular are denominated in RMB
“Shanghai Asia Pioneer”	Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司), a wholly-owned subsidiary of Shanghai Pharmaceutical (Group) as at the date of the Latest Practicable Date
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (《上海證券交易所股票上市規則》)

DEFINITIONS

“Shanghai Pharmaceutical (Group)”	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司), a controlling shareholder of the Company
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Shares of the Company
“SPH Biological Medicine”	Shanghai SPH Biological Medicine Co., Ltd. (上海上藥生物醫藥有限公司)
“Valuer”	Shanghai Pan-China Assets Valuation Co., Ltd (上海眾華資產評估有限公司), an independent valuer who performed the valuation of the total shareholders’ equity of SPH Biological Medicine
“%”	Per cent

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
Mr. GE Dawei
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. CAI Jiangnan
Mr. HONG Liang
Mr. GU Zhaoyang
Mr. Manson FOK

To the Shareholders

Dear Sir or Madam,

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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 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.

Resolutions to be proposed at the AGM for the Shareholders to approve by way of ordinary resolutions include: (1) Annual Report for 2020; (2) Report of the Board of Directors for 2020; (3) Report of the Board of Supervisors for 2020; (4) Final Accounts Report for 2020 and Financial Budget for 2021; (5) Profit Distribution Plan for 2020; (6) Proposal regarding Re-appointment of Auditor; (7) Proposal regarding External Guarantees for 2021; and (8) Proposal regarding the proposed acquisition of 100% equity interest in a wholly-owned subsidiary of a controlling shareholder and related/connected transaction.

Resolutions to be proposed at the AGM for the Shareholders to approve by way of special resolutions include: (9) Proposal regarding Issuance of Debt Financing Products; (10) Proposal regarding the Satisfaction of Conditions for Issuing Corporate Bonds; (11) Proposal regarding Public Issuance of Corporate Bonds; and (12) Proposal regarding the General Mandate of the Company.

2. ANNUAL REPORT FOR 2020

The Annual Report for 2020 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 20 April 2021.

3. REPORT OF THE BOARD OF DIRECTORS FOR 2020

(1) Overview of the Company's operation in 2020

Under the impact of COVID-19, the year 2020 witnessed increasingly severe and complicated international situation and accelerated pace of change of domestic pharmaceutical manufacturing. Under the background of "national joint procurement", the industry enters the competition stage of stock game and incremental grabbing. Facing the new situation, new starting point and new development, the Company, on one hand, adhered to the four development strategies of "innovation, intensification, internalization and combination of industry and finance", and strove to complete the annual operation targets and key tasks, on the other hand, took up the heavy responsibility and implemented the anti-pandemic supply work with dedication, professional knowledge and efficient execution and interpreted with actions the initial goal of safeguarding people's life and health, thus winning the unanimous recognition from all walks of life.

The year 2020 was also a year of milestones. As a leading enterprise in Shanghai's biopharmaceutical manufacturing, the Company entered the world's top 500 and global pharmaceuticals top 50 for the first time, further establishing its leading position in the industry.

LETTER FROM THE BOARD

Overcoming difficulties and achieving positive growth in operating income in both segments (up by 2.86%)

During the Reporting Period, the operating income of the Company amounted to RMB191.909 billion (a year-on-year increase of 2.86%). Among them, the revenue of pharmaceutical manufacturing amounted to RMB23.743 billion (a year-on-year increase of 1.08%). The revenue of pharmaceutical service amounted to RMB168.166 billion (a year-on-year increase of 3.12%).

Making proactive response and achieving a double-digit growth rate of net profit attributable to shareholders of parent company (up by 10.17%)

The Company recorded RMB4.496 billion of net profit attributable to shareholders of the listed company, representing a year-on-year increase of 10.17%; RMB6.153 billion of net profit attributable to shareholders of the listed company plus R&D expenses, representing a year-on-year increase of 13.30%; RMB3.821 billion of net profit attributable to shareholders of the listed company, net of non-recurring profit and loss, representing a year-on-year increase of 10.41%.

Main business of pharmaceutical manufacturing contributed profits of RMB2.253 billion, representing a year-on-year increase of 8.56%; total profit contributed by manufacturing plus R&D expenses was RMB3.91 billion, representing a year-on-year increase of 14.15%; main business of pharmaceutical service contributed profits of RMB2.514 billion, representing a year-on-year increase of 13.21%. All main businesses maintained rapid growth. Enterprises invested by the Company contributed profits of RMB1.01 billion, representing a year-on-year increase of 31.93%.

Accelerating transformation and contributing R&D investment of nearly RMB2 billion (up by 30.70%)

The R&D investment reached RMB1.972 billion, representing a year-on-year increase of 30.70%, including RMB1.657 billion of R&D expenditure, representing a year-on-year increase of 22.76%.

Achieving high quality development and continuous improvement in operating cash flow (up by 13.65%)

The operating net cash inflow of the Company amounted to RMB6.845 billion, representing a year-on-year increase of 13.65%. Among them, operating net cash inflow of pharmaceutical manufacturing amounted to RMB3.542 billion and operating net cash inflow of pharmaceutical service amounted to RMB3.888 billion.

(2) The daily work of the Board of Directors during the Reporting Period

In 2020, the 7th session of the Board of Directors and its special committees, carried out all work legally and efficiently with great diligence in accordance with the Articles of Association and relevant terms of references of each special committee:

LETTER FROM THE BOARD

① *Conscientiously performed the duties of the Board of Directors and ensured the operation of Board of Directors in compliance with laws and regulations*

During the Reporting Period, the Board of Directors of the Company, in strict accordance with Company Law, Securities Law, Standards on Corporate Governance of Listed Companies and other relevant laws and regulations, the listing rules of the stock changes where the Shares are listed, Articles of Association and the requirements of various internal rules and regulations, actively performed various duties of directors, and focused on the enterprise operation, external investments, control and management of related/connected transactions, development strategies, internal control, capital planning and operations, corporate governance and information disclosure to ensure that the Company achieved steady development of its operation and management and further improve its corporate governance structure.

The 7th session of the Board of Directors held eight meetings in total. The convening and the procedure for deliberation of each meeting met relevant laws, rules, regulations and the Articles of Association.

② *Give full play to the professional advantages and functions of each special committee*

During the Reporting Period, each special committee of the 7th session of the Board of Directors gave full play to the professional advantages of Independent Non-executive Directors, actively provided advice to the Board of Directors and further improved the efficiency of decision-making of the Board of Directors. The specific work is as follows:

- During the Reporting Period, the audit committee of the 7th session of the Board of Directors held five meetings in total, during which, the audit committee discussed and reviewed the regular reports, audit plans, implementation of internal control, major and daily related/connected transactions, provided advice for the Group to strengthen its internal control mechanism and conscientiously performed its duties as the audit committee.
- During the Reporting Period, the nomination committee of the 7th session of the Board of Directors held one meeting in total, during which, the nomination committee discussed and reviewed the Proposal on Reviewing the Structure, Number, Composition and Diversity of Members of the Board of Directors, and conscientiously performed its duties as the nomination committee.
- During the Reporting Period, the remuneration and assessment committee of the 7th session of the Board of Directors held two meetings in total, during which, the remuneration and assessment committee discussed and reviewed the performance appraisal and compensation plan of senior management of the Company and the implementation of the last year, and conscientiously performed its duties as the remuneration and assessment committee.

LETTER FROM THE BOARD

- During the Reporting Period, the strategy committee of the 7th session of the Board of Directors held one meeting in total, during which, the strategy committee discussed and reviewed the three-year development plan of the Group (2019-2021), and conscientiously performed its duties as the strategy committee.

③ *Convening the Shareholders' general meeting*

During the Reporting Period, the Board of Directors convened one annual general meeting, one A Share class meeting and one H Share class meeting according to the Articles of Association and the actual needs.

(3) The improvement of the corporate governance during the Reporting Period

In 2020, in accordance with provisions and requirements of the Company Law, Securities Law, Standards on Corporate Governance of Listed Companies issued by the CSRC, the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and other relevant laws and regulations, the Company continuously improved the corporate governance structure and internal control of the Group. The Board of Directors has set up four special committees including audit committee, strategy committee, remuneration and assessment committee and nomination committee, which strengthened the organization construction and professionalism in decision-making of the Board of Directors.

Over the past year, thanks to the joint efforts of the Board of Directors, the management and all the staff, the Group has made achievements in improving the business performance and the governance structure. In 2021, the Board of Directors will, in strict accordance with the provisions and requirements of laws, regulations and Articles of Association as always, continue to standardize their operation and perform their duties conscientiously to constantly improve the enterprise competitiveness and hereby reward the investors with better business performance.

4. REPORT OF THE BOARD OF SUPERVISORS FOR 2020

(1) WORK OF THE BOARD OF SUPERVISORS IN 2020

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, and the legality and compliance of the Directors, and senior management of the Company 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.

During the Reporting Period, the Board of Supervisors held seven meetings in total, at which twelve resolutions were considered and approved. Details are as follows:

- The 6th meeting of the seventh session of the Board of Supervisors considered and approved the Proposal regarding the Adjustment on the List of Participants and the Number of Share Options to be Granted under the Share Option Scheme;

LETTER FROM THE BOARD

- The 7th meeting of the seventh session of the Board of Supervisors considered and approved the Proposal regarding the Provision of Goodwill Impairment;
- The 8th meeting of the seventh session of the Board of Supervisors considered and approved the Report of the Board of Supervisors for 2019, Final Accounts Report for 2019 and Financial Budget for 2020, Annual Report and its Summary for 2019, Profit Distribution Plan for 2019, and Proposal regarding the Payment of Auditors' Fees for 2019 and Re-appointment of Accounting Firm;
- The 9th meeting of the seventh session of the Board of Supervisors considered and approved the First Quarterly Report of 2020 and the Proposal in relation to the Preparation of the Financial Statements under the China Accounting Standards for Business Enterprises and Proposed Termination of the Re-appointment of Overseas Auditor;
- The 10th meeting of the seventh session of the Board of Supervisors considered and approved the Interim Report of 2020 and its Summary;
- The 11th meeting of the seventh session of the Board of Supervisors considered and approved the Third Quarterly Report of 2020;
- The 12th meeting of the seventh session of the Board of Supervisors considered and approved the Proposal regarding the Grant of Reserved Share Options to the Participants.

Independent opinions of the Board of Supervisors:

- 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 meetings 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 was 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.
- Independent opinions of the Board of Supervisors on the financial position of the Company: during the Reporting Period, the Annual Financial Report of 2020 of the Group thoroughly and truthfully reported the financial position and operation results of

LETTER FROM THE BOARD

the Group. The standard unqualified auditor's reports, and the analysis and evaluation of the relevant matters issued by PricewaterhouseCoopers Zhong Tian LLP was objective and fair.

- Independent opinions of the Board of Supervisors on related/connected transactions of the Company: during the Reporting Period, the related/connected transactions of the Group were conducted in the principles of fairness, impartiality and openness, priced according to market prices and operated with standardized procedures with fully disclosed information, and did not harm the interests of the Company and minority Shareholders.
- Independent opinions of the Board of Supervisors on the modified opinion of the accounting firms: PricewaterhouseCoopers Zhong Tian LLP has issued standard unqualified auditor's report.
- Review and 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 2020 and had no objection to the report.

(2) WORK PLAN FOR 2021

In 2021, 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, and the legality and compliance of the Directors and senior management of the Company in performing their duties to protect the legitimate rights and interests of the Company and the Shareholders.

5. FINAL ACCOUNTS REPORT FOR 2020 AND FINANCIAL BUDGET FOR 2021

The Final Accounts Report for 2020 and Financial Budget for 2021 are set out in the Annual Report for 2020 of the Company.

6. PROFIT DISTRIBUTION PLAN FOR 2020

As audited, in 2020, the Company's net profit attributable to shareholders of the listed company was RMB4,496,216,958.55. The balance of the Company's consolidated undistributed profit as of 31 December 2020 amounted to RMB25,054,352,978.09 after the addition of RMB21,970,908,120.34 of consolidated undistributed profit at the beginning of the year, the deduction of RMB1,250,519,301.68 of cash dividend in 2019, the withdrawal of RMB158,373,737.06 of statutory surplus reserve for 2020, the withdrawal of RMB12,909,978.43 of provision for the staff's bonus and benefits fund for 2020 by the Company's subsidiaries and other changes of RMB9,030,916.37.

LETTER FROM THE BOARD

The profit distribution plan for 2020 is as follows: it is proposed that, based on the total share capital of 2,842,089,322 as at the registration date regarding execution of profit distribution proposal, a cash dividend of RMB4.80 (tax inclusive) for every ten shares will be paid to all Shareholders, totaling RMB1,364,202,874.56, accounting for 30.34% of the consolidated net profit attributable to shareholders of the listed company for the current year. After distribution, the Company's remaining consolidated undistributed profit will be RMB23,690,150,103.53. There is no conversion of capital reserve into share capital during the Reporting Period.

7. PROPOSAL REGARDING RE-APPOINTMENT OF AUDITOR

Since PricewaterhouseCoopers Zhong Tian LLP is an 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, it is capable of satisfying the requirements of the regulatory authorities and investors in both Mainland China and Hong Kong. Upon discussion with PricewaterhouseCoopers Zhong Tian LLP, the Company proposes to re-appoint PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for 2021 and authorize the Board of Directors to determine its remuneration.

8. PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2021

Please refer to Appendix I to this circular.

9. 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 various equivalent short-term debt financing products and medium-term and long-term debt financing products in the total amount not more than RMB20 billion or equivalent, including but not limited to short-term financing bills, extra short-term financing bills, short-term corporate bonds, medium-term notes, medium to long-term corporate bonds, perpetual bonds, quasi perpetual bonds, asset-backed bills, green debt financing instruments and other short-term and medium to long-term debt financing products.

(1) Issuance Plan

① *Scale of issuance*

The Company proposes to apply for the issuance of various equivalent short-term debt financing products and medium to long-term debt financing products in the total amount not more than RMB20 billion or equivalent, including but not limited to short-term financing bills, extra short-term financing bills, short-term corporate bonds, medium-term notes, medium to long-term corporate bonds, perpetual bonds, quasi perpetual bonds, asset-backed bills, green debt financing instruments and other short-term and medium to long-term debt financing products.

LETTER FROM THE BOARD

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 of the Company and its subsidiaries 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 to long-term debt financing products shall be determined based on the Company's needs for funds and market conditions.

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. During the aforementioned validity period, for the portion of the debt financing product quota for which the Company has submitted issuance application to relevant regulatory authorities, the validity period of this resolution shall be automatically extended to the date when the aforementioned debt financing product quota for which the issuance application has been submitted is fully issued or the expiry date of the validity of approval/registration documents for the aforementioned submitted debt financing product quota from relevant regulatory authorities, whichever is later. During the aforementioned validity period, portion of the debt financing product quota for which Company has not submitted issuance application to relevant regulatory authorities shall automatically lapse upon the expiry of the aforementioned validity period. During the aforementioned validity period, the Company may convene another Shareholders' general meeting in relation to the issuance of debt financing products to decide whether to terminate or extend the validity of this resolution.

(2) Authorizations related to the Issuance

In order to better grasp the opportunities for issuance of debt financing products and enhance the financing efficiency, it is submitted to the Shareholders' general meeting 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 of the Company and Board of

LETTER FROM THE BOARD

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, rating arrangement, 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 of debt financing products.
- ⑤ The above authorizations shall be valid for 12 months from the date on which the resolution is approved by the Shareholders' general meeting. During the aforementioned validity period, for the quota of the debt financing product for which Company has submitted issuance application to relevant regulatory authorities, the validity period of this resolution shall be automatically extended to the date when the aforementioned debt financing product quota for which the issuance application has been submitted is fully issued or the expiry date of the validity of approval/registration documents for the aforementioned submitted debt financing product quota from relevant regulatory authorities, whichever is later. During the aforementioned validity period, portion of the debt financing product quota for which Company has not submitted issuance application to relevant regulatory authorities shall automatically lapse upon the expiry of the aforementioned validity period. During the aforementioned validity period, the Company may convene another Shareholders' general meeting in relation to the issuance of debt financing products to decide whether to terminate or extend the validity of this resolution.

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 effective upon approval by the Shareholders' general meeting as a special resolution.

10. PROPOSAL REGARDING THE SATISFACTION OF CONDITIONS FOR ISSUING CORPORATE BONDS

According to the relevant provisions of laws, regulations and regulatory documents such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China (revised in 2019), the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》), (V) Optimization of Financing Regulatory of the Guideline on Corporate Bonds Pre-approval of Shanghai Stock Exchange (《上海證券交易所公司債券預審核指南(五)優化融資監管》) and the Listing Rules of Shanghai Stock Exchange by comparing the actual condition of the Company on an item by item basis, the Company meets the conditions and requirements under relevant laws, regulations and regulatory documents applicable for the optimization of financing regulatory standards on publicly issuing corporate bonds, and is qualified to issue corporate bonds to professional investors.

This proposal shall be effective upon approval by the Shareholders' general meeting as a special resolution.

11. PROPOSAL REGARDING PUBLIC ISSUANCE OF CORPORATE BONDS

Please refer to Appendix II to this circular.

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 ①②③, 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 shall 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:

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- 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 par 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 par 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 (excluding Shares otherwise issued under rights issue or any share option schemes or similar arrangements);
- 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 the CSRC 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 effective upon approval by the Shareholders' general meeting as a special resolution.

13. PROPOSAL REGARDING THE PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN A WHOLLY-OWNED SUBSIDIARY OF A CONTROLLING SHAREHOLDER AND RELATED/CONNECTED TRANSACTION

Please refer to Appendix III to this circular.

Your attention is also drawn to the letter of advice from Maxa Capital set out in Appendix IV to this Circular.

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14. PROXY

Notice, the proxy form and reply slip for the Annual General Meeting of the Company have been dispatched to the H Shareholders on 28 May 2021. Such proxy form and reply slip are also published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sphchina.com>).

If you intend to appoint a proxy to attend the AGM or any adjourned meetings thereof, 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.

15. 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.

16. RECOMMENDATION

Maxa Capital is appointed as the Independent Financial Adviser to advise the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable; and the Acquisition, although not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

The Board of Directors (including the Independent Non-executive 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.

17. 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.

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

Shanghai, the PRC, 11 June 2021

APPENDIX I

PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2021

In order to accommodate the needs of the business development and reduce financing costs, Shanghai Pharmaceuticals has negotiated with related parties according to applicable laws and regulations, and proposes to provide external guarantees in 2021 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, the external guarantee for 2021 to be provided by Shanghai Pharmaceuticals and its subsidiaries amounted to RMB29,922.6770 million (including RMB26,088.08 million, US\$530 million and NZ\$80 million, based on the average price as published by the People's Bank of China (PBOC) on 31 December 2020), including: (I) the external guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2021 amounted to RMB2,000 million, US\$530 million and NZ\$80 million; (II) the external guarantee to be provided by the controlled subsidiaries of Shanghai Pharmaceuticals in 2021 amounted to RMB9,088.08 million; (III) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2021 amounted to RMB3,000 million; (IV) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to the international business expansion with newly planned financing guarantees in 2021 amounted to RMB10,000 million; and (V) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected bill pool in 2021 amounted to RMB2,000 million. Details are as follows:

(I) External guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2021 amounted to RMB2,000 million, US\$530 million and NZ\$80 million.

Details of the above guarantee of 6 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.	China International Pharmaceutical (Holding) Corporation Limited	Yes	US\$3,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
2	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Pharmaceuticals (HK) Investment Limited	Yes	US\$50,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
3	Shanghai Pharmaceuticals Holding Co., Ltd.	SPH CARDINAL HEALTH (H.K.) CO. LIMITED	Yes	150,000	Joint guarantee	Provision of guarantee according to percentage of shareholding

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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
4	Shanghai Pharmaceuticals Holding Co., Ltd.	Vitaco Health Limited	Yes	NZ\$8,000	Joint guarantee	With counter guarantee and charge on credit of other shareholders
5	Shanghai Pharmaceuticals Holding Co., Ltd.	Beijing Keyuan Xinhai Pharmaceutical Co., Ltd. or	Yes	50,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
6	Shanghai Pharmaceuticals Holding Co., Ltd.	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.				

(II) External guarantee to be provided by controlled subsidiaries of Shanghai Pharmaceuticals in 2021 amounted to RMB9,088.08 million.

Details of the above guarantee of the 79 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.	SPH Keze (Shanghai) Pharmaceutical Co., Ltd. (上藥科澤(上海)醫藥有限公司)	Yes	8,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
2	Shanghai Pharma Co., Ltd.	Jiangxi Nanhua (Shanghai Pharma) Medicines Co., Ltd.	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
3	Shanghai Pharma Co., Ltd.	SPH Jiangxi Shangrao Pharmaceutical Co., Ltd.	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
4	Shanghai Pharma Co., Ltd.	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
5	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Qingdao Co., Ltd. (上藥控股青島有限公司)	Yes	11,825.20	Joint guarantee	Provision of guarantee according to percentage of shareholding

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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
	Shanghai Suzuken Chinese Medicine Co., Ltd. (上藥鈴謙滬中(上海)醫藥有限公司)		Yes	22,174.80	Joint guarantee	Provision of guarantee according to percentage of shareholding
6	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Ji'nan Co., Ltd. (上藥控股濟南有限公司)	Yes	12,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
7	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Nantong Co., Ltd. (上藥控股南通有限公司)	Yes	15,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
8	Shanghai Pharma Co., Ltd.	Shanghai Pharma Zhenjiang Co., Ltd.	Yes	15,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
9	Shanghai Pharma Co., Ltd.	Zhejiang SPH Xinxin Pharmaceutical Co., Ltd.	Yes	5,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
10	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	2,210.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
11	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Wenzhou Co., Ltd. (上藥控股溫州有限公司)	Yes	23,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
12	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	Yes	30,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
13	Shanghai Pharma Co., Ltd.	Shanghai Pharmaceutical Co., Ltd. Anqing Company	Yes	29,650.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
14	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	12,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
15	Shanghai Pharma Co., Ltd.	SPH Anhui Pharmaceutical Co., Ltd. (上藥控股安徽有限公司)	Yes	27,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
16	Shanghai Pharma Co., Ltd.	SPH Sichuan Pharmaceutical Co., Ltd.	Yes	77,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
17	Shanghai Pharma Co., Ltd.	SPH Sichuan Biological Products Co., Ltd.	Yes	24,000.00	Joint guarantee	With counter guarantee and charge on equity 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
18	Shanghai Pharma Co., Ltd.	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	Yes	13,800.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
19	Shanghai Pharma Co., Ltd.	SPH Zunyi Pharmaceutical Co., Ltd. (上藥控股遵義有限公司)	Yes	8,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
20	Shanghai Pharma Co., Ltd.	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Yes	10,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
21	Shanghai Pharma Co., Ltd.	Shanghai Suzuken Chinese Medicine Co., Ltd. (上藥鈴謙滬中(上海)醫藥有限公司)	Yes	3,050.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
22	Shanghai Pharma Co., Ltd.	Jiangsu Runtian Biochemical Medicine Co., Ltd.	Yes	80,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
23	Shanghai Pharma Co., Ltd.	SPH International Supply Chain Co., Ltd.	Yes	50,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
24	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	2,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
25	Shanghai Pharma Co., Ltd.	Cardinal (Tianjin) Pharma Co., Ltd. (康德樂(天津)醫藥有限公司)	Yes	1,500.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
26	Shanghai Pharma Co., Ltd.	SPH Cardinal (Chongqing) Pharma Co., Ltd. (上藥康德樂(重慶)醫藥有限公司)	Yes	15,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
27	Shanghai Pharmaceutical Qingdao Co., Ltd.	SPH (Yantai) Co., Ltd. (上藥控股(煙台)有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
28	Shanghai Pharmaceutical Anqing Co., Ltd.	Anqing Huashi Medical Devices Co., Ltd. (安慶華氏醫療器械有限公司)	Yes	200.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
29	Shanghai Pharmaceutical Anqing Co., Ltd.	Anqing Huashi Herbal Co., Ltd. (安慶華氏中藥飲片有限公司)	Yes	200.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
30	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	2,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding

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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	20,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
32	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	Xuzhou Huaihai Pharmaceutical Co., Ltd. (徐州淮海藥業有限公司)	Yes	7,800.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
	SPH Xuzhou Pharmaceutical Co., Ltd.		Yes	7,200.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
33	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	12,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
34	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Hangzhou Kanglun Herbal Co., Ltd. (杭州康侖中藥飲片有限公司)	Yes	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
35	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	No	5,000.00	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	1,000.00	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	4,000.00	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	8,000.00	Joint guarantee	With counter guarantee and charge on equity 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	3,600.00	Joint guarantee	With counter guarantee and charge on equity 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	1,500.00	Joint guarantee	With counter guarantee and charge on equity 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	1,200.00	Joint guarantee	With counter guarantee and charge on equity 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	1,000.00	Joint guarantee	With counter guarantee and charge on equity 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	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Chuxiong Pharmaceutical Co., Ltd. (上藥控股楚雄有限公司)	Yes	500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
44	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Yunnan Medical Instruments Co., Ltd. (上藥控股雲南醫療器械有限公司)	Yes	6,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
45	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Qujing Pharmaceutical Co., Ltd. (上藥控股(曲靖)有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
46	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Xiangxi Pharmaceutical Co., Ltd. (上藥控股(湘西)有限公司)	Yes	1,500.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
47	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Huaihua Pharmaceutical Co., Ltd. (上藥控股(懷化)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
48	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Yiyang Pharmaceutical Co., Ltd. (上藥控股(益陽)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
49	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	Hunan SPH Yiyao Pharmacy Co., Ltd. (湖南上藥益藥藥房有限公司)	No	98.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
50	SPH Cardinal (Hong Kong) Pharma Co., Ltd. (上藥康德樂股份(香港)有限公司)	Oval Technologies (H.K.) Pty Limited (寰通商務科技股份(香港)有限公司)	Yes	5,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
51	Beijing Keyuan Xinhai Pharmaceutical Operation Co., Ltd.	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Yes	115,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd. (科園信海(北京)國際供應鏈管理有限公司)		Yes	1,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
52	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	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
53	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical Dalian Co., Ltd. (上藥科園信海醫藥大連有限公司)	Yes	2,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
54	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	2,000.00	Joint guarantee	With counter guarantee and charge on equity 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
55	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	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
56	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	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
57	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	10,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
58	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	3,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
59	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	5,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
60	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	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
61	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Health Science Co., Ltd. (上藥健康科學有限公司)	Yes	3,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
62	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司) or Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Honour Drug House Joint (H.K.) Limited	Yes	20,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
63	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd. (科園信海(北京)國際供應鏈管理有限公司)	Yes	8,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
64	SPH Keyuan Xinhai Heilongjiang Co., Ltd.	SPH Keyuan Xinhai (Qiqihar) Pharmaceutical Co., Ltd. (上藥科園信海齊齊哈爾醫藥有限公司)	Yes	2,300.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
65	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd. (上藥科園信海醫藥吉林有限公司)	SPH Keyuan Xinhai (Jilin Yitong) Pharmaceutical Co., Ltd.	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
66	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	1,000.00	Joint guarantee	With counter guarantee and charge on equity 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
67	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	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
68	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Shiyan Pharmaceutical Co., Ltd. (上藥科園信海醫藥十堰有限公司)	Yes	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
69	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai Leiyunshang Pharmaceutical Co., Ltd.	Yes	24,500.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
70	Shanghai Traditional Chinese Medicine Co., Ltd.	Sichuan SPH Shendu Chinese Medicine Co., Ltd. (四川上藥申都中藥有限公司)	Yes	4,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
71	Shanghai Traditional Chinese Medicine Co., Ltd.	SPH (Liaoning) Traditional Chinese Medicine Resources Co., Ltd. (上藥(遼寧)中藥資源有限公司)	Yes	2,500.00	Joint guarantee	With counter guarantee and charge on properties
72	Shanghai Traditional Chinese Medicine Co., Ltd.	Hunan SPH Traditional Chinese Medicine Development Co., Ltd.	Yes	1,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
73	Shanghai Traditional Chinese Medicine Co., Ltd.	SPH (Ningxia) Chinese Medicine Co., Ltd. (上藥(寧夏)中藥資源有限公司)	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
74	Shanghai Traditional Chinese Medicine Co., Ltd.	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Yes	13,000.00	Joint guarantee	With counter guarantee and charge on properties
75	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	1,000.00	Joint guarantee	With counter guarantee and charge on inventory
76	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Chongqing Tianbao Pharmaceutical Co., Ltd.	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
77	SPH New Asia Pharmaceutical Co., Ltd.	Liaoning Meiya Pharmaceutical Co., Ltd. (遼寧美亞製藥有限公司)	Yes	20,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
78	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	SPH (Dali) Chinese Yew Biology Co., Ltd.	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on inventory
79	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Shanghai SPH Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	Yes	14,000.00	Joint guarantee	With counter guarantee and charge on inventory

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In respect of the above (I) and (II), the external guarantee provided by Shanghai Pharmaceuticals and its controlled subsidiaries amounted to approximately RMB14,922.6770 million (including RMB11,088.08 million, US\$530 million and NZ\$80 million, based on the mean price as published by the PBOC on 31 December 2020) for 2021. Guarantees among members in the consolidated statements of the Company amounted to RMB14,851.6970 million, representing 99.52% 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 RMB70.98 million, representing 0.48% 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 2021 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 2021 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 2021 with planned guarantees up to RMB3,000 million, so as to ensure its business development.

(IV) The guarantee to be provided by the Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to the international business expansion of wholly-owned subsidiaries with newly planned financing guarantees in 2021 amounted to RMB10,000 million. 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 planned guarantee amount among new wholly-owned subsidiaries and the following wholly-owned subsidiaries under the premise of not exceeding the total amount. The specific details are as follow:

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	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

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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
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 Pharmaceuticals headquarter and its controlled subsidiaries to expected bill pool in 2021 amounted to RMB2,000 million.

Given that Shanghai Pharmaceuticals headquarter and its controlled subsidiaries are expected to commence group bill pool operation in 2021, Shanghai Pharmaceuticals headquarter and its controlled subsidiaries proposed to provide no more than RMB2,000 million guarantees for the bill pool in 2021. The amount shall be shared among Shanghai Pharmaceuticals headquarter and its controlled subsidiaries.

The guaranteed contents of the aforementioned guarantee proposals in respect of the above (I) to (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 87 entities as guaranteed parties in total specifically, including 3 associates 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 on 26 March 2021, the total amount of the external guarantees provided by the Company and its subsidiaries is RMB31,116.8770 million, representing 68.61% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2020, the total amount of guarantee to the subsidiaries provided by the Company is RMB7,875.5540 million, representing 17.36% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2020.

As of the disclosure date of the announcement of the Board of the Company on 26 March 2021, the actual balance of the external guarantees provided by the Company and its subsidiaries is RMB9,077.4258 million, representing 20.01% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2020.

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As of the disclosure date of the announcement of the Board of the Company on 26 March 2021, the Company and its controlled subsidiaries have no overdue guarantee matter.

The above resolution 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 submitted to the Shareholders' general meeting to authorize the Board of the Directors, which shall then authorize the management of the Company, to implement, in accordance with the guarantee management system of the Company, the specific guarantee proposals within the aforementioned guarantee amount.

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PROPOSAL REGARDING PUBLIC ISSUANCE OF CORPORATE BONDS

In order to meet the strategic planning of the Company and the demands for business development, expand the financing channel of the Company, optimize the existing financing structure, reasonably control the overall financing cost of the Company and better utilize the financial leverage, the Company proposes to issue corporate bonds.

I. OVERVIEW OF THE ISSUANCE

(I) Face value and issuing price of bonds to be issued and scale of issuance

The unit face value of corporate bonds to be issued this time shall be RMB100, the total face value of corporate bonds shall not be more than RMB20 billion (inclusive). The issuance will be made in one or more tranches. The shareholders' general meeting is requested to authorize the executive committee of the Board to determine the specific scale of issuance within the above scope in accordance with the PRC laws and regulations as well as the relevant requirements of the securities regulatory authorities and according to the Company's need for funds and the market conditions at the time of issuance.

(II) Interest rate of bonds and its way of determination

The corporate bonds proposed to be issued this time will be issued at face value with a fixed interest rate, which is calculated on an annual basis without compound interest. The specific nominal interest rate of the bonds will be determined through negotiations between the issuer and the principal underwriter according to related provisions of the state. The shareholders' general meeting is requested to authorize the executive committee of the Board to determine and adjust the interest rate of issuance or its way of determination.

(III) Variety and term of bonds

The corporate bonds to be issued include the public issuance of general corporate bonds, renewable corporate bonds and short-term corporate bonds, etc.

Proposals shall be submitted to the shareholders' general meeting to authorize the executive committee of the Board to determine the specific term structure (including but not limited to whether rights attachment is designed, whether redemption terms or sale back terms are designed and the particulars thereof, and whether the option to adjust the coupon rate is designed and the particulars thereof), term composition, and the issue size of each variety at that time of issuance in accordance with relevant regulations and market conditions.

(IV) Method of principal and interest repayment

It is submitted to the shareholders' general meeting to authorize the executive committee of the Board to determine the specific method of repayment according to the market conditions and relevant regulations upon its issuance.

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(V) Method of issuance

These corporate bonds will be publicly issued in one or more tranches in China after obtaining the registration of the China Securities Regulatory Commission (the “CSRC”). The shareholders’ general meeting is requested to authorize the executive committee of the Board to determine the specific way of issuance within the above scope according to the Company’s need for funds and the market conditions at the time of issuance.

(VI) Target of issuance and arrangement of placement to shareholders of the Company

The target subscribers of these corporate bonds are professional investors who meet the criteria under the Securities Law of the People’s Republic of China (《中華人民共和國證券法》) (Revised in 2019), Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》), Administrative Measures for the Eligibility of the Investors of Securities and Futures (《證券期貨投資者適當性管理辦法》), the Administrative Measures of the Shanghai Stock Exchange for Suitability of Investors in the Bond Market (《上海證券交易所債券市場投資者適當性管理辦法》) and relevant laws and regulations to participate in bond subscription and transfer (except those prohibited by national laws and regulations from purchase). These corporate bonds will not be preferentially allocated to the shareholders of the Company for placement.

(VII) Use of proceeds

After deducting the issuance costs, the funds raised through this issuance of corporate bonds will be used for repaying interest-bearing debts and replenishing working capital the Company or its subsidiaries or other usages in compliance with laws and regulations. Proposals will be submitted to the shareholders’ general meeting to authorize the executive committee of the Board to determine the use of proceeds within the aforementioned scope based on the Company’s financial position and capital needs.

(VIII) Guarantees

Proposals will be submitted to the shareholders’ general meeting to authorize the executive committee of the Board to determine whether the corporate bonds will be guaranteed and specific guarantee methods in accordance with relevant regulations and market conditions.

(IX) Measures to guarantee bonds repayment

According to related provisions, the shareholders’ general meeting is requested to authorize the executive committee of the Board to take, at least, the following measures when there is any failure in timely repayment of principal and interest of the bonds as expected or upon maturity:

- (1) not to distribute the profits to shareholders;
- (2) suspend the implementation of projects that incur capital expenditure such as material external investments, acquisitions and mergers;

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- (3) payment of salary and bonus of the directors and senior management of the Company shall be adjusted, reduced or ceased;
- (4) key personnel accountable for such event shall not be allowed for re-designation.

(X) Way of underwriting

It is proposed that an underwriting group should be formed by the principal underwriters and underwrite the bonds by way of standby commitment.

(XI) Listing arrangements

Upon completion of the issuance of corporate bonds and satisfaction of the listing conditions, the Company will promptly submit an application to Shanghai Stock Exchange for the listing and public trading of the proposed corporate bonds. When approved by the regulatory authorities, the corporate bonds may also be listed for public trading in other exchanges allowed by applicable laws. The shareholders' general meeting is requested to authorize the executive committee of the Board to determine the specific exchanges according to related laws and regulations, approvals of regulatory authorities and the market conditions.

(XII) Period of validity of the resolution

The resolution of the shareholders' general meeting on these corporate bonds shall be valid for 12 months from the date of approval by the shareholders' general meeting of the Company. During the aforementioned validity period, if the Company submits the registration of this corporate bond issuance to the CSRC, the validity period of this resolution shall be automatically extended to the date on which the issuance of all of these corporate bonds is fully completed or the expiry date of the validity of approval/registration documents for this corporate bonds granted by the CSRC, whichever is later. During the aforementioned validity period, the shareholders' general meeting of the Company may convene a separate shareholders' general meeting in relation to this corporate bonds issuance to decide whether to terminate or extend the validity period of this resolution.

(XIII) Authorizations regarding this issuance to the executive committee of the board

According to the arrangements of the proposed issuance of corporate bonds and in order to enhance the efficiency of work related to the issuance and listing of the proposed corporate bonds, the Company's shareholders' general meeting is requested to authorize the board of directors of the Company executive committee to handle all related issues with full authority, including but not limited to:

- (1) to decide and engage agencies related to this issuance of corporate bonds.
- (2) according to the relevant requirements of national laws, regulations and the securities regulatory authorities, and as per the actual conditions of the Company and the market to decide the specific distribution plan for this issuance of corporate bonds, modify and adjust the terms for this issuance of corporate bonds, including but not limited to, the

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specific issuance size, method, placement arrangement, effective term of bonds, variety of bonds, interest rate of bonds or the method to determine the interest rate, issuance timing, issuance plan, including whether issuance in tranches, number of tranches, and the issuance size of each tranche, whether setting up sale back terms or redemption terms and the specific contents of the terms, formulating guarantee programs, ratings arrangement, specific subscription methods, arrangement for repaying principal and interests, order of reimbursement, guarantee for bonds repayment, and listing arrangement, and any other matters related to the issuance terms; and to decide the specific use of the raised funds within the use scope of such funds determined in the shareholders' general meeting, and any other matters.

- (3) to develop, approve, execute, modify and publish all legal documents related to this issuance of corporate bonds, and make appropriate supplements or adjustments to the declaration documents as per the requirements of the regulatory authorities.
- (4) to carry out negotiations on issuance and listing of corporate bonds on behalf of the Company and appropriate information disclosure.
- (5) to select entrusted manager of the bonds, execute agreements for entrusted management of the bonds, and develop the rules for meeting of bond holders.
- (6) upon the completion of this issuance, to deal with all listing matters of this issuance of corporate bonds.
- (7) In the case of any change to the national laws, regulations, or related policies of the regulatory authorities, or the market conditions, except those matters which must be re-resolved by the shareholders' general meeting according to related laws, regulations and Articles of Association, make appropriate adjustments to matters related to this issuance of the corporate bonds as per the requirements of relevant laws, regulations, and Articles of Association, and the opinions of the regulatory authorities (if any), or decide whether continue to implement this issuance of corporate bonds according to the actual conditions.
- (8) to be fully responsible for dealing with any other matters related to this issuance and listing of corporate bonds
- (9) This authorization shall be valid for 12 months from the date of approval by the shareholders' general meeting. During the aforementioned validity period, if the Company submits the registration of this corporate bond issuance to the CSRC, the validity period of this authorization shall be automatically extended to the date on which the issuance of all of these corporate bonds is fully completed or the expiry date of the validity of approval/registration documents for this corporate bonds granted by the CSRC, whichever is later. During the aforementioned validity period, the shareholders' general meeting of the Company may convene a separate shareholders' general meeting in relation to this authorization to decide whether to terminate or extend the validity period of this authorization.

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II. BRIEF FINANCIAL AND ACCOUNTING INFORMATION OF THE ISSUER

(I) Balance sheets, profit statements and cash flow statements for the last three years

1. Consolidated financial statements for the last three years

(1) Consolidated balance sheet

Unit: RMB0'000

Item	31 December 2020	31 December 2019	31 December 2018
Current asset			
Monetary funds	2,229,623.27	1,815,281.77	1,869,466.90
Derivative financial assets	50.13	302.70	518.98
Notes and accounts receivable	–	–	4,397,203.61
Notes receivable	29,053.93	27,411.95	–
Accounts receivable	5,274,590.59	4,733,980.35	–
Receivables financing	248,537.37	218,705.95	–
Prepayments	238,993.07	193,745.61	204,945.24
Other receivables	200,945.65	220,296.08	229,174.30
Inventories	2,408,825.77	2,487,735.68	2,502,401.03
Assets classified as held-for-sale	–	–	630.44
Non-current assets due within one year	10,532.51	2,325.77	21,180.42
Other current assets	115,140.34	109,372.26	102,267.33
Total current assets	10,756,292.62	9,809,158.14	9,327,788.26
Non-current asset			
Long-term receivables	16,984.69	26,564.21	31,597.54
Long-term equity investments	665,106.40	485,377.91	436,660.48
Other equity instrument investments	3,305.17	19,418.40	16,231.25
Other non-current financial assets	97,855.70	38,439.82	11,964.91
Investment properties	23,528.81	29,231.92	30,582.86
Fixed assets	1,049,071.57	944,567.51	859,616.84
Projects under construction	173,720.40	164,989.64	159,839.54
Productive biological assets	40,581.83	41,014.50	40,981.17
Right-of-use assets	199,265.09	162,209.64	–
Intangible assets	519,525.38	393,037.18	411,746.63
Development expenditure	22,382.56	21,159.33	16,569.88

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Item	31 December 2020	31 December 2019	31 December 2018
Goodwill	1,134,226.82	1,078,991.85	1,134,528.61
Long-term unamortized expenses	41,532.05	39,479.99	40,325.08
Deferred income tax assets	135,936.34	122,250.76	103,792.53
Other non-current assets	39,250.13	326,748.79	65,707.87
Total non-current assets	4,162,272.93	3,893,481.45	3,360,145.19
Total assets	14,918,565.55	13,702,639.59	12,687,933.45

Unit: RMB0'000

Item	31 December 2020	31 December 2019	31 December 2018
Current liabilities			
Short-term borrowings	2,013,918.59	2,313,868.72	1,934,029.68
Derivative financial liabilities	931.49	172.45	45.83
Notes and accounts payable	–	–	3,514,796.70
Notes payable	493,072.63	505,347.34	–
Accounts payable	3,286,144.02	3,181,898.55	–
Contract liabilities	131,083.73	153,419.91	135,713.67
Staff compensation payable	127,396.59	109,085.67	90,033.76
Taxes payable	147,806.75	121,542.08	104,219.03
Other payables	1,214,279.75	956,569.20	822,300.27
Non-current liabilities due within one year	896,803.78	118,860.23	269,837.86
Other current liabilities	501,861.64	–	–
Total current liabilities	8,813,298.96	7,460,764.15	6,870,976.80
Non-current liabilities			
Long-term borrowings	118,407.83	613,599.28	662,299.17
Bonds payable	–	299,822.87	299,730.56
Lease liabilities	150,102.18	115,563.89	–
Long-term payables	35,357.47	41,562.80	47,167.44
Accrued liabilities	2,576.07	7,092.32	9,910.42
Deferred incomes	222,406.91	127,872.63	50,333.22
Long-term staff compensation payable	4,641.11	4,809.59	5,194.67
Deferred income tax liabilities	83,237.55	80,959.91	86,691.20
Other non-current liabilities	14,464.50	11,999.32	12,302.97

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Item	31 December 2020	31 December 2019	31 December 2018
Total non-current liabilities	631,193.61	1,303,282.60	1,173,629.65
Total liabilities	9,444,492.57	8,764,046.76	8,044,606.45
Equity interests			
Share capital	284,208.93	284,208.93	284,208.93
Capital reserve	1,589,758.79	1,572,060.18	1,584,503.35
Other comprehensive income	-26,541.08	-54,222.91	-49,263.90
Surplus reserve	182,605.83	166,768.45	148,844.34
Undistributed profits	2,505,435.30	2,197,090.81	1,933,064.32
Total equity interests attributable to shareholders of parent company	4,535,467.77	4,165,905.47	3,901,357.04
Minority interests	938,605.21	772,687.35	741,969.95
Total equity interests	5,474,072.98	4,938,592.83	4,643,327.00
Total liabilities and equity interests	14,918,565.55	13,702,639.59	12,687,933.45

Note: Certain non-applicable cases in the above table are due to the implementation of new accounting standards and financial statement formats in 2018 and 2019. The financial figures of the previous years will not be restated here.

(2) Consolidated profit statement

Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Operating revenues	19,190,915.62	18,656,579.65	15,908,439.69
Less: Operating costs	16,447,396.12	15,975,166.96	13,652,146.86
Taxes and surcharges	59,299.44	54,475.84	50,902.69
Sales expenses	1,286,484.39	1,285,572.31	1,105,809.87
Overhead expenses	473,179.43	465,157.34	407,510.75
R&D expenditure	165,667.08	134,950.41	106,077.09
Financial expenses – net	123,958.44	125,877.22	123,045.54
Assets impairment loss	89,861.63	109,312.21	99,551.75
Credit impairment loss	-3,965.77	21,107.17	8,463.88
Add: other income	54,889.81	51,706.35	37,673.90
Investment incomes	97,619.45	65,378.23	126,308.73
In which: gains on investments in associates and joint ventures	100,954.72	76,518.58	64,771.02

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Item	Year 2020	Year 2019	Year 2018
Gains/(losses) on changes in fair value	11,679.78	12,216.25	1,589.37
Gains/(losses) on assets disposal	5,214.92	7,133.65	329.97
Operating profits	718,438.81	621,394.67	520,833.23
Add: Non-operating incomes	19,272.57	15,285.06	25,885.61
Less: Non-operating expenses	20,163.13	10,433.06	12,381.05
Total profits	717,548.26	626,246.67	534,337.79
Less: Income tax expenses	157,021.85	143,172.47	88,711.70
Net profits	560,526.40	483,074.20	445,626.09
Less: Profit and loss of minority shareholders	110,904.71	74,974.83	57,519.81
Net profits attributable to owners of parent company	449,621.70	408,099.37	388,106.29
Net after-tax amount of other comprehensive income	26,757.27	-5,701.32	-47,514.92
Net after-tax amount of other comprehensive income attributable to shareholders of parent company	27,256.01	-4,959.01	-42,716.68
Other comprehensive income that cannot be reclassified to profit or loss	-1,016.98	3,187.15	-5,926.54
Changes in fair value of other equity instrument investments	-1,016.98	3,187.15	-5,926.54
Other comprehensive income to be reclassified to profit or loss	28,272.99	-8,146.16	-36,790.15
Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	269.43	1.28	-294.24
Credit impairment provision for other debt investments	33.72	115.09	96.45
Exchange differences on translation of financial statements denominated in foreign currencies	27,969.85	-8,262.52	-36,592.36
Net after-tax amount of other comprehensive income attributable to minority shareholders	-498.74	-742.31	-4,798.24
Total comprehensive income	587,283.68	477,372.88	398,111.17

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Item	Year 2020	Year 2019	Year 2018
Less: Total comprehensive income attributable to minority shareholders	110,405.97	74,232.52	52,721.57
Total comprehensive income attributable to ordinary shareholders of parent company	476,877.71	403,140.36	345,389.60
Earnings per share (RMB):			
Basic earnings per share	1.58	1.44	1.3717
Diluted earnings per share	1.58	1.44	1.3717

Note: Certain non-applicable cases in the above table are due to the implementation of new accounting standards and financial statement formats in 2018 and 2019. The financial figures of the previous years will not be restated here.

(3) Consolidated cash flow statement

Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Cash flow generated from operating activities:			
Cash received from sales of goods and provision of labor services	21,000,099.78	20,473,497.10	18,068,926.36
Tax refunds received	6,665.81	6,746.91	5,818.09
Other cash received related to operating activities	191,059.85	214,727.37	127,932.85
Subtotal of cash inflow from operating activities	21,197,825.44	20,694,971.38	18,202,677.29
Cash paid for goods purchased and labor services accepted	18,016,564.01	17,670,349.71	15,656,600.87
Cash paid to and for staff	774,877.43	762,193.81	615,579.40
Taxes paid	591,608.16	568,908.72	569,672.98
Other cash paid related to operating activities	1,130,303.78	1,091,280.57	1,047,312.67
Subtotal of cash outflow for operating activities	20,513,353.37	20,092,732.82	17,889,165.92
Net cash flow generated from operating activities	684,472.06	602,238.56	313,511.38
Cash flow generated from investment activities:			
Cash received from disinvestment	417,290.31	90,543.87	90,837.15

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Item	Year 2020	Year 2019	Year 2018
Cash received from investment incomes	63,315.33	36,613.59	42,339.21
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	38,385.90	14,190.34	6,417.48
Net cash received from disposal of subsidiaries and other business units	11,013.33	6,590.29	10,455.67
Other cash received related to investment activities	415,336.54	126,923.29	5,451.35
Subtotal of cash inflow from investment activities	945,341.42	274,861.39	155,500.85
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	300,997.13	275,312.54	194,304.42
Cash paid for investments	449,091.40	104,138.78	104,756.39
Net cash paid for acquisition of subsidiaries and other business units	215,578.83	75,958.78	530,203.45
Other cash paid related to investment activities	150,241.70	277,879.04	95,510.59
Subtotal of cash outflow for investment activities	1,115,909.06	733,289.15	924,774.85
Net cash flow generated from investment activities	-170,567.64	-458,427.75	-769,274.00
Cash flow generated from financing activities:			
Cash received from capital contribution	14,154.64	2,853.70	262,475.01
In which: cash received by subsidiaries from minority shareholders	14,154.64	2,853.70	9,544.66
Cash received from borrowings	3,676,915.96	4,004,661.36	6,060,748.75
Cash received from issue of bonds	1,249,581.25	-	299,700.00
Other cash received related to financing activities	167,281.36	40,338.39	53,566.12
Subtotal of cash inflow from financing activities	5,107,933.21	4,047,853.45	6,676,489.88
Cash paid for repayment of debts	4,757,548.00	3,834,030.65	5,320,658.36
Cash paid for distribution of dividends, profits or repayment of interests	351,761.83	301,424.78	267,785.69
In which: dividends and profits paid by subsidiaries to minority shareholders	109,922.37	43,008.43	32,009.43
Other cash paid related to financing activities	124,746.37	144,977.87	335,413.73

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Item	Year 2020	Year 2019	Year 2018
Subtotal of cash outflow for financing activities	5,234,056.19	4,280,433.31	5,923,857.79
Net cash flow generated from financing activities	-126,122.98	-232,579.85	752,632.09
Impacts of exchange rate movement on cash	-1,762.75	-160.63	6,744.59
Net increase of cash and cash equivalents	386,018.69	-88,929.68	303,614.06
Opening balance of cash and cash equivalents	1,571,625.79	1,660,555.47	1,356,941.41
Ending balance of cash and cash equivalents	1,957,644.48	1,571,625.79	1,660,555.47

2. Financial statements of parent company for the last three years

(1) Balance sheet of parent company

Unit: RMB0'000

Item	31 December 2020	31 December 2019	31 December 2018
Current asset			
Monetary funds	457,960.48	368,830.68	161,737.68
Prepayments	79.06	48.25	49.73
Other receivables	1,876,516.18	1,667,640.05	1,061,292.77
Other current assets	-	-	-
Total current assets	2,334,555.72	2,036,518.98	1,223,080.18
Non-current asset			
Long-term equity investments	2,354,078.51	2,250,823.62	2,122,536.17
Other non-current financial assets	49,858.39	2,520.67	2,488.99
Fixed assets	6,589.62	5,539.44	5,445.16
Projects under construction	4,240.95	1,781.16	3,184.26
Right-of-use assets	9,253.49	548.55	-
Intangible assets	12,671.23	9,051.81	8,626.48
Long-term unamortized expenses	104.92	90.14	106.92
Other non-current assets	197.10	153.57	-
Total non-current assets	2,436,994.21	2,270,508.96	2,142,387.98
Total assets	4,771,549.93	4,307,027.94	3,365,468.15

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Unit: RMB0'000

Item	31 December 2020	31 December 2019	31 December 2018
Current liabilities			
Short-term borrowings	120,118.03	270,322.99	60,000.00
Notes and accounts payable	-	-	1,011.22
Accounts payable	7,271.23	2,085.29	-
Contract liabilities	420.72	420.72	420.72
Staff compensation payable	4,036.49	4,327.73	2,503.40
Taxes payable	501.17	1,050.03	626.29
Other payables	1,140,663.74	1,144,231.42	282,542.66
Non-current liabilities due within one year	304,538.90	2,399.65	199,994.18
Other current liabilities	501,861.64	-	-
Total current liabilities	2,079,411.93	1,424,837.83	547,098.47
Non-current liabilities			
Long-term borrowings	58,049.99	-	-
Bonds payable	-	299,822.87	299,730.56
Lease liabilities	6,830.50	-	-
Deferred incomes	3,535.62	4,313.13	3,424.50
Deferred income tax liabilities	585.97	585.97	585.97
Total non-current liabilities	69,002.08	304,721.98	303,741.03
Total liabilities	2,148,414.01	1,729,559.82	850,839.49
Equity interests			
Share capital	284,208.93	284,208.93	284,208.93
Capital reserve	1,896,951.62	1,884,785.83	1,884,662.69
Other comprehensive income	29.26	-150.94	-151.79
Surplus reserve	145,494.90	129,657.53	111,733.42
Undistributed profits	296,451.20	278,966.77	234,175.41
Total equity interests	2,623,135.92	2,577,468.12	2,514,628.66
Total liabilities and equity interests	4,771,549.93	4,307,027.94	3,365,468.15

Note: Certain non-applicable cases in the above table are due to the implementation of new accounting standards and financial statement formats in 2018 and 2019. The financial figures of the previous years will not be restated here.

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(2) Profit statement of parent company

Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Operating revenues	18,370.11	14,472.48	10,803.43
Less: Operating costs	206.79	207.02	831.28
Taxes and surcharges	142.30	263.03	71.14
Overhead expenses	23,045.23	26,784.16	17,448.55
R&D expenditure	33,649.49	21,226.35	15,496.11
Financial expenses – net	35,632.92	19,087.34	4,658.80
Assets impairment loss	–	–	–
Credit impairment loss	524.60	1,519.54	828.43
Add: Other income	2,284.62	1,096.34	3,286.07
Investment incomes	230,820.39	232,928.69	191,712.47
In which: gains on investments in associates and joint ventures	24,435.11	16,955.13	11,359.11
Gains/(losses) on changes in fair value	292.01	31.69	341.55
Gains/(losses) on assets disposal	–	–	-19.12
Operating profits	158,565.79	179,441.74	166,790.09
Add: Non-operating incomes	–	23.72	2.39
Less: Non-operating expenses	192.05	213.31	265.00
Total profits	158,373.74	179,252.15	166,527.48
Net profits	158,373.74	179,252.15	166,527.48
Net after-tax amount of other comprehensive income	180.20	0.85	-208.33
Net after-tax amount of other comprehensive income attributable to shareholders of parent company	180.20	0.85	-208.33
Other comprehensive income to be reclassified to profit and loss	180.20	0.85	-208.33
Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	180.20	0.85	-208.33
Total comprehensive income	158,553.94	179,253.00	166,319.15

Note: Certain non-applicable cases in the above table are due to the implementation of new accounting standards and financial statement formats in 2018 and 2019. The financial figures of the previous years will not be restated here.

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(3) Cash flow statement of parent company

Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Cash flow generated from operating activities:			
Cash received from sales of goods and provision of labor services	21,377.33	17,249.34	11,360.95
Tax refunds received	-	-	1,692.39
Other cash received related to operating activities	69,348.32	59,238.27	48,561.12
Subtotal of cash inflow from operating activities	90,725.66	76,487.61	61,614.46
Cash paid for goods purchased and labor services accepted	1,034.25	1,365.83	1,243.57
Cash paid to and for staff	18,292.52	18,528.99	13,591.99
Taxes paid	390.93	1,225.85	71.14
Other cash paid related to operating activities	92,336.73	74,142.66	73,391.63
Subtotal of cash outflow for operating activities	112,054.43	95,263.33	88,298.32
Net cash flow generated from operating activities	-21,328.77	-18,775.73	-26,683.86
Cash flow generated from investment activities:			
Cash received from disinvestment	401,024.20	90,514.06	90,347.47
Cash received from investment incomes	178,522.11	174,258.24	170,172.81
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4.64	1.07	32.94
Other cash received related to investment activities	413,142.82	333,323.99	363,500.00
Subtotal of cash inflow from investment activities	992,693.78	598,097.36	624,053.22
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	8,609.12	4,091.90	3,481.97
Cash paid for investments	447,045.70	90,050.00	90,030.00
Net cash paid for acquisition of subsidiaries and other business units	12,572.00	4,191.67	21,762.86
Other cash paid related to investment activities	714,767.30	432,718.53	778,789.96

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Item	Year 2020	Year 2019	Year 2018
Subtotal of cash outflow for investment activities	1,182,994.12	531,052.09	894,064.79
Net cash flow generated from investment activities	-190,300.33	67,045.27	-270,011.57
Cash flow generated from financing activities:			
Cash received from capital contribution	-	-	252,930.35
Cash received from borrowings	398,000.00	270,000.00	260,000.00
Cash received from issue of bonds	1,249,581.25	-	299,700.00
Other cash received related to financing activities	18,574.04	267,383.39	18,553.96
Subtotal of cash inflow from financing activities	1,666,155.29	537,383.39	831,184.31
Cash paid for repayment of debts	1,240,000.00	260,000.00	410,000.00
Cash paid for distribution of dividends, profits or repayment of interests	134,403.82	128,986.20	119,556.48
Other cash paid related to financing activities	21,516.13	17,931.95	5,943.02
Subtotal of cash outflow for financing activities	1,395,919.95	406,918.15	535,499.50
Net cash flow generated from financing activities	270,235.34	130,465.24	295,684.81
Impacts of exchange rate movement on cash	522.44	-645.08	-3,972.88
Net increase of cash and cash equivalents	59,128.67	178,089.71	-4,983.51
Opening balance of cash and cash equivalents	339,827.19	161,737.48	166,720.99
Ending balance of cash and cash equivalents	398,955.86	339,827.19	161,737.48

(II) Scope of and changes in consolidated statements of the company in the last three years

1. Major subsidiaries included in the consolidated financial statements

Enterprise name	Place of registration	Registered capital (RMB100,000,000)	Proportion of shareholding (direct + indirect)
Shanghai Pharma Co., Ltd	Shanghai	50.00	100.00%
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Haikou	13.00	100.00%
Shanghai Sine Pharmaceutical Factory Co., Ltd.	Shanghai	11.92	100.00%

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Enterprise name	Place of registration	Registered capital (RMB100,000,000)	Proportion of shareholding (direct + indirect)
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd.	Shanghai	2.25	100.00%
SPH New Asia Pharmaceutical Co., Ltd.	Shanghai	10.52	96.90%
Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai	14.76	100.00%
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Hangzhou	1.29	75.00%
SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)	Changzhou	1.58	75.89%
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Shanghai	5.46	100.00%
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Qingdao	0.93	67.52%
Hangzhou Hu Qing Yu Tang Pharmaceutical Co., Ltd.	Hangzhou	1.35	51.01%
Xiamen Traditional Chinese Medicine Co., Ltd.	Xiamen	2.00	61.00%
Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限公司)	Benxi	0.51	55.00%
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	Shanghai	0.94	100.00%
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	Shanghai	1.01	100.00%
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	Shanghai	1.27	100.00%
SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	Nantong	1.41	100.00%
Shanghai Pharmaceutical Medicine Sales Co., Ltd.	Shanghai	0.50	100.00%
Zeus Investment Limited	Hong Kong	AUD3.19	59.61%
TECHPOOL Bio-pharma Co., Ltd.	Guangzhou	1.00	67.14%

2. Changes in the scope of consolidation of the Company for last three years

(1) Changes in the scope of consolidated statements for Year 2018

1) Subsidiaries newly included in the scope of consolidation

Compared with the end of 2017, major enterprises included in the consolidated statements by the Company by the end of 2018 increased six. Changes and reasons are as follows:

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No.	Time	Scope of changes	Reason
1	2018	Cardinal Health (L) Co., Ltd.	Acquired not under common control
2	2018	Jiangsu Dazhong Pharmaceutical Logistics Co., Ltd. (江蘇大眾醫藥物流有限公司)	Acquired not under common control
3	2018	SPH Anhui Pharmaceutical Co., Ltd. (上藥控股安徽有限公司)	Acquired not under common control
4	2018	TECHPOOL Bio-pharma Co., Ltd.	Acquired not under common control
5	2018	Liaoning Medical Foreign Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Acquired not under common control
6	2018	Zhejiang Jiuxu Pharmaceutical Co., Ltd. (浙江九旭藥業有限公司)	Acquired not under common control

2) Subsidiaries no longer included in the scope of consolidation

Nil.

(2) *Changes in the scope of consolidated statements for Year 2019*

1) Subsidiaries newly included in the scope of consolidation

Compared with the end of 2018, major enterprise included in the consolidated statements by the Company by the end of 2019 increased one. Change and reason are as follow:

No.	Time	Scope of change	Reason
1	2019	Chongqing SPH Huiyuan Pharmaceutical Co., Ltd.	Acquired not under common control

2) Subsidiaries no longer included in the scope of consolidation

Nil.

(3) *Changes in the scope of consolidated statements for Year 2020*

1) Subsidiaries newly included in the scope of consolidation

Compared with the end of 2019, major enterprise included in the consolidated statements by the Company by the end of 2020 increased one. Change and reason are as follow:

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No.	Time	Scope of change	Reason
1	2020	Sichuan Guojia Pharmaceutical Science & Technology Co., Ltd.	Acquired not under common control

2) Subsidiaries no longer included in the scope of consolidation

Nil.

(III) Key financial indicators in the last three years

1. The key financial indicators

The key financial indicators in the range of consolidated statements of the issuer in the last three years are as follows:

Key financial indicators	31 December 2020/Year 2020	31 December 2019/Year 2019	31 December 2018/Year 2018
Current ratio	1.22	1.31	1.36
Quick ratio	0.93	0.97	0.98
Asset-liability ratio	63.31%	63.96%	63.40%
Net assets per share attributable to shareholders of parent company (RMB)	15.96	14.66	13.73
Turnover of accounts receivable (times)	3.83	4.17	4.33
Turnover of inventories (times)	6.72	6.40	6.46
Net cash flow per share generated from operating activities (RMB)	2.41	2.12	1.10
Net cash flow per share (RMB)	1.36	-0.31	1.07

Note: The above financial indicators are calculated as follows:

- (1) Current ratio = current assets/current liabilities;
- (2) Quick ratio = (current assets – inventories – other current assets)/current liabilities;
- (3) Asset-liability ratio = total liabilities/total assets;
- (4) Net assets per share = ending equity attributable to shareholders of parent company/ share capital;
- (5) Turnover of accounts receivable (times) = operating revenue/average balance of accounts receivable;
- (6) Turnover of inventories (times) = operating cost/average balance of inventories;

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- (7) Net cash flow per share generated from operating activities = net cash flow generated from operating activities/share capital;
- (8) Net cash flow per share = increase in cash and cash equivalents/total share capital.

2. *Earnings per share and net return on assets*

The net return on assets and earnings per share (in the range of consolidated statements) calculated according to requirements in the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Net Return on Assets and Earnings Per Share (revised in 2010) issued by the CSRC are as follows:

Year	Item	Weighted average net return on assets (%)	Earnings per share (RMB/share)	
			Basic	Diluted
Year 2020	Net profits attributable to ordinary shareholders of the company	10.34	1.58	1.58
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	8.79	1.34	1.34
Year 2019	Net profits attributable to ordinary shareholders of the company	10.12	1.44	1.44
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	8.58	1.22	1.22
Year 2018	Net profits attributable to ordinary shareholders of the company	10.34	1.37	1.37
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	7.06	0.94	0.94

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3. Details of non-recurring profit and loss

The non-recurring profit and loss for the reporting period are disclosed according to requirements in Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Non-recurring Profit and Loss [2008] issued by the CSRC. The statement of non-recurring profit and loss of the Company for the last three years is as follows:

Unit: RMB

Item	Year 2020	Year 2019	Year 2018
Profit and loss from disposal of non-current assets	121,927,393.32	137,783,794.01	749,840,130.38
Governmental grants credited into current profit and loss (except governmental grants closely related to business of the enterprise and enjoyed according to uniform standard quota or volume of the state)	543,156,846.45	352,660,731.72	430,682,499.51
Profit and loss from changes in fair value of financial assets held for trading and financial liabilities held for trading as well as investment incomes from the disposal of financial assets held for trading, financial liabilities held for trading and financial assets available for sale, except effective hedging business related to the normal operation of the Group	134,409,436.48	127,995,557.08	23,056,007.83
Reversal of impairment provision for accounts receivable used for impairment test separately	51,767,019.97	2,776,584.91	95,709,545.97
Non-operating incomes and expenses other than above	-8,905,578.93	48,519,990.45	-37,712,211.72
Other profit and loss items meeting the definition of non-recurring profit and loss	33,435,397.74	148,754,784.49	188,643,997.55
Effect of income taxes	-142,128,883.59	-115,211,345.85	-101,389,967.46
Effect of minority interests (after tax)	-58,656,474.03	-83,114,781.08	-119,892,752.41
Total	675,005,157.41	620,165,315.73	1,228,937,249.65

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(IV) Analysis opinion of the management

Based on the financial statements for the last three years, the Company's management analyzes the asset-liability structure, cash flow, profitability, future business targets as well as sustainability of profitability of the Company in the range of consolidated statements as follows:

1. Analysis of asset structure

(1) Assets

Unit: RMB0'000

Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Current assets	10,756,292.62	72.10%	9,809,158.14	71.59%	9,327,788.26	73.52%
Non-current assets	4,162,272.93	27.90%	3,893,481.45	28.41%	3,360,145.19	26.48%
Total assets	14,918,565.55	100.00%	13,702,639.59	100.00%	12,687,933.45	100.00%

At the end of each reporting period, total assets of the Company increased year by year, and the total asset structure was relatively stable. The current asset structure of the Company meets the existing operating features of the Company, indicating that the Company has a mature business mode which matches the basic conditions of the Company.

(2) Analysis of current assets

Unit: RMB0'000

Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Monetary funds	2,229,623.27	20.73%	1,815,281.77	18.51%	1,869,466.90	20.04%
Derivative financial assets	50.13	0.00%	302.70	0.00%	518.98	0.01%
Notes and accounts receivable	-	-	-	-	4,397,203.61	47.14%
Notes receivable	29,053.93	0.27%	27,411.95	0.28%	-	-
Accounts receivable	5,274,590.59	49.04%	4,733,980.35	48.26%	-	-
Receivables financing	248,537.37	2.31%	218,705.95	2.23%	-	-
Prepayments	238,993.07	2.22%	193,745.61	1.98%	204,945.24	2.20%
Other receivables	200,945.65	1.87%	220,296.08	2.25%	229,174.30	2.46%
Inventories	2,408,825.77	22.39%	2,487,735.68	25.36%	2,502,401.03	26.83%

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Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Assets classified as held-for-sale	-	-	-	-	630.44	0.01%
Non-current assets due within one year	10,532.51	0.10%	2,325.77	0.02%	21,180.42	0.23%
Other current assets	115,140.34	1.07%	109,372.26	1.12%	102,267.33	1.10%
Total current assets	10,756,292.62	100.00%	9,809,158.14	100.00%	9,327,788.26	100.00%

As at 31 December 2018, 2019 and 2020, the total amount of current assets of the Company were RMB93,277,882,600, RMB98,091,581,400 and RMB107,562,926,200, respectively, accounting for 73.52%, 71.59% and 72.10% of the total assets, respectively. The current assets mainly consist of monetary funds, accounts receivable and inventories and thus the Company has a relatively good liquidity.

(3) Analysis of non-current assets

Unit: RMB0'000

Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Long-term receivables	16,984.69	0.41%	26,564.21	0.68%	31,597.54	0.94%
Long-term equity investments	665,106.40	15.98%	485,377.91	12.47%	436,660.48	13.00%
Other equity instrument investments	3,305.17	0.08%	19,418.40	0.50%	16,231.25	0.48%
Other non-current financial assets	97,855.70	2.35%	38,439.82	0.99%	11,964.91	0.36%
Investment properties	23,528.81	0.57%	29,231.92	0.75%	30,582.86	0.91%
Fixed assets	1,049,071.57	25.20%	944,567.51	24.26%	859,616.84	25.58%
Projects under construction	173,720.40	4.17%	164,989.64	4.24%	159,839.54	4.76%
Productive biological assets	40,581.83	0.97%	41,014.50	1.05%	40,981.17	1.22%
Right-of-use assets	199,265.09	4.79%	162,209.64	4.17%	-	-

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Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Intangible assets	519,525.38	12.48%	393,037.18	10.09%	411,746.63	12.25%
Development expenditure	22,382.56	0.54%	21,159.33	0.54%	16,569.88	0.49%
Goodwill	1,134,226.82	27.25%	1,078,991.85	27.71%	1,134,528.61	33.76%
Long-term unamortized expenses	41,532.05	1.00%	39,479.99	1.01%	40,325.08	1.20%
Deferred income tax assets	135,936.34	3.27%	122,250.76	3.14%	103,792.53	3.09%
Other non-current assets	39,250.13	0.94%	326,748.79	8.39%	65,707.87	1.96%
Total non-current assets	4,162,272.93	100.00%	3,893,481.45	100.00%	3,360,145.19	100.00%

As at 31 December 2018, 2019 and 2020, the total amount of non-current assets of the Company were RMB33,601,451,900, RMB38,934,814,500 and RMB41,622,729,300, respectively, accounting for 26.48%, 28.41% and 27.90% of the total assets, respectively. The non-current assets mainly consist of long-term equity investments, fixed assets, intangible assets and goodwill.

2. Analysis of liability structure

Unit: RMB0'000

Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Short-term loans	2,013,918.59	21.32%	2,313,868.72	26.40%	1,934,029.68	24.04%
Derivative financial liabilities	931.49	0.01%	172.45	0.00%	45.83	0.00%
Notes and accounts payable	-	-	-	-	3,514,796.70	43.69%
Notes payable	493,072.63	5.22%	505,347.34	5.77%	-	-
Accounts payable	3,286,144.02	34.79%	3,181,898.55	36.31%	-	-
Contract liabilities	131,083.73	1.39%	153,419.91	1.75%	135,713.67	1.69%
Staff compensation payable	127,396.59	1.35%	109,085.67	1.24%	90,033.76	1.12%
Taxes payable	147,806.75	1.57%	121,542.08	1.39%	104,219.03	1.30%
Other payables	1,214,279.75	12.86%	956,569.20	10.91%	822,300.27	10.22%
Non-current liabilities due within one year	896,803.78	9.50%	118,860.23	1.36%	269,837.86	3.35%

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Item	31 December 2020		31 December 2019		31 December 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Other current liabilities	501,861.64	5.31%	-	-	-	-
Total current liabilities	8,813,298.96	93.32%	7,460,764.15	85.13%	6,870,976.80	85.41%
Long-term borrowings	118,407.83	1.25%	613,599.28	7.00%	662,299.17	8.23%
Bonds payable	-	-	299,822.87	3.42%	299,730.56	3.73%
Lease liabilities	150,102.18	1.59%	115,563.89	1.32%	-	-
Long-term payables	35,357.47	0.37%	41,562.80	0.47%	47,167.44	0.59%
Accrued liabilities	2,576.07	0.03%	7,092.32	0.08%	9,910.42	0.12%
Deferred incomes	222,406.91	2.35%	127,872.63	1.46%	50,333.22	0.63%
Long-term staff compensation payable	4,641.11	0.05%	4,809.59	0.05%	5,194.67	0.06%
Deferred income tax liabilities	83,237.55	0.88%	80,959.91	0.92%	86,691.20	1.08%
Other non-current liabilities	14,464.50	0.15%	11,999.32	0.14%	12,302.97	0.15%
Total non-current liabilities	631,193.61	6.68%	1,303,282.60	14.87%	1,173,629.65	14.59%
Total liabilities	9,444,492.57	100.00%	8,764,046.76	100.00%	8,044,606.45	100.00%

In recent years, the demand of the Company for working capital is increasing year by year as the Company expands. As at 31 December 2018, 2019 and 2020, the total amount of liabilities of the Company were RMB80,446,064,500, RMB87,640,467,600 and RMB94,444,925,700, respectively, in which, the respective balance of current liabilities were RMB68,709,768,000, RMB74,607,641,500 and RMB88,132,989,600, accounting for 85.41%, 85.13% and 93.32% of the total liabilities, respectively and mainly consisting of short-term borrowings, notes payable and accounts payable, etc.; the respective balance of non-current liabilities were RMB11,736,296,500, RMB13,032,826,000 and RMB6,311,936,100, accounting for 14.59%, 14.87% and 6.68% of the total liabilities, respectively and mainly consisting of bonds payable, long-term borrowings, deferred income and deferred income tax liabilities, etc. As at 31 December 2018, 2019 and 2020, the asset-liability ratios of the Company were 63.40%, 63.96% and 63.31%, respectively. The issuance of less than 10-year corporate bonds will help the Company adjust its debt structure and control financial risks.

3. *Analysis of profitability and sustainability of profitability*

The profits of the Company mainly come from revenues generated from principal activities, without relying on investment incomes and non-operating incomes and expenses. Details of the Company's operating gross profits, operating profits and total profits are as follows:

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Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Operating revenues	19,190,915.62	18,656,579.65	15,908,439.69
Operating costs	16,447,396.12	15,975,166.96	13,652,146.86
Operating profits	718,438.81	621,394.67	520,833.23
Total profits	717,548.26	626,246.67	534,337.79
Net profits	560,526.40	483,074.20	445,626.09

The operating revenues of the Company are increasing steadily year by year. In addition, after strengthening and realizing the effective cost control, the Company's total profits and net profits also increase steadily year by year. In 2019 and 2020, the total profits of the Company increased by 17.20% and 14.58% and the net profits increased by 8.40% and 16.03%, respectively on a year-on-year basis. According to its business development, the Company can sustain its profitability.

The composition of the operating revenues is as follows:

Unit: RMB0'000

Item	Year 2020		Year 2019		Year 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Revenues from main business	19,142,319.75	99.75%	18,596,347.54	99.68%	15,854,614.89	99.66%
Revenues from other businesses	48,595.87	0.25%	60,232.10	0.32%	53,824.81	0.34%
Total	19,190,915.62	100%	18,656,579.65	100%	15,908,439.69	100%

The proportion of revenues from main business in the total operating revenues of the Company remains above 99% and the growth of operating revenues of the Company mainly comes from steady growth of revenues from main business. In 2019 and 2020, the operating revenues of the Company increased by 17.27% and 2.86%, respectively on a year-on-year basis.

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The composition of revenues from main business is as follows:

Unit: RMB0'000

Item	Year 2020		Year 2019		Year 2018	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Manufacturing	2,374,317.59	12.40%	2,349,048.01	12.63%	1,946,171.29	12.28%
Distribution	16,765,020.60	87.58%	16,238,975.78	87.32%	13,944,456.35	87.95%
Retailing	851,900.42	4.45%	833,966.87	4.48%	720,207.16	4.54%
Others	33,692.62	0.18%	30,316.26	0.16%	28,485.83	0.18%
Offset	-882,611.47	-4.61%	-855,959.38	-4.60%	-784,705.74	-4.95%
Total	19,142,319.75	100.00%	18,596,347.54	100.00%	15,854,614.89	100.00%

The Company's revenues from main business mainly consist of revenues from distribution and revenues from manufacturing, in which, the amounts of annual revenues from distribution for the Year 2018, Year 2019 and Year 2020 were RMB139,444,563,500, RMB162,389,757,800 and RMB167,650,206,000, respectively, accounting for 87.95%, 87.32% and 87.58% of the main business revenues, respectively.

4. Analysis of cash flow

Details of the Company's cash flow are as follows:

Unit: RMB0'000

Item	Year 2020	Year 2019	Year 2018
Net cash flow generated from operating activities	684,472.06	602,238.56	313,511.38
Net cash flow generated from investment activities	-170,567.64	-458,427.75	-769,274.00
Net cash flow generated from financing activities	-126,122.98	-232,579.85	752,632.09
Net increase of cash and cash equivalents	386,018.69	-88,929.68	303,614.06

For the Year 2018, Year 2019 and Year 2020, the net increases of cash and cash equivalents of the Company were RMB3,036,140,600, RMB-889,296,800 and RMB3,860,186,900, respectively. The main reason for the fluctuation is that, as the business of the Company expands in the last three years, there were more external investment activities and financing activities, which led to the fluctuation in cash flow generated from investment activities and financing activities, thereby resulting in the fluctuation in the net increase of cash and cash equivalents.

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5. *Analysis of solvency*

The main solvency indicators of the Company are as follows:

Key financial indicators	31 December 2020	31 December 2019	31 December 2018
Current ratio	1.22	1.31	1.36
Quick ratio	0.93	0.97	0.98
Asset-liability ratio	63.31%	63.96%	63.40%

In terms of short-term solvency indicators, the current ratio of the Company as at 31 December 2018, 2019 and 2020 were 1.36, 1.31 and 1.22, respectively, while the quick ratio were 0.98, 0.97 and 0.93, respectively. In terms of long-term solvency indicators, the asset-liability ratio of the Company were 63.40%, 63.96% and 63.31%, respectively, they remain at a reasonable level.

6. *The goals of future business development and the sustainability of profitability*

Recently, a series of major policies have been released in all fields of the pharmaceutical industry to put forward systematic transformation measures as to all chains of drug production, circulation and use, encourage innovation, improve the drug supply quality, phase out backward production capacities, increase the concentration of industry, and promote rational drug pricing, construct standard and orderly drug supply guarantee systems, so as to better meet the demands of the masses for seeking medical advice and advance the construction of healthy China. The Company will actively seize the national strategic opportunities, and keep pace with the industrial development trends. The Company will focus on the health industry. By driven by innovative development, intensive development, international development and combination between finance and industry, the Company will build up international vision and pattern, and make efforts to grow into a respected and leading branded drugs manufacturer and service provider in health fields that owns industry reputation.

As to pharmaceutical manufacturing, with respect to field of chemicals and biologic drugs, the Company will keep focusing on specialized fields, continue to keep optimizing the development of R&D systems, be open to cooperation, manufacture generic drugs and also innovative drugs, perfect the R&D product chains, focus on the development of biological drugs, and accelerate the secondary development of existing products, the consistency evaluation of the quality of generic drugs with the curative effect, innovation of dosage forms, internationalization work and etc. The Company will keep stock development and product introduction, be centered on the established features and advantageous fields to enhance its business expansion via new product introduction both at home and abroad and focus on improving its competitive strength in such fields as cardiovascular, rheumatism and immunity, digestive and anti-tumor. With respect to traditional Chinese medicine field, the Company will seize the historical opportunities that China provides support to the development of traditional Chinese medicine industry by relying on the Company's high quality resources to create a new mode of the whole industry chain of this industry to be featured with collaborative

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development of upstream, midstream and downstream. The Company will focus on the control over the sources of the core traditional Chinese medicine materials, build up a management system to trace the quality of the whole process. Meanwhile, the Company shall expand Chinese medicine formula granules and deeply integrate medical service terminals with retail stores, thereby improving its overall competitiveness in the traditional Chinese medicine industry chain.

In terms of pharmaceutical distribution, faced with the new trends such as volume-based procurement, the Group will adapt to industrial changes by strengthening its network layout, enriching service offerings, innovating service methods, and consolidating the basic logistics capabilities. We will promote the integration of Group's retail business as well as external cooperation, and opportunely carry out commercial mergers and acquisitions, and ensure the revenue growth and industry leading position of pharmaceutical service.

In terms of innovation services, the Company continued to promote the layout of the pharmaceutical and health industry, extended the medical payment service industry chain, created a number of industry-first cases in the fields such as patient finance, efficacy insurance and special drug insurance, so as to create a closed-loop medical service ecosystem.

In the context of the reform and development of the domestic pharmaceutical industry, the Company will focus on the requirements of the new situation, new starting point, and new development, actively grasp national strategic opportunities, adopt on industrial changes, accelerate transformation and development, and deepen the four major transformations and developments (innovation-driven development, intensive development, international development and combination between industry and finance development) centered on scientific and technological innovation, so as to develop better development paths and models around the characteristics of various business segments, to promote the consolidation and improvement of the Company's core competitiveness, to ensure the leading position of the domestic pharmaceutical industry, and to build an internationally competitive and influential Chinese pharmaceutical industry group.

III. USE OF FUNDS RAISED THROUGH THIS ISSUANCE OF CORPORATE BONDS

After deducting the issuance costs, the funds raised through this issuance of corporate bonds will be used for repaying interest-bearing debts of the Company and its subsidiaries and replenishing working capital or other usages complied with laws and regulations and approved by regulatory authorities, so as to adjust the liability structure of the Company and support business development of the Company. The shareholders' general meeting is requested to authorize the Board to determine the specific use of raised funds according to the Company's financial condition and needs for funds.

IV. OTHER IMPORTANT ISSUES

As at 31 December 2020, the balance of guarantee provided by subsidiaries of the Company for other enterprises out of the consolidated statements was RMB9,929,700. The Company has no pending lawsuit or arbitration which should be disclosed and may have significant impact on the financial position, operating results, business activities and future prospect of the Company.

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The issuance of corporate bonds by the Company is subject to review and approval by Shanghai Stock Exchange and the registration of the CSRC.

This proposal is subject to approval by way of a special resolution at the shareholders' general meeting.

PROPOSAL REGARDING THE PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN A WHOLLY-OWNED SUBSIDIARY OF A CONTROLLING SHAREHOLDER AND RELATED/CONNECTED TRANSACTION

On 27 May 2021, Shanghai Asia Pioneer and the Company entered into the Equity Transfer Agreement, pursuant to which, Shanghai Asia Pioneer agreed to transfer 100% equity interest in SPH Biological Medicine to the Company at a consideration of RMB750,808,416.07, subject to the filing to the state-owned assets supervision and administration department. Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine. SPH Biological Medicine will become a wholly-owned subsidiary of the Company and its financial results will be included into the consolidated financial statements of the Company.

I. REASONS FOR AND BENEFITS OF THE ACQUISITION

Under the background of the implementation of the “Healthy China 2030” strategy, the Company seized the opportunities and unswervingly laid out innovation and transformation. The annual R&D investment in the industrial sector reached a new high year by year. During the “14th Five-Year Plan” period, the Company’s goal was to accomplish the R&D investment of more than 10% of the industrial sales revenue and initially transform into a R&D-oriented pharmaceutical company driven by technological innovation.

The Company adopts the “independent research and development + innovation cooperation” model, and has formed a multi-level and staged innovative drug pipeline including improved new drugs, innovative chemical drugs, biological drugs, and cell therapy products. As of the end of the reporting period of the 2020 annual report, the Company has entered the pre-clinical and follow-up research phases of innovative drug pipelines with 25 products, of which 15 products have entered clinical trials or have been on the market. In terms of the expansion of R&D and innovation platforms, the Company has continuously enhanced its innovation capabilities by adopting multiple methods such as strategic cooperation, transformation of scientific and technological achievements, license-in, and venture capital.

With the continuous enrichment of the Company’s innovative drug pipeline and the accelerated transformation of scientific and technological achievements of the innovation cooperation platform, the Company needs to further improve the innovation platform in terms of research and development, incubation, pilot testing, and industrialization. Taking into account leading advantages in innovative drug R&D in Shanghai, the Company decided to build a new biomedicine innovation R&D, incubation and industrialization base in Zhangjiang, Shanghai, to gather innovative talents, technologies, projects, capital and other resources to support the next round of innovation and development.

The land owned by SPH Biological Medicine is located at No. 92 Zhangjiang Road, Pudong New District, Shanghai. It is in the core area of Zhangjiang Science City where the biomedical industry gathers. It mainly focuses on therapeutic antibodies, cell therapy, micro-ecology, gene therapy and other fields, which is conducive to building an innovative incubation and transformation platform with a complete layout and leading technology in the domestic biomedical sector. At present, the first phase of the project has started construction, and it is planned to build a research and development incubation platform and an antibody industrialization workshop. The first phase of the project will achieve the following three functions:

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(i) New R&D Center

The Company's macromolecular drug research and development center will be moved to the first phase of the project, which will provide a world-leading research and development innovation environment, accelerate the construction of innovative talent teams, and continue to build a high-level, multi-level innovative research and development system.

(ii) Innovation Incubation Platform

The Acquisition will create an open public service platform for R&D, provide innovation and incubation "one-stop service" for innovation cooperation platforms, small and medium-sized bio-innovative drug companies, etc., provide innovative resources such as office space, laboratories, capital support, and clinical services, and accelerate the incubation and transformation of new technologies and new products under the current innovation and cooperation model.

(iii) Pilot and Industrialization Platform

The Acquisition will help the Company integrate the use of digital and intelligent advanced technologies to build a domestic benchmark-level high-standard, cutting-edge biopharmaceutical pilot industrialization platform, and provide comprehensive services including process development, clinical sample trial production, and late-stage pilot trials, and accelerate the process of independent innovation and innovation cooperation from R&D to industrialization. At the same time, relying on the Company's nationwide sales and supply chain network, it will further accelerate the marketization of newly listed products.

The Directors (including Independent Non-executive Directors) consider that the terms of the transaction contemplated under the Equity Transfer Agreement is fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Pursuant to the requirements of relevant laws, regulations, the Listing Rules and the Articles of Association of the Company, due to the facts that (i) Mr. SHEN Bo served as a director of SPH Biological Medicine, and (ii) Mr. ZHOU Jun and Mr. GE Dawei held interests or positions in Shanghai Pharmaceutical (Group), Mr. ZHOU Jun, Mr. GE Dawei and Mr. SHEN Bo abstained from voting when the Board considered and approved the resolution in respect of the transaction contemplated under the Equity Transfer Agreement. Save for the above, to the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, no other Director had a material interest in the Equity Transfer Agreement or shall abstain from voting on board resolutions approving the Equity Transfer Agreement and the Acquisition contemplated thereunder.

Maxa Capital is appointed as the Independent Financial Adviser to advise the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable; and the Acquisition, although not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Maxa Capital has issued a letter in respect of its opinion to the Independent Shareholders. For details, please refer to Appendix IV to this circular.

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II. EQUITY TRANSFER AGREEMENT

- Parties:**
- (1) Shanghai Asia Pioneer (as the seller); and
 - (2) the Company (as the purchaser).
- Subject Matter:**
- Shanghai Asia Pioneer agreed to transfer 100% equity interest in SPH Biological Medicine to the Company at a consideration of RMB750,808,416.07, subject to the filing to the state-owned assets supervision and administration department.
- Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine.
- Pricing Principle and Payment of Consideration:**
- The consideration of the Acquisition, i.e. RMB750,808,416.07, is determined with reference to the valuation of the total shareholders' equity of SPH Biological Medicine as at 31 March 2021, which is based on the valuation conducted by the Valuer and approved by or filed to the relevant state-owned assets supervision and administration department of Shanghai Asia Pioneer. The valuation amount of the total shareholders' equity of SPH Biological Medicine as at 31 March 2021 is RMB750,808,416.07, which is equal to the consideration of the Acquisition.
- Given there are few similar transaction cases in China or although there are cases, it is difficult to collect relevant transaction background information and comparable factor information, the valuation did not adopt the market approach. Since the income approach is based on the premise of continuous operation of the company's existing business model, although the impact of the natural increase in land value brought about by the Shanghai Municipal Planning and the Natural Resources Bureau's land planning has been considered, it will take a long time to recognize revenue and there is no foreseeable income during the period of construction, the Valuer adopted the asset-based method for the approach. Therefore, the valuation will not constitute a profit forecast for SPH Biological Medicine.

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According to the asset-based method, the book value of all shareholders' equity of SPH Biological Medicine on the Reference Date is RMB 91,134,241.23, and the appraised value is RMB 750,808,416.07. The main reason for the higher premium of the appraisal value over the book value is the land use right of No. 92 Zhangjiang Road (the main asset of SPH Biological Medicine). Considering that there is no active market in the surrounding area and the surrounding areas are all currently developed real estate projects, after on-site investigation and analysis and demonstration by the Valuer, the residual method is finally used to evaluate the land use right, i.e., using analogy to evaluate the sale price of land use rights after development and construction, deducting building construction costs and other related expenses, the estimated value of the land use rights is RMB1,021,500,000 (book value: RMB337,237,200). The main reason for the appreciation is the scarcity of land and the normal upward trend in the value of land use rights in Shanghai in the past ten years.

The Company shall pay the consideration of the Acquisition, i.e. RMB750,808,416.07, to the designated bank account of SPH Biological Medicine within 15 business days from the Closing Date.

Conditions Precedent:

The Acquisition shall become effective upon fulfilment of the following conditions:

- (1) the asset valuer recognized by both the Company and Shanghai Asia Pioneer completes the asset valuation of SPH Biological Medicine as at the Reference Date and issue the valuation report;
- (2) the state-owned assets supervision and administration department approves, or accepts the filing of, the valuation of the total equity interest in SPH Biological Medicine as at the Reference Date;
- (3) the internal competent corporate authorities of both the Company and Shanghai Asia Pioneer approve the Acquisition;

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- (4) the Equity Transfer Agreement and ancillary documents filed to the administration for industry and commerce including the amended articles of association of SPH Biological Medicine, the shareholders decision of changing the directors and supervisors of SPH Biological Medicine, the board resolution/executive directors' decision of changing the senior management of SPH Biological Medicine, are duly signed by the relevant parties and become effective;
- (5) the representatives and warranties made by both the Company and Shanghai Asia Pioneer in the Equity Transfer Agreement are true, accurate and complete in all material respects as at the Closing Date;
- (6) both the Company and Shanghai Asia Pioneer follow and obey all relevant obligations and undertakings under the Equity Transfer Agreement in all material respects as at the Closing Date; and
- (7) no event which would have a material adverse effect on the financial position, operation, assets, business or regulatory environment of SPH Biological Medicine has occurred or may occur as at the Closing Date.

Closing:

Both the Company and Shanghai Asia Pioneer shall cooperate with and procure SPH Biological Medicine to complete the filing in relation to the Acquisition to the administration for industry and commerce within 15 business days from the date on which all the conditions precedent in the Equity Transfer Agreement have been fulfilled.

III. LISTING RULES IMPLICATIONS

As Shanghai Asia Pioneer is a wholly-owned subsidiary of Shanghai Pharmaceutical (Group), a controlling shareholder of the Company, it constitutes a connected person of the Company under Rule 14A.07 of the Listing Rules. As such, according to Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined under Rule 14A.07 of the Listing Rules) of the transaction contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5%, such transaction is subject to the reporting, annual review and announcement requirements but exempt from circular and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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Pursuant to the Shanghai Listing Rules, transaction contemplated under the Equity Transfer Agreement is subject to the shareholders' approval at the general meeting of the Company. Shanghai Shangshi and Shanghai Pharmaceutical (Group), the shareholder of the SPH Biological Medicine and having material interest in the Acquisition, shall abstain from voting on the corresponding resolutions to be proposed at the AGM (i.e. resolution 8). Save as disclosed above, to the best of the Directors' knowledge, information and belief, there are no other Shareholders who have any material interest in the Acquisition and are required to abstain from voting on the AGM.

IV. FINANCIAL IMPACT OF THE ACQUISITION

Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine. SPH Biological Medicine will become a wholly-owned subsidiary of the Company and its financial results will be included into the consolidated financial statements of the Company.

V. GENERAL INFORMATION

The Company

Headquartered in Shanghai, the Company is a national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company's business mainly covers two segments, namely, pharmaceutical industry and pharmaceutical business. The A shares and H shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. The controlling shareholders of the Company are Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司), Shanghai Pharmaceutical (Group) and Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司).

Shanghai Asia Pioneer

Shanghai Asia Pioneer is a company incorporated under the PRC laws with limited liability and is mainly engaged in research and development, technical consulting and technical services in medical professional field. As at the Latest Practicable Date, Shanghai Asia Pioneer is a wholly-owned subsidiary of Shanghai Pharmaceutical (Group), a controlling shareholder of the Company.

SPH Biological Medicine

SPH Biological Medicine is a company incorporated under the PRC laws with limited liability and established on 10 March 2020 and is mainly engaged in medical equipment operation and production, pharmaceutical production and wholesale, import and export of medicines, sales of health foods, etc. As at the Latest Practicable Date, SPH Biological Medicine is a wholly-owned subsidiary of Shanghai Asia Pioneer.

According to the audited consolidated financial statements prepared by SPH Biological Medicine in accordance with the China Enterprise Accounting Standards, the financial information (in RMB) of SPH Biological Medicine is set out below.

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Net asset as of 31 December 2020	99,000,378.12
Net asset as of 31 March 2021	91,134,241.23
Profit before taxation for nine months ended 31 December 2020	-34,893,193.28
Profit after taxation for nine months ended 31 December 2020	-34,893,193.28
Profit before taxation for three months ended 31 March 2021	-7,866,136.89
Profit after taxation for three months ended 31 March 2021	-7,866,136.89



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

11 June 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
ACQUISITION OF 100% EQUITY INTEREST IN
SPH BIOLOGICAL MEDICINE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board contained in the AGM circular dated 11 June 2021 issued by the Company (“**AGM Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the AGM Circular unless the context otherwise requires.

On 27 May 2021, Shanghai Asia Pioneer and the Company entered into the Equity Transfer Agreement, pursuant to which, Shanghai Asia Pioneer agreed to transfer 100% equity interest in SPH Biological Medicine to the Company at a consideration of RMB750,808,416.07, subject to the filing to the state-owned assets supervision and administration department. Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine. SPH Biological Medicine will become a wholly-owned subsidiary of the Company and its financial results will be included into the consolidated financial statements of the Group.

As Shanghai Asia Pioneer is a wholly-owned subsidiary of Shanghai Pharmaceutical (Group), a controlling shareholder of the Company, it constitutes a connected person of the Company under Rule 14A.07 of the Listing Rules. As such, according to Chapter 14A of the Listing Rules, the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) of the transaction contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5%, such transaction is subject to the reporting, annual review and announcement requirements but exempt from circular and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Pursuant to the Shanghai Listing Rules, transaction contemplated under the Equity Transfer Agreement is subject to the shareholders’ approval at the general meeting of the Company

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OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Listing Rules and accordingly, are qualified to give independent advice to the Board in respect of the Equity Transfer Agreement. In the past two years, Maxa Capital has acted once as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the proposed non-public issuance of A Shares, details of which were set out in the circular of the Company dated 11 June 2021. The aforesaid past appointment was limited to providing one-off independent advisory service pursuant to the Listing Rules, for which Maxa Capital received normal professional fees. Accordingly, we do not consider the past appointment gives rise to any conflict of interest for Maxa Capital in acting as the Independent Financial Adviser in respect of the Acquisition. Apart from the normal advisory fee payable to us in connection with the past appointment and this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the AGM Circular and the information and representations provided to us by the Directors and the management of the Company (the “**Management**”). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the AGM Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the AGM Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the date of the AGM Circular and the Shareholders will be notified of any material changes to such information and representations. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the AGM Circular were reasonably made after due enquiry and careful consideration.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the AGM Circular so as to provide a reasonable basis for our opinion. 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 AGM Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the AGM Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company, Shanghai Asia Pioneer, SPH Biological Medicine and each of their respective subsidiaries or associates.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

Headquartered in Shanghai, the Company is a national integrated pharmaceutical company in the PRC that has leading positions in both pharmaceutical production and distribution markets. The Company's business mainly covers two segments, namely, pharmaceutical manufacturing and R&D and pharmaceutical distribution. The A shares and H shares of the Company are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. The controlling shareholders of the Company are SIIC, Shanghai Pharmaceutical (Group) and Shanghai Shangshi.

The Company ranked among the Fortune Global 500 in 2020 and ranked 48th among Top 50 Global Pharma Companies in 2020 published by Pharm Exec (American magazine Pharmaceutical Executive) and 3rd among Top 100 Chinese Chemical Drug Companies in China's pharmaceutical industry published by the Southern Medicine Economic Research Institute. The Pharmaceutical distribution is the core force to ensure the efficient and stable supply of medical materials and drugs. With distribution channels and retail networks covering 24 provinces, municipalities and autonomous regions in China, the Company, as the second largest pharmaceutical distribution enterprise and the largest service provider of imported drugs, vaccines and medical devices in China, continuously provides efficient, convenient and reliable services to medical institutions, retail institutions, partners and patients at all levels.

Set out below is the financial information of the Group for the two years ended 31 December 2020 prepared in accordance with Accounting Standards for Business Enterprises and extracted from the Company's 2020 Annual Report:

	For the year ended 31 December	
	2020	2019
	(audited)	(audited)
	RMB'000	RMB'000
Revenue	191,909,156	186,565,796
Research and development expenses	1,656,671	1,349,504
Total profit	7,175,483	6,262,467
Net profit	5,605,264	4,830,742

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	As at 31 December	
	2020	2019
	(audited)	(audited)
	RMB'000	RMB'000
Total assets	149,185,656	137,026,396
Total liabilities	94,444,926	87,640,468
Total equity	54,740,730	49,385,928

As illustrated in the above table, the Group's revenue amounted to approximately RMB191.91 billion for the year ended 31 December 2020 ("FY2020"), representing an increase of 2.86% as compared to approximately RMB186.57 billion for the year ended 31 December 2019 ("FY2019"). The research and development expenses of the Group amounted approximately RMB1.66 billion in FY2020, representing an increase of 22.76% from approximately RMB1.35 billion in FY2019. The Group's total profit was approximately RMB7.18 billion in FY2020, representing an increase of 14.58% compared with that in FY2019. The Group recorded an increase in net profit of 16.03%, from approximately RMB4.83 billion in FY2019 to approximately RMB5.61 billion in FY2020.

The Group's total assets increased by 8.87% from approximately RMB137.03 billion as at 31 December 2019 to approximately RMB149.19 billion as at 31 December 2020. The total liabilities of the Group recorded an increase of 7.76% from approximately RMB87.64 billion as at 31 December 2019 to approximately RMB94.44 billion as at 31 December 2020. The total equity of the Group amounted approximately RMB54.74 billion as at 31 December 2020, representing an increase of 10.84% from approximately RMB49.39 billion as at 31 December 2019.

2. Background information of Shanghai Asia Pioneer and the SPH Biological Medicine

2.1 *Shanghai Asia Pioneer*

Shanghai Asia Pioneer is a company incorporated under the PRC laws with limited liabilities and is mainly engaged in research and development, technical consulting and technical services in medical professional field. As at the Latest Practicable Date, Shanghai Asia Pioneer is a wholly-owned subsidiary of Shanghai Pharmaceutical (Group), a controlling shareholder of the Company.

2.2 *SPH Biological Medicine*

SPH Biological Medicine is a company incorporated under the PRC laws with limited liabilities and established on 10 March 2020 and is mainly engaged in medical equipment operation and production, pharmaceutical production and wholesale, import and export of medicines, sales of health foods, etc. As at the Latest Practicable Date, SPH Biological Medicine is a wholly-owned subsidiary of Shanghai Asia Pioneer.

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Set out below is the financial information of SPH Biological Medicine prepared in accordance with Accounting Standards for Business Enterprises and extracted from the audit report of SPH Biological Medicine.

	For the nine months ended 31 December 2020 RMB (audited)	For the three months ended 31 March 2021 RMB (audited)
Revenue	0.00	0.00
Profit before taxation	-34,893,193.28	-7,866,136.89
Profit after taxation	-34,893,193.28	-7,866,136.89
	As at 31 December 2020 RMB (audited)	As at 31 March 2021 RMB (audited)
Total assets	389,716,146.70	384,649,502.96
Total liabilities	290,715,768.58	293,515,261.73
Net assets	99,000,378.12	91,134,241.23

As is illustrated in the above table, the target company has not yet generated any revenue since established. SPH Biological Medicine recorded loss before taxation of approximately RMB34.89 million and approximately RMB7.87 million for the nine months ended 31 December 2020 and for the three months ended 31 March 2021, respectively.

The total assets of SPH Biological Medicine amounted to approximately RMB384.65 million as at 31 March 2021, representing a decrease of approximately 1.32% as compared to that as at 31 December 2020. Its total liabilities increased by approximately 0.95%, from approximately RMB290.72 million as at 31 December 2020 to approximately RMB293.52 million as at 31 March 2021. The net assets amounted to approximately RMB91.13 million as at 31 March 2021, representing a decrease of approximately 8.63% compared with that of approximately RMB99.00 million as at 31 December 2020.

3. Reasons for and benefits of the Acquisition

Under the background of the implementation of the “Healthy China 2030” strategy, the Company seized the opportunities and unswervingly laid out innovation and transformation. The annual R&D investment in the industrial sector reached a new high year by year. During the “14th Five-Year Plan” period, the Company’s goal was to accomplish the R&D investment of more than 10% of the industrial sales revenue and initially transform into a R&D-oriented pharmaceutical company driven by technological innovation.

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The Company adopts the “independent research and development + innovation cooperation” model, and has formed a multi-level and staged innovative drug pipeline including improved new drugs, innovative chemical drugs, biological drugs, and cell therapy products. As of 31 December 2020, the Company has entered the pre-clinical and follow-up research phases of innovative drug pipelines with 25 products, of which 15 products have entered clinical trials or have been on the market. In terms of the expansion of R&D and innovation platforms, the Company has continuously enhanced its innovation capabilities by adopting multiple methods such as strategic cooperation, transformation of scientific and technological achievements, license-in, and venture capital.

With the continuous enrichment of the Company’s innovative drug pipeline and the accelerated transformation of scientific and technological achievements of the innovation cooperation platform, the Company needs to further improve the innovation platform in terms of research and development, incubation, pilot testing, and industrialization. Taking into account leading advantages in innovative drug R&D in Shanghai, the Company decided to build a new biomedicine innovation R&D, incubation and industrialization base in Zhangjiang, Shanghai, to gather innovative talents, technologies, projects, capital and other resources to support the next round of development. Innovation and development.

The land owned by SPH Biological Medicine is located at No. 92 Zhangjiang Road, Pudong New District, Shanghai. It is in the core area of Zhangjiang Science City where the biomedical industry gathers. It mainly focuses on therapeutic antibodies, cell therapy, micro-ecology, gene therapy and other fields, which is conducive to building an innovative incubation and transformation platform with a complete layout and leading technology in the domestic biomedical sector. At present, the first phase of the project has started construction, and it is planned to build a research and development incubation platform and an antibody industrialization workshop. The first phase of the project will achieve the following three functions:

(i) New R&D Center

The Company’s macromolecular drug research and development center will be moved to the first phase of the project, which will provide a world-leading research and development innovation environment, accelerate the construction of innovative talent teams, and continue to build a high level, multi-level innovative research and development system.

(ii) Innovation Incubation Platform

The Acquisition will create an open public service platform for R&D, provide innovation and incubation “one-stop service” for innovation cooperation platforms, small and medium-sized bioinnovative drug companies, etc., provide innovative resources such as office space, laboratories, capital support, and clinical services, and accelerate the incubation and transformation of new technologies and new products under the current innovation and cooperation model.

(iii) Pilot and Industrialization Platform

The Acquisition will help the Company integrate the use of digital and intelligent advanced technologies to build a domestic benchmark-level high-standard, cutting-edge biopharmaceutical pilot industrialization platform, and provide comprehensive services including process development, clinical sample trial production, and late-stage pilot trials, and accelerate the process of independent innovation and innovation cooperation from R&D to industrialization. At the same time, relying on the Company's nationwide sales and supply chain network, it will further accelerate the marketization of newly listed products.

In view of the abovementioned, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Principal Terms of the Equity Transfer Agreement

Parties:

- (1) Shanghai Asia Pioneer (as the seller); and
- (2) the Company (as the purchaser)

Subject Matter: Shanghai Asia Pioneer agreed to transfer 100% equity interest in SPH Biological Medicine to the Company at a consideration of RMB750,808,416.07, subject to the filing to the state-owned assets supervision and administration department.

Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine.

Pricing Principles and Payment of Consideration: The consideration of the Acquisition, i.e. RMB750,808,416.07, is determined with reference to the valuation of the total shareholders' equity of SPH Biological Medicine as at 31 March 2021, which is based on the valuation conducted by the Valuer and approved by or filed to the relevant state-owned assets supervision and administration department of Shanghai Asia Pioneer.

The Company shall pay the consideration of the Acquisition, i.e. RMB750,808,416.07, to the designated bank account of SPH Biological Medicine within 15 business days from the Closing Date.

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Conditions Precedent:

The Acquisition shall become effective upon fulfilment of the following conditions:

- (1) the asset valuer recognized by both the Company and Shanghai Asia Pioneer completes the asset valuation of SPH Biological Medicine as at the Reference Date and issue the valuation report;
- (2) the state-owned assets supervision and administration department approves, or accepts the filing of, the valuation of the total equity interest in SPH Biological Medicine as at the Reference Date;
- (3) the internal competent corporate authorities of both the Company and Shanghai Asia Pioneer approve the Acquisition;
- (4) the Equity Transfer Agreement and ancillary documents filed to the administration for industry and commerce including the amended articles of association of SPH Biological Medicine, the shareholders decision of changing the directors and supervisors of SPH Biological Medicine, the board resolution/ executive directors' decision of changing the senior management of SPH Biological Medicine, are duly signed by the relevant parties and become effective;
- (5) the representatives and warranties made by both the Company and Shanghai Asia Pioneer in the Equity Transfer Agreement are true, accurate and complete in all material respects as at the Closing Date;
- (6) both the Company and Shanghai Asia Pioneer follow and obey all relevant obligations and undertakings under the Equity Transfer Agreement in all material respects as at the Closing Date; and

- (7) no event which would have a material adverse effect on the financial position, operation, assets, business or regulatory environment of SPH Biological Medicine has occurred or may occur as at the Closing Date.

Closing:

Both the Company and Shanghai Asia Pioneer shall cooperate with and procure SPH Biological Medicine to complete the filing in relation to the Acquisition to the administration for industry and commerce within 15 business days from the date on which all the conditions precedent in the Equity Transfer Agreement have been fulfilled.

5. Assessment of the Consideration

The consideration of the Acquisition is RMB750,808,416.07, which is determined with reference to and equal to the valuation of the 100% equity interest of SPH Biological Medicine as at 31 March 2021, as conducted by the Valuer.

In order to assess the expertise and independence of the Valuer, we have obtained and reviewed the engagement letter of the Valuer and the relevant licenses, qualifications and experience of the Valuer and its working team. We have also discussed with the working team of the Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions they have adopted in the valuation report as well as the steps and measures taken by the Valuer in conducting such valuation. We also understood from the Valuer that it has carried out on-site inspections and made relevant enquiries and searches for preparing such valuation reports and no irregularities were noted. The Valuer confirmed that it is independent from the Group and their respective associates. The Valuer also confirmed that the valuation report had been prepared according to all relevant regulations and standards that are required to be complied by a Valuer. Based on the above, we consider that the Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement of the Valuer are appropriate to the opinion the Valuer is required to give.

We discussed with the Valuer and understood that two generally accepted valuation approaches, namely the asset-based approach and income approach are considered in arriving at the valuation of the SPH Biological Medicine. Given there are few similar transaction cases in China or although there are cases, it is difficult to collect relevant transaction background information and comparable factor information, the market approach is not considered as an appropriate valuation methodology in evaluating the whole equity value of the SPH Biological Medicine. Since the income approach is based on the premise of continuous operation of the company's existing business model, although the impact of the natural increase in land value brought about by the Shanghai Municipal Planning and the Natural Resources Bureau's land planning has been considered, it will take a long time to recognise revenue and there is no foreseeable income during the period of construction, and hence the valuation under the income approach has not been adopted by the Valuer. Since SPH Biological Medicine is an asset heavy company with land, plant and equipment in place, the asset-

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based approach is considered the most appropriate valuation methodology in comparison to the two alternatives. The assets-based approach for assessing value for the whole equity value of SPH Biological Medicine is assessing the market value of the underlying assets of SPH Biological Medicine less the value of any related liabilities.

Given that (i) the intangible asset which is the land use right is considered as its core asset that accounted for approximately 87.67% of the SPH Biological Medicine's audited total assets as at 31 March 2021; (ii) SPH Biological Medicine has not conducted any business activities as of the Latest Practicable Date and is not expecting to conduct any business activities in the near future; and (iii) the book value of each assets and liabilities of the Biological Medicine could be analysed, adjusted and appraised individually, we concur with the Valuer. that it is fair and reasonable to adopt the asset-based approach to value the 100% equity value of the SPH Biological Medicine.

The audited net asset value of SPH Biological Medicine amounted to RMB91,134,241.23 for the year ended 31 March 2021 and the valuation the total equity interest of SPH Biological Medicine under asset-based approach is RMB750,808,416.07. The main reason for the high appreciation of the valuation is the appreciation of the land use right of No. 92 Zhangjiang Road, which is the main asset of SPH Biological Medicine.

We have further reviewed the valuation in relation to the land use right owned by SPH Biological Medicine and discussed with the Valuer on the methodologies of, and basis and assumptions adopted therein. We understood market approach is not considered as appropriate since there is no active market in the surrounding area and the surrounding areas are all currently developed real estate projects, and the Valuer, on its best efforts, has not identified any comparable properties in the area that owns the same competitiveness characteristics as the land SPH Biological Medicine owns. Both the residual method and land datum value method are considered in arriving to the valuation of land use right. Since the benchmark land price used under land datum value method was set in 2013, which is long prior to reference date of this valuation report, it cannot properly represent the current market value and hence the land datum value method was not adopted. Due to the scarcity of land in the Science City and the competitiveness land pricing in the area, after on-site investigation and analysis and demonstration by the Valuer, residual method is considered as the most appropriate approach in appraising the fair value of the land right. The residual method is using analogy to evaluate the sale price of land use rights after development and construction, deducting building construction costs and other related expenses. We understood from the Valuer that the adoption of the residual approach is fully in line with the relevant valuation and market standards for appraising the properties in the PRC.

The estimated value of the land use right is RMB1,021,500,000 while the book value for such land use right is merely RMB337,237,200. Based on our discussion with the Valuer, we understood such appreciation is mainly due to the scarcity of land and the normal upward trend in the value of land use rights in Shanghai in the past ten years. The book value for such land use right is based on historical costs, which could not represent its current fair value.

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Having considered the above, we are of the view that the valuation methodologies, the basis and assumptions adopted in appraising the land rights are reasonable and acceptable. Taking into account the above work and steps we have conducted in relation to the relevant valuation reports, we consider the Consideration of the Acquisition is fair and reasonable.

6. Financial effects of the Acquisition on the Group

Upon the completion of the Acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine. SPH Biological Medicine will become a wholly-owned subsidiary of the Company and its financial results will be included into the consolidated financial statements of the Group. As SPH Biological Medicine has not yet generated any revenue, the Acquisition would not immediately contribute revenue or profit to the Group upon completion of the Acquisition. The Acquisition would result in a cash outflow at the amount of the consideration. Since the consideration is equal to the valuation of the total equity of SPH Biological Medicine, there will not be material change to the net assets of the Group upon completion of the Acquisition.

RECOMMENDATION

Taking into account of the above factors and reasons, we are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable; and the Acquisition, although not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the AGM in respect of the Acquisition.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Dian Deng
Managing Director

Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in the corporate finance industry.

NOTICE OF ANNUAL GENERAL MEETING



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)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd.* (the “**Company**”) will be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, the PRC on 29 June 2021 at 13:00, to consider and approve the following proposals:

ORDINARY RESOLUTIONS

- (1) Annual Report for 2020
- (2) Report of the Board of Directors for 2020
- (3) Report of the Board of Supervisors for 2020
- (4) Final Accounts Report for 2020 and Financial Budget for 2021
- (5) Profit Distribution Plan for 2020
- (6) Proposal regarding Re-appointment of Auditor
- (7) Proposal regarding External Guarantees for 2021
- (8) Proposal regarding Proposed Acquisition of 100% Equity Interest in a Wholly-owned Subsidiary of a Controlling Shareholder and Related/Connected Transaction

SPECIAL RESOLUTIONS

- (9) Proposal regarding Issuance of Debt Financing Products
- (10) Proposal regarding the Satisfaction of the Conditions for Issuing Corporate Bonds
- (11) Proposal regarding Public Issuance of Corporate Bonds

* For identification purpose only

NOTICE OF ANNUAL GENERAL MEETING

(12) Proposal regarding the General Mandate of the Company

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

Shanghai, the PRC, 28 May 2021

Notes:

1. Eligibility for attending the Annual General Meeting and date of registration of members for H Shares

Purchasers of shares who have submitted their instruments of share transfer to the H Share registrar of the Company and registered as shareholders on the H Share register of members of the Company before 16:30 on 18 June 2021 are entitled to attend this Annual General Meeting.

In order to attend this Annual General Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, before 16:30 on 18 June 2021.

2. Proxy

- (1) Each shareholder entitled to attend and vote at the Annual General Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy needs not be a shareholder of the Company.
- (2) The instrument appointing a proxy must be in writing by the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity, either under seal or signed by a director or a duly authorized attorney. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other documents of authorization must be notarised.

To be valid, for holders of H Shares, the form of proxy and notarised power of attorney or other document of authorization must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 24 hours before the time appointed for the Annual General Meeting or any adjournment thereof.

- (3) Any voting at the Annual General Meeting shall be taken by poll.

3. Registration procedures for attending the Annual General Meeting

- (1) A shareholder or his proxy should produce proof of identity when attending the Annual General Meeting. If the shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body may attend the Annual General Meeting by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders of the Company intending to attend the Annual General Meeting in person or by their proxies should complete and return the reply slip for attending the Annual General Meeting to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before 19 June 2021.

NOTICE OF ANNUAL GENERAL MEETING

4. Voting by poll

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

5. Miscellaneous

(1) The Annual General Meeting is expected to be held for no more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.

(2) The address of Computershare Hong Kong Investor Services Limited is:

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(3) The address of China Securities Depository and Clearing Corporation Limited Shanghai Branch is:

Level 36, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai, the PRC.

(4) The registered address of the Company:

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

Contact office: Office of the Board
Telephone No.: 86 (21) 6373 0908
Facsimile No.: 86 (21) 6328 9333
Contact person: CHEN Jinzhu