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.

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)

(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES
(2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SHANGHAI TANDONG SUBSCRIPTION
(3) SPECIFIC MANDATE
(4) NOTICE OF THE EXTRAORDINARY GENERAL MEETING
AND
(5) NOTICE OF THE H SHARE CLASS MEETING

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

A notice convening the EGM to be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC on Thursday, 12 August 2021 at 2:00 p.m., as set out on pages EGM-1 to EGM-4 of this circular.

A notice convening the H Share Class Meeting to be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC on Thursday, 12 August 2021 immediately after the conclusion of the EGM or any adjournment thereof is set out on pages HCM-1 to HCM-4 of this circular.

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

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip to Computershare Hong Kong Investor Services Limited (for holders of H Shares) on or before 2 August 2021.

26 July 2021

* *For identification purpose only*

CONTENT

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

"A Share(s)"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"A Share Class Meeting"	the first class meeting of the A Shareholders of 2021 to be convened on Thursday, 12 August 2021 at 2:00 p.m. at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC to consider and, if thought fit, approve, among other things, the Proposed Non-public Issuance of A Shares
"Articles of Association"	the articles of association of the Company, as amended from time to time
"associates"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors of the Company
"Board of Supervisors"	the board of Supervisors of the Company
"Class Meetings"	the A Share Class Meeting and the H Share Class Meeting
"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 (shares of which are listed on the Shanghai Stock Exchange with stock code 601607; and on the Main Board of the Hong Kong Stock Exchange with stock code 02607)
"Company Law"	Company Law of the People's Republic of China
"CSRC"	the China Securities Regulatory Commission
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company

"EGM" or "Extraordinary General Meetings"	the first extraordinary general meeting of 2021 to be held by the Company on Thursday, 12 August 2021 at 2:00 p.m. at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC to consider and, if thought fit, approve, among other things, the Proposed Non-public Issuance of A Shares
"Group"	the Company and its subsidiaries
"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
"H Share(s)"	overseas listed foreign shares in the Company's ordinary share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"H Share Class Meeting"	the first class meeting of the H Shareholders of 2021 to be convened on Thursday, 12 August 2021 at 2:00 p.m. at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC to consider and, if thought fit, approve, among other things, the Proposed Non-public Issuance of A Shares
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent board committee comprising all the independent non-executive Directors (namely Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK) established to advise the Independent Shareholders in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) the connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate
"Independent Director(s)" or "Independent Non-executive Director(s)"	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 Board Committee and the Independent Shareholders in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) the connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate
"Independent Shareholder(s)"	Shareholder(s) other than Shanghai Shangshi and its associates
"Issuance Date"	the date of issuance of A Shares to the Subscribers pursuant to the Proposed Non-public Issuance of A Shares
"Issue Price"	the issue price per A Share under the Proposed Non-public Issuance of A Shares
"Latest Practicable Date"	23 July 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, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan
"Price Benchmark Date"	12 May 2021, being one day after the date on which the Board considered and approved the Proposed Non-public Issuance of A Shares
"Proposed Non-public Issuance of A Shares"	the proposed issuance of a maximum of 187,000,000 and 665,626,796 A Shares by the Company, representing no more than 30% of the total number of Shares in issue prior to the Proposed Non-public Issuance of A Shares, to Shanghai Tandong and Yunnan Baiyao, respectively
"Proposed Shanghai Tandong Subscription"	the proposed issuance of a maximum of 187,000,000 A Shares to Shanghai Tandong pursuant to the Shanghai Tandong Subscription Agreement and being part of the Proposed Non-public Issuance of A Shares
"RMB"	the lawful currency of the PRC. Unless otherwise specified, all financial figures in this circular are denominated in RMB
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)

"Shanghai Tandong"	Shanghai Tandong Enterprise Consulting Services Co., Ltd. (上海潭東企業諮詢服務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Shanghai Shangshi as at the Latest Practicable Date
"Shanghai Tandong Subscription Agreement"	the share subscription agreement in respect of the Proposed Non-public Issuance of A Shares entered into between the Company and Shanghai Tandong dated 11 May 2021
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司), a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company and Shanghai Shangshi, respectively
"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
"Specific Mandate"	according to Rule 13.36 of the Listing Rules (as amended by Chapter 19A of the Listing Rules), the specific mandate to be granted by the Independent Shareholders at the EGM and the Class Meetings to issue A Shares under the Proposed Non-public Issuance of A Shares
"Strategic Cooperation Agreement"	the strategic cooperation agreement entered into between the Company and Yunnan Baiyao dated 11 May 2021
"Subscribers"	Shanghai Tandong and Yunnan Baiyao
"Supervisor(s)"	supervisor(s) of the Company
"Yunnan Baiyao"	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shenzhen Stock Exchange with stock code 000538)
"Yunnan Baiyao Subscription Agreement"	the share subscription agreement in respect of the Proposed Non-public Issuance of A Shares entered into between the Company and Yunnan Baiyao dated 11 May 2021
"%"	per cent

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

Non-executive Directors
Mr. ZHOU Jun
Mr. GE Dawei
Ms. LI An

Independent Non-executive Directors
Mr. CAI Jiangnan
Mr. HONG Liang
Mr. GU Zhaoyang
Mr. Manson FOK

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

Principal Place of Business in Hong Kong
31/F, Tower Two, Times Square
1 Matheson Street
Causeway, Hong Kong

1. INTRODUCTION

On behalf of the Board of Directors, I would like to invite you to attend the EGM and subsequent H Share Class Meeting to be convened at 2:00 p.m. on Thursday, 12 August 2021 at the Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC.

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

Resolutions to be proposed and approved at the EGM include: (1) the proposal regarding the fulfilment of the criteria for the Proposed Non-public Issuance of A Shares; (2) the proposal regarding the Plan of the Proposed Non-public Issuance of A Shares; (3) the proposal regarding the Proposal for the Proposed Non-public Issuance of A Shares; (4) the proposal regarding the feasibility report on the use of proceeds from the Proposed Non-public Issuance of A Shares in 2021; (5) the proposal regarding the report on the use of proceeds previously raised by the Company; (6) the proposal regarding the dilution of immediate return resulting from the Proposed Non-public Issuance of A Shares and its remedial measures; (7) the proposal regarding the shareholders' return plan for the next three years (2021–2023); (8) the proposal regarding granting a specific mandate in relation to the Proposed Non-public Issuance of A Shares

* *For identification purpose only*

to the Board and authorizing the Board and its authorized persons to deal with relevant matters in relation to the Proposed Non-public Issuance of A Shares and the strategic cooperation; (9) the proposal regarding the introduction of strategic investors to the Company; (10) the proposal regarding the Strategic Cooperation Agreement between the Company and the strategic investor; (11) the proposal regarding the conditional subscription agreements between the Company and the Subscribers; and (12) the proposal regarding the connected transaction relating to the Proposed Non-public Issuance of A Shares of the Company.

Resolutions to be proposed and approved at the H Share Class Meeting include: (1) the proposal regarding the Plan of the Proposed Non-public Issuance of A Shares; (2) the proposal regarding the Proposal for the Proposed Non-public Issuance of A Shares; (3) the proposal regarding granting a specific mandate in relation to the Proposed Non-public Issuance of A Shares to the Board and authorizing the Board and its authorized persons to deal with relevant matters in relation to the Proposed Non-public Issuance of A Shares and the strategic cooperation; (4) the proposal regarding the conditional subscription agreements between the Company and the Subscribers; and (5) the proposal regarding the connected transaction relating to the Proposed Non-public Issuance of A Shares of the Company.

2. DETAILS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

(1) Class and Nominal Value of the Shares

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares are domestic listed RMB ordinary shares (A Shares) with the nominal value of RMB1.00 each.

(2) Method and Time of Issuance

The Proposed Non-public Issuance of A Shares shall be conducted by way of non-public issuance of A Shares to specific subscribers. The Company will proceed in due course during the validity period (generally 12 months) of the relevant CSRC approval on the Proposed Non-public Issuance of A Shares.

(3) Subscription Method

All Subscribers shall subscribe in cash for the A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares.

(4) Issue Price and Pricing Principles

The Price Benchmark Date of the Proposed Non-public Issuance of A Shares shall be the date of the announcement of relevant Board resolutions, i.e. 12 May 2021. The average trading price of A Shares over the 20 trading days prior to the Price Benchmark Date is RMB21.08 per A Share.

The Issue Price is RMB16.87 per A Share, being 80% of the average trading price of A Shares over the 20 trading days prior to the Price Benchmark Date. If the Issue Price is lower than the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the completion of the Proposed Non-public Issuance of A Shares, then the Issue Price will be adjusted to the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the Proposed Non-public Issuance of A Shares. The final number of Shares subscribed by the Subscribers will be reduced in accordance with the percentage of the original number of Shares to be subscribed by the Subscribers to the original total number of Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares.

During the period from the Price Benchmark Date to the Issuance Date, in the event of ex-entitlement and ex-dividend activities such as dividend distribution, bonus issue or conversion of capital reserve into share capital, the Issue Price shall be adjusted in accordance with the formula as follows:

Dividend Distribution：$P_1=P_0-D$

Bonus Issue or Conversion of Capital Reserve into Share Capital：$P_1=P_0/(1+N)$

Both at the Same Time：$P_1=(P_0-D)/(1+N)$

among which, P_0 is the Issue Price prior to the adjustment, P_1 is the Issue Price after the adjustment, D is the dividend distributed per Share, and N is the number of Shares as bonus or converted from capital reserve per Share.

If the relevant laws, regulations and regulatory documents or the CSRC's regulatory policies on the non-public issuance of A Shares have other different requirements on the Issue Price, pricing method, etc., then the Proposed Non-public Issuance of A Shares will be implemented in accordance with these requirements.

The number of Shares to be issued and the Issue Price under the Proposed Non-public Issuance of A Shares are in compliance with relevant provisions in the Measures for the Administration of the Issuance of Securities by Listed Company (2020 Revision) (《上市公司證券發行管理辦法(2020年修訂)》) promulgated by the CSRC.

While the discounted Issue Price is in compliance with the applicable laws and regulations, it is also determined by taking into consideration the interests of the Company and the Shareholders as a whole, which mainly take account of, among other things, the following factors. These are also expounded in the section headed "5. Assessment on the terms – (i) Issue Price" of Appendix II, the letter from the Independent Financial Adviser, to this circular.

1. **Strategic value to the Company**: from the perspective of the value-added effect of the strategic investor, Yunnan Baiyao, being a successful reformer as well as a leading player in the pharmaceutical industry in the PRC, will bring new development power to the Company and facilitate its long-term development.

    a) **Institutional Reform Enabled by a Diversified Shareholding Structure**: Yunnan Baiyao, which used to be an established state-owned enterprise, carried out mixed-ownership reform in 2016 by bringing in two strategic investors from the private sector, namely New Huadu Industrial Group Co., Ltd. (新華都實業集團股份有限公司) and Jiangsu Yuyue Science and Technology Development Co., Ltd. (江蘇魚躍科技發展有限公司), followed by rationalization of its corporate governance structure, as well as transformation of the decision-making mechanism and incentive mechanism, which could be achieved only under the diversified shareholding structure. This has been widely recognized in both the state-owned asset system and the pharmaceutical industry as a model example of mixed-ownership reform of state-owned enterprises in the PRC.

Ever since its launch of the mixed-ownership reform, Yunnan Baiyao has delivered outstanding results both in terms of financial performance and stock performance. Its revenue has grown from RMB22.41 billion in 2016 to RMB32.74 billion in 2020, a 5-year CAGR of 9.94%, whilst its net profit almost doubled from RMB2.93 billion to RMB5.51 billion during the same period, representing a remarkable CAGR of 17.10%. Its market capitalisation increased substantially from around RMB72 billion on 18 July 2016, right before it announced the reform plan and called for a trading halt, to RMB106 billion on 31 December 2017, and further to RMB145 billion by the end of 2020. Yunnan Baiyao also announced its first ever ESOP after market close on 11 October 2019 right after completion of the change in its shareholding structure, and its share price hit the daily upper limit by increasing 10% the next business day.

Upon completion of the Proposed Non-public Issuance of A Shares, the shareholding structure of the Company will be substantively diversified. Yunnan Baiyao, as a strategic investor, will nominate one candidate for executive director, one candidate for non-executive director and one candidate for supervisor to the Company, which enables it to actively participate in the operation, management and corporate governance of the Company as a representative of interests and benefits of shareholders from the private sector, thereby forming a healthy balance with the controlling shareholder as an SOE. The Company expects major overhaul to the institutional systems and mechanisms, including but not limited to the decision-making mechanism, performance assessment and incentive mechanism, both as a purpose and result of introduction of the strategic investor. This is expected to induce transformational vitality and bring sustaining power to the long-term business development of the Company.

b) **Strategic synergies**: Yunnan Baiyao, as an industry leader (ranked #34 on the industry-renowned 2020 PharmExec Global Top 50 Pharma Companies and #1 of the only five Chinese pharmaceutical companies on the list) with outstanding reputation in various fields such as customer resources, brand management, market channels, management of the entire value chain of traditional Chinese medicine (the "**TCM**"), general health products, and regional pharmaceutical distribution. Its brand has been on the top lists released by Interbrand, Hurun and BrandZ^{TM} for many years, and consecutively ranked first among all pharmaceutical companies for 9 years on the List of 100 Most Valued Chinese Brands by BrandZ^{TM} with a brand value of USD2.95 billion in 2020.

Yunnan Baiyao is known for its capability in innovating and marketing OTC and general health products. For example, it launched its first ever toothpaste product in 2005, which only took 3 years to grow to a business of over RMB1 billion in sales revenue by 2008. As of 2020, sales revenue from toothpaste products of Yunnan Baiyao reached a record high of over RMB5 billion (compared with total sales revenue from its industrial products as RMB11.7 billion) and 22.2% in market share (No. 1 in China). Another example is its band-aid business. Launched in 2001 with an annual sales revenue of around RMB10 million, it grew to RMB200 million with a market share of 40% in 2007, and further on to over 65% as of today. Both products have differentiated advantages compared with competitors by deriving functional properties such as hemostasis and pain relief from Yunnan Baiyao, which is both the company's name and its key TCM product, and pioneered the business model of generalizing the trait of fast moving consumer goods of TCM to general health products.

As is expounded in the sections headed "Proposal regarding the Introduction of Strategic Investors to the Company" and "Proposal regarding the Conditional Strategic Cooperation Agreement between the Company and the Strategic Investor" in this circular, Yunnan Baiyao has entered into a strategic agreement with the Company to fully tap into the partners' resources in multiple aspects, thereby complement each other's advantages and create synergistic effects. Amongst other things, the parties are planning on jointly building a platform for TCM and general health products to complement the Company's rich collection of products resources with Yunnan Baiyao's zero-to-one promotional capabilities, thereby replicate their success in OTC and general health products and roll out new blockbusters.

Yunnan Baiyao has a well-established salesforce of around 5,200 full-time equivalent that focuses on OTC and general health products and are deployed in all counties across the PRC. Its Pharmaceutical Division has a professional OTC sales team of 2,000 members plus an academic promotional team of 1,500 members. In recent years, Yunnan Baiyao has developed its own "online+offline" business model by launching a series of online "Baiyao Healthcare" and "Baiyao Life+" micro-mall and offline health studios, with an aim of enriching its business ecology of quality products, quality services, and quality life.

On the other hand, the Company abounds in TCM resources, with 7 TCM subsidiaries, 9 widely-recognized core brands, 5 major therapeutic areas (cardiovascular, digestion, respiratory, skeletal muscle, and urogenital), 3 classified TCM formulae, and 860 TCM products, among which, 12 recorded sales revenue of over RMB100 million in 2020. Total 2020 sales revenue from TCM business of the Company was approximately RMB7 billion, roughly a third of the Company's industrial product business.

Leveraging on the Company's extensive collection of time-honored brands and rich product reserve, combined with the testified experience of Yunnan Baiyao in brand building and sales promotion, the strategic partnership of the Company and Yunnan Baiyao will bring tremendous value to the Company by creating a new high-value-added business segment and bringing new growth momentum, especially against the backdrop of consumption upgrading and industrial policies in favor of TCM.[1]

The two parties have screened and shortlisted some core TCM and general health products for cooperation on the joint platform, including but not limited to:

- anti-aging series, probiotic series, saffron series, etc.;
- OTC specifications of existing products, such as Babaodan OTC specifications, plasters under Leiyunshang, etc.; and
- new health food series based on Vitaco's existing varieties.

As the TCM industry is paying increasing attention to product standardization, clinical safety and effectiveness, and circulatory medical research, how to obtain TCM materials with a high proportion of active ingredients, low toxic ingredients, stable quality, controllable cost and traceable information have become the key to the success of TCM products and their derivatives.

Yunnan Baiyao has successfully built up a TCM resources business with sales revenue of nearly RMB3.1 billion in 2020. It has accumulated profound practical experience in the selection, cultivation, breeding, processing, quality control and tracing of medicinal materials, which can be replicated and applied to the Company's more than 300 varieties of medicinal plants in 8 cultivation bases all across the PRC.

All in all, the strategic cooperation is expected to become a breakthrough attempt and a model of successful cooperation in the TCM industry for inheritance and innovation, and will also have demonstrative effects on the industry as a whole.

[1] *China has attached great importance to the development of the TCM industry in recent years and has issued a series of policies and measures, including the State Council's Opinions on Supporting and Promoting the Development of TCM issued on 26 October 2019, which established policy guidelines and top-level support for the innovation and development of TCM. In order to further implement the central decision-making and deployment, the National Medical Products Administration issued the Opinions on Implementing the Promotion of the Inheritance and Innovative Development of TCM on 25 December 2020, and proposed 20 reform measures. In order to further implement the State Council's Opinions on Supporting and Promoting the Development of TCM and the deployment of the National Traditional Chinese Medicine Conference, the State Council issued the Notice on Certain Policies and Measures on Accelerating the Characterized Development of TCM on 9 February 2021, which has proposed 28 specific measures for the development of high-quality characteristics of TCM. The TCM industry is calling for model examples to seize the momentum of preferential policies and become benchmark cases for the inheritance, innovation and development of TCM.*

2. A 20% discount of Issue Price in the Proposed Non-public Issuance of A Shares is in line with the recent market practice in the A share market and for A+H listed companies: since the promulgation of the revised *Administrative Measures for the Issuance of Securities by Listed Companies* (《上市公司證券發行管理辦法》, "***New Financing Rules***") on 14 February 2020 and up to the Latest Practicable Date, among all the issued and still ongoing publicly announced proposals for non-public issuance of A shares by listed companies, more than 95% of the listed companies proposed a discount rate of 20%. For those ongoing cases under which one or more strategic investors are introduced, all issuers have proposed a 20% discount. In addition, the lock-up period of 36 months under the Proposed Non-public Issuance of A Shares is twice as long as the regulatory requirement of 18 months and also at the high end of the range of lock-up periods of all proposed issuances by listed companies.

3. Although the Issue Price has a 20% discount on the average trading price of A Shares over the 20 trading days prior to 12 May 2021, i.e. the Price Benchmark Date, the Company's A Shares stock price performance in the past 2 years has been relatively stable, and the gap between the Issue Price and normal range of A Shares stock price in the past 2 years is small, which implies that the Price Benchmark Date already falls within a favorable window over a sufficiently long timespan. For details of the fluctuation of the stock prices of the Company, please refer to the chart below. Beginning in mid-2020, stimulated by the Company's contemplated partnership with a vaccine company, the stock price of the Company has experienced a phased significant increase right before the announcement of the Proposed Non-public Issuance of A Shares, which has mean-reverted in the past two months, with a closing price of RMB19.90 (RMB19.42 ex-divided) as of the Latest Practicable Date, which is a more reasonable stock price reflecting the Company's valuation compared with the high end of approximately RMB22 to RMB24 right before the Price Benchmark Date. Judging from the consistent range of the Company's A Shares stock price, there is no substantial discount on the Issue Price of the Non-public Issuance of A Shares. Even after

accounting for the recent uptick in stock price, the Issue Price of RMB16.87 per A share still represents 85% and 84% of the average trading price of the Company's A Shares in the 120 day and 1 year prior to the Price Benchmark Date, respectively.

Note: *The closing prices of A Shares after 19 July 2021 and the closing prices of H Shares after 15 July 2021 have been adjusted upward by RMB0.48 to exclude the impact of dividend distribution for FY2020.*

Source: Wind
Exchange Rate: HK/RMB = 0.8334

4. The Issue Price is at a premium over the market price of H Shares and net assets per Share respectively. As illustrated in the chart above, since 2 July 2019, the H Shares have been trading at a discount of approximately 6.63% to 43.29% as compared to the Issue Price. During this time, H Share stock price of the Company is at a deep discount of 25%-35% for 312 days and it has never exceeded the Issue Price. As mentioned above, there is also the provision that if the Issue Price is lower than the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the completion of the Proposed Non-public Issuance of A Shares, then the Issue Price will be adjusted to the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the Proposed Non-public Issuance of A Shares. Therefore, the Proposed Non-public Issuance of A Shares will not have dilutive impact either in terms of pricing or net assets per Share to H Shareholders. For details, please refer to the section headed "5. Assessment on the terms – (i) Issue Price" of Appendix II, the letter from the Independent Financial Adviser, to this circular.

Taking into account the above factors as well as necessity of funds to be raised as set out in the section headed "2. Details of the Proposed Non-public Issuance of A Shares – (5) Amount and Use of Proceeds" in this circular, the Issue Price is fair and reasonable, and the Proposed Non-public Issuance of A Shares would make significant contribution to the long-term development of the Company and is in the interest of the Company and Shareholders as a whole. Please also refer to the section headed "5. Assessment on the terms – (i) Issue Price" of Appendix II, the letter from the Independent Financial Adviser, to this circular for further analysis from the Independent Financial Adviser.

(5) Amount and Use of Proceeds

The total proceeds from the Proposed Non-public Issuance of A Shares shall be no more than RMB14,383,814,048.52, and the net proceeds after deducting issuance expenses shall be used for the replenishment of working capital and repayment of debt of the Company, among which, RMB3,000 million will be used for repayment of debt of the Company and the rest will be used for the replenishment of working capital of the Company. Details are set out below.

a. RMB3,000 million for repayment of debt of the Company and to reduce financial costs and optimize the capital structure

In recent years, the Company has continuously increased capital expenditures in order to support the development of its main business. At the same time, as the Company's business scale continues to grow, its daily liquidity requirements have also continued to increase. In order to meet capital needs of the Company, in addition to supplementing working capital with cash generated from operating activities, the Company also raises funds through external financing such as bank borrowings, resulting in a high gearing ratio. The Company's gearing ratio has risen from 55.48% at the end of 2016 to 63.31% at the end of 2020 during the past five years.

As of 31 December 2020, the average gearing ratio of comparable pharmaceutical companies is 50.34% and the gearing ratio of the Company is nearly 13 percentage points higher than that of its peers. Please refer to "3. Fund raising alternatives" of the Appendix II to this circular.

Part of the proceeds raised from the Proposed Non-public Issuance of A Shares will be used to repay debts, which will help the Company optimize its capital structure, reduce the gearing ratio, enhance its anti-risk ability, and provide financial protection and momentum for the Company's future business development, which is in the interest of the Company and Shareholders.

b. Among the proceeds used for the replenishment of working capital,

(a) no more than approximately 60% of the proceeds will be used to increase the R&D and innovation investment

In the past five years, the Company has continuously increased its R&D investment in accordance with the established innovation and transformation strategy. From RMB670 million in 2016 to RMB1.972 billion in 2020, it increased by nearly 2 times within 5 years, with a CAGR of more than 30%. After years of technology accumulation and research investment, in terms of innovative drugs, the number of drugs in the Company's pipeline has increased from 11 in 2018 to 25 at the end of 2020, 15 of which have entered clinical trials or been marketed, and many of them have entered Phase II or III clinical trials. In terms of generic drugs, as of the end of March 2021, the Company's has a total of 25 varieties (31 specifications) of generic drugs that have passed consistency evaluation, and several other varieties have completed the US ANDA application and been approved for marketing. In addition, the Company has carried out strategic cooperation with many first-class scientific research institutes and medical institutions, and is committed to promoting the research and development and transformation of pharmaceutical projects through cooperation in project incubation, commercial transformation, and targeted research and development.

The Company will take multiple measures centered on several major therapeutic areas, further enrich the product pipeline, continue to optimize the product portfolio, and consolidate and enhance its leading position in the pharmaceutical manufacturing and R&D industry: (1) accelerating the advancement of the existing R&D pipeline and in the next 2 to 3 years, the number of innovative drugs entering Phase II and Phase III clinical trials in the Company's pipeline will significantly increase, accompanied by R&D expenses; (2) through the introduction of BD products, expanding and deepening cooperation with scientific research institutes, universities, hospitals, strengthening international cooperation and other channels, continuing to license in innovative drug products, accelerating the enrichment of product pipelines, and continuously to launching new products on the market; (3) in terms of generic drugs, on the one hand, continuing to carry out consistency evaluation of generic drugs, giving full play to the Company's advantages in industrial production, and improving the competitiveness of existing products; on the other hand, accelerating the development of sustained and controlled release formulations, inhalation formulations, oral dissolution/transdermal absorption preparations, complex injections and other high-end formulations, based on improved new drugs with the characteristics of difficult to imitate, first to imitate, complex formulations, etc., launching high-end drugs with technical barriers and core competitiveness in a tiered manner, which will bring considerable benefits to the Company in the short to medium term; (4) relying on the Company's strong industrial foundation and professional talent team, expanding into new businesses such as vaccines, creating new high value-added business segments, and providing new impetus for the Company's performance growth.

(b) *no more than approximately 30% of the proceeds will be used to accelerate the expansion of market network*

As a multi-business group company with a leading position in both the pharmaceutical manufacturing and R&D industry and pharmaceutical distribution industry, the Company has continuously expanded its business scope and scale, and its overall demand for market network has also increased.

In terms of pharmaceutical distribution, the Company will further improve and complete the network layout, innovate business models, and rely on the nationwide network that also connects with the rest of the world to provide integrated full-life-cycle solutions for upstream and downstream business partners, and realize the transformation from traditional business operations to an innovative pharmaceutical supply chain service company, thereby consolidate and strengthen the national leading position of pharmaceutical distribution, and expand the space for value-added services.

In the pharmaceutical manufacturing and R&D industry, the Company will adapt to the needs of innovation transformation and expansion in the field of enlarged-health-conception and at the same time, leverage the strategic cooperation with Yunnan Baiyao in market development and channel expansion, actively expand the marketing network of innovative drug products and traditional Chinese medicine health products, strengthen channel and team building, create a product ecosystem, develop high-quality product service scenarios, fully tap and release product value, and continue to create high-value-added blockbuster products.

(c) *the rest of the proceeds will be used for the Company's digital transformation and the replenishment of daily working capital*

The Company will continue to promote the digital transformation strategy, and leverage digitization, informatization, and intelligence to improve the level of management refinement, internal operating efficiency, and system capabilities, create an efficient organization, and enhance corporate efficiency. The rest of the working capital will be used to supplement daily working capital of the Company.

The Company will make specific arrangements of the use of the above-mentioned working capital in accordance with actual operating needs.

(6) Method of Payment and Payment Period

Within ten business days from the date when the Proposed Non-public Issuance of A Shares is approved by the general meeting of the Company, Shanghai Tandong shall pay a subscription deposit of RMB30 million to the Company's designated bank account. Within ten business days from the date when the Proposed Non-public Issuance of A Shares is approved by the Board and the general meeting of Yunnan Baiyao, Yunnan Baiyao shall pay a subscription deposit of RMB100 million to the Company's designated bank account.

After the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement come into effective, each of Shanghai Tandong and Yunnan Baiyao shall, within ten business days since the issuance of the written subscription payment notice, remit the subscription funds in full to the specific bank account for the Proposed Non-public Issuance of A Shares. The balance after the completion of capital verification by an accounting firm engaged by the Company and the deduction of related issuance expenses will be remitted to the designated deposit account for proceeds opened by the Company.

Within ten business days after the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement come into effect and each of Shanghai Tandong and Yunnan Baiyao have made the subscription payment in full in accordance with the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement, respectively, the Company shall return the subscription deposit paid by each of Shanghai Tandong and Yunnan Baiyao and the interests accrued to their respective designated bank account.

(7) Number of Shares to be Issued and the Subscribers

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares shall be no more than 852,626,796, representing no more than 30% of the total number of the Shares in issue prior to the Proposed Non-public Issuance of A Shares. During the period from the Price Benchmark Date to the Issuance Date, in the event of ex-entitlement activities such as bonus issue, conversion of capital reserve into share capital, etc., the number of A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares shall be adjusted accordingly. The final number of Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares is subject to the number of Shares approved by the CSRC.

The Proposed Non-public Issuance of A Shares has two subscribers, i.e. Shanghai Tandong and Yunnan Baiyao. Pursuant to the Shanghai Tandong Subscription Agreement and Yunnan Baiyao Subscription Agreement, details of subscription of each subscribers are as follows:

No.	**Subscriber**	**Maximum Number of Shares of the Proposed Subscription** *(A Shares)*	**Maximum Amount of the Proposed Subscription** *(RMB)*
1	Shanghai Tandong	187,000,000	3,154,690,000.00
2	Yunnan Baiyao	665,626,796	11,229,124,048.52
Total		**852,626,796**	**14,383,814,048.52**

Shanghai Tandong is a company incorporated under the laws of PRC with limited liabilities, which is mainly engaged in corporate management consulting, and technology development, technical services, technical consulting, technology transfer, etc. in the fields of medicine and biotechnology. As of the Latest Practicable Date, Shanghai Tandong is a wholly-owned subsidiary of Shanghai Shangshi.

Yunnan Baiyao is a joint stock company incorporated under the laws of PRC with limited liabilities, which is currently engaged in pharmaceuticals, health products, Chinese medicine resources and pharmaceutical logistics, etc., shares of which are listed on the Shenzhen Stock Exchange with stock code 000538. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Yunnan Baiyao is a third party independent of the Company and connected persons of the Company.

To formulate the plan of the Proposed Non-public Issuance of A Shares, including the size of issuance and the allocation between the Subscribers, the Board also took into account the following factors.

A. The Chinese pharmaceutical industry is undergoing significant changes

1. The government issued a number of incentive policies to support the pharmaceutical industry innovation and transformation

Related to the people's livelihood, the pharmaceutical industry is an important part of the national economy and is closely related to the people's vital interests. With the implementation of China's strategic goal of building a well-off society, General Secretary Xi Jinping proposed that "without the health of all people, there is no well-off society in all aspects and people's health should be given priority in the strategic development". Health and people's livelihood have gradually become the key areas where national policies favor and the pharmaceutical industry has ushered in unprecedented development opportunities.

In recent years, in order to implement the Healthy China strategy, the State Council, the NHC, the NMPA (the former NFDA) and the NHSA have successively introduced a series of policies to encourage drug innovation, proposing systematic reform measures for all aspects of drug research and development, registration, production, distribution, payment and use, providing fertile ground for enterprises to innovate and transform, and paving the way for industry restructuring.

On 1 December 2019, the newly revised Drug Administration Law came into force; on 1 July 2020, the new version of the Measures for Drug Registration and Administration and Measures for Drug Production Supervision and Administration came into force. After the implementation of the above regulations, review, verification and inspection were changed from "tandem" to "parallel", significantly optimizing the drug review and approval workflow; new regulations set up four acceleration channels of breakthrough therapeutic drugs, conditional approval, priority review and approval and special approval, clarified review time frame to improve the efficiency of drug registration and the expected time frame for registration. In addition to process optimization, the new regulations also clarify the MAH system and the formal separation of marketing and manufacturing licenses, which further mobilizes the R&D enthusiasm of drug R&D institutions, researchers and drug manufacturers and enables many CMO companies to see the huge business opportunities as trustees, which is conducive to improving China's new drug R&D level and international competitiveness and helps accelerate the integration of China's pharmaceutical manufacturing and R&D industry into the global industry chain.

In October 2016, the Healthy China 2030 Planning Outline was officially released, clearly proposing to improve the multi-level medical security system with basic medical insurance as the main body and supplemented by other various forms of supplementary insurance and commercial insurance. In February 2020, the Central Committee of the CPC and the State Council issued the Opinions on Deepening the Reform of the Medical Security System, which serves as the top-level design for future medical insurance reform, establishes the key work of China's medical reform and health insurance reform in the next 10 years and strives to further support the development and use of high-quality generic drugs and promote the import substitution of generic drugs by improving medical insurance payment standards and drug bidding and procurement mechanisms. The construction of a multi-level medical insurance system will improve the accessibility of pharmaceutical services, which will benefit the development of the pharmaceutical industry as a whole.

In December 2020, a new round of medical insurance catalog adjustment work was officially launched, according to which, a total of 119 varieties were under successful negotiations with the average price reduction of 50.64%. The negotiation adhered to the functional positioning of "guaranteeing the basics" of the national medical insurance. Through "vacating cage to change bird", the price of original varieties with high cost was lowered through negotiation and the drugs with low clinical values were transferred out to promote the innovative drugs with high value to get into the medical insurance catalog. With the accelerated entry of innovative drugs into medical insurance, the accessibility of new drugs has been rapidly improved, and the R&D investment of pharmaceutical companies has been quickly recovered. The measure further promoted the development of the domestic innovative drug market, pushed Chinese pharmaceutical companies to compete directly with foreign pharmaceutical companies, and accelerated the improvement of internationalization and innovation capability.

2. Chinese pharmaceutical manufacturing and R&D industry developed fast, the process level requirements continued to improve and the environment for innovative drugs to be listed continued to be optimized

Subject to the aging population, the increasing level of urbanization of residents and the gradual improvement of the medical security system, Chinese pharmaceutical manufacturing and R&D industry is experiencing a period of high growth. According to the economic indicators of industrial enterprises above the national scale calculated by comparable caliber in 2019 released by the National Bureau of Statistics, industrial enterprises above the designated scale of pharmaceutical manufacturing industry achieved operating revenue of RMB2,390.86 billion in 2019, up 7.4% year-on-year, higher than the overall level of industrial enterprises above the national scale in the same period by 3.6 percentage points, and achieved total profit of RMB311.95 billion, up 5.9% year-on-year, higher than the overall level of industrial enterprises above the national scale for the same period by 9.2 percentage points.

At the same time of the rapid development of the pharmaceutical manufacturing and R&D industry, China put higher requirements for the level of generic drug processes. For generic drugs, in 2016, the State Council issued the Opinions on Conducting Consistency Evaluation of Generic Drug Quality and Efficacy (Guo Ban Fa [2016] No. 8) to promote consistency evaluation of generic drugs across the country. After the introduction of this policy, the domestic generic drug stock pattern was reconstructed, which put forward higher requirements on the level of preparation prescription process of enterprises of pharmaceutical manufacturing and R&D industry, and the concentration of the generic drug industrial production industry was expected to be further improved.

In terms of innovative drugs, the Outline of National Innovation-driven Development Strategy, the "13th Five-Year Plan" National Technology Innovation Plan and the Guide on Pharmaceutical Industry Development Planning have all put forward targets for the development of innovative drugs, and major special projects have been set up to promote the research and development of innovative drugs. The implementation of the MAH system and the optimization of the approval process have greatly encouraged the development of innovative drugs and the policy environment to encourage the launch of innovative drugs has been optimized and the vitality of innovation has been released. The 2019 Annual Drug Review Report released by the Drug Review Center of the NMPA showed that in 2019, the Drug Review Center accepted a total of 319 varieties of Class 1 innovative drug registration applications (involving 700 applications, the number of varieties of chemical drugs is counted by active ingredients, and the number of varieties of both TCM and biological products are counted by the generic name of the drug, the same below), representing an increase of 20.8% as compared with 2018. Among them, 302 varieties of new drug clinical trial (IND) applications for Class 1 innovative drugs were accepted, representing an increase of 26.4% as compared with 2018. With the support of various national policies, the innovation enthusiasm of manufacturers in pharmaceutical manufacturing and R&D industry continues to rise, and the number of innovative drug declarations and approvals in China will maintain high growth.

3. China promoted the volume-based centralized procurement of drugs, the pharmaceutical industry entered the era of cost control and structural adjustment and the advantages of R&D capabilities of pharmaceutical enterprises were increasingly prominent

At the beginning of 2019, the General Office of the State Council announced the National Organization for the Pilot Program of Centralized Procurement and Use of Drugs, which clarified the work deployment of "4+7" cities with volume-based procurement, opening a new era of drug price management. The winning price of the varieties that entered the quantity procurement catalog fell by an average of 52%, with the highest drop of more than 90%. At the end of 2019, the implementation of the volume-based procurement policy in pilot cities was effective and the country carried out the "4+7" alliance areas outside the city for the same variety, the second batch of centralized procurement, the third batch of centralized procurement, the fourth batch of centralized procurement to drive the national drug prices down and improve the level of medical protection for patients.

Since 2019, China has continued to promote the expansion of centralized volume-based procurement of drugs, which has also forced Chinese pharmaceutical companies to re-define their own positioning: pharmaceutical companies that focus on generic drug R&D and production need to improve their ability to select variety, develop technology platform and control cost and increase production and sales volume to thicken corporate profits; pharmaceutical companies that take innovative drug R&D and production as their strategic development goal need to increase their innovation transformation efforts, while optimizing their product structure to enhance the core R&D strength of enterprises. With the deepening of the centralized volume-based procurement policy, China's pharmaceutical companies need to improve the level of investment in research and development to maintain their market position and competitiveness in the future policy environment of full implementation of volume-based procurement.

4. ***As medical reform continued to deepen, the domestic pharmaceutical supply chain needed to further improve efficiency, accelerate model innovation and industry integration and the scale effect of the pharmaceutical distribution leader initially took shape***

Since the establishment of the NHSA in 2018, China's health care reform has entered a new phase, with drug prices facing greater price reduction pressure. In the first half of 2019, the implementation of the "two-vote system" and "zero cost increase" in the national public hospitals has been basically completed, and the distribution and retail industry continued to transform and upgrade. Meanwhile, the integration of the pharmaceutical distribution sector continued to accelerate, and the concentration of the industry was further enhanced. In this context, the importance of the scale effect and brand effect advantage of enterprises has become more and more prominent. Abundant capital, efficient warehousing and distribution capabilities, multi-channel procurement capabilities, comprehensive service capabilities, etc. gradually become the core competitiveness of the long-term sustainable development of pharmaceutical distribution enterprises. The deepening of medical reform has accelerated the elimination of pharmaceutical distribution enterprises, which has put forward more stringent requirements for the operational efficiency of pharmaceutical enterprises. In the future, with the further differentiation of the competitive landscape of the pharmaceutical distribution industry, high-quality leading enterprises with scale effect, high operational efficiency and innovative models will accelerate their rise in the medical reform environment by virtue of their own advantages, while enterprises that do not adapt to the market environment and policy requirements will withdraw one after another, and the pharmaceutical distribution industry ushers in an important opportunity period for integration.

B. In-depth reformation in the pharmaceutical industry call for transformation of the company's business strategy along with the way it is governed

As the pharmaceutical industry in China is undergoing an unprecedented transition that offers significant growth potential as well as a number of challenges, the Company is not only transforming from a traditional SOE to a more market-driven company, but also transforming to a more innovation-driven business model and strategy. The Proposed Non-public Issuance of A Shares, in that context, is an integral part of the Company's transformation strategy by bringing in both a strategic investor from the private sector, which will enable the Company to adapt to market changes and self-reform in a more agile, efficient and complete manner, as well as provide the Company with the requisite capital to further the business transition. Both factors are indispensable for the continued success of the Company at this critical juncture of the pharmaceutical industry. During this period of change, the continued stability and harmony provided by a reputable controlling shareholder and the addition of an industry leader as a new major shareholder will bring value and diversity to the Company. The Proposed Non-public Issuance of A Shares is a unique and positive opportunity for the Company to continue to evolve with the market, grow, and create value for Shareholders and customers of the Company.

The rest of Part B will focus on the necessity of funds to be raised for the Company's sustained transformation of business strategy, leaving relevant contents on the transformation of shareholding structure and corporate governance to Part C. Further details can also be found in the section headed "Details of the Proposed Non-public Issuance of A Shares – (13) Reasons for and Benefits of Proposed Non-public Issuance of A Shares" in this circular.

The proposed use of proceeds is detailed in the section headed "2. Details of the Proposed Non-public Issuance of A Shares – (5) Amount and Use of Proceeds", which specifies allocation of proceeds over repayment of debt, R&D and innovation investment, expansion of market network, and digital transformation. On top of that, the following analysis further illustrates the Company's growing R&D and other working capital requirements amid such industry and company transition.

1. Past 5-Year R&D Investments

(million RMB)	**2016**	**2017**	**2018**	**2019**	**2020**	**5-Year CAGR**
R&D Investment (expensed + capitalized)	671	836	1,389	1,509	1,972	30.93%
R&D Expense	654	790	1,061	1,350	1,657	26.16%

In the past 5 years, the Company has continued to increase R&D investment based on the dual-motivated R&D innovation model of "self-research + license-in". From RMB671 million in 2016 to 1.972 billion in 2020, it increased by almost 2 times within 5 years, with a CAGR of 30.93%. Set out below is an analysis of the Company's future R&D capital requirements from three aspects of investment, including self-research, licensed-in products, and consistency evaluation of generic drugs.

1) **Self R&D of Innovative Drugs**: As of the end of 2016, the number of innovative drugs in the Company's pipeline at pre-clinical trial or clinical-trial stage was 12, only 2 of which had entered clinical trial stage. The total number of pipeline grew to 25 by the end of 2020, among which 14 products have launched clinical trials and 9 products have enter into Phase II or Phase III clinical trials (5 in Phase II and 4 in Phase III), the number of which is expected to increase significantly within the next 2-3 years. Among all the Company's pipeline products, anti-tumour drugs account for about half.

In terms of the cost of clinical trials, the KMR Group, a subsidiary of the WPP Group and the world's largest communications group, published a study on the cost of clinical trials in 2016. It counted the data of costs of 726 clinical trials conducted by 7 large pharmaceutical companies during 2010-2015. The results showed that the median cost of each phase of the study was: US$3.4 million for Phase I, US$8.6 million for Phase II, and US$21.4 million for Phase III. In addition, according to a research report released by the Tufts Center for the Study of Drug Development in 2014, the costs of clinical trials in various therapeutic areas diverge greatly. Among them, average cost in the field of oncology was at the upper end of the range, and the total cost of a complete clinical trial was about US$78.6 million.

Costs of clinical trials have continued to rise ever since publication of the reports, especially Phases II and III. Although the cost of clinical trials in China is generally lower than that of European and American countries, it has witnessed a salient upward trend in recent years. In order for the Company's self R&D to bear fruit, it is imperative to commit to further investment to catch up and keep pace with other innovative pharmaceutical companies.

2) **Licensed-in Products**: In recent years, the Company has successively licensed in a number of products under development. For example, in November 2019, the Company obtained the exclusive commercial rights in mainland China to the acute ischemic stroke class 1 innovative drug LT3001 from Taiwan-based Lumosa Therapeutics Co., Ltd. for RMB260 million; in August 2020, the Company obtained the exclusive rights in Greater China to commercialise the new generation of recombinant herpes oncolytic virus T3011 from Shenzhen Immvira Co., Ltd. for a total consideration of RMB1.15 billion. In both cases, the consideration will be paid by milestones accomplished from clinical trials to marketing, and does not include the additional clinical trial and commercialization costs that the Company needs to undertake in the process. It can be inferred that the license-in approach can indeed populate the Company's pipeline in a relatively fast manner, but the associated costs also demand sustained financial support.

3) **Consistency Evaluation of Generic Drugs**: As of the end of 2020, the Company has a total of 21 varieties (27 specifications) of generic drugs that have passed consistency evaluation. The Company has also made applications for consistency evaluation of 36 varieties (51 specifications), among which 30 varieties (39 specifications) are solid preparations and 6 varieties (12 specifications) are injection preparations. According to the historical data of the Company, the average R&D costs for approved consistency evaluation per specification amount to about RMB6.495 million. In the future, the Company will proceed to carry out consistency evaluation of more varieties and specifications, with average costs higher than before.

2. Estimate of the Company's need for working capital

From FY2016 to FY2020, the revenue of the Company was RMB120.77 billion, RMB130.85 billion, RMB159.08 billion, RMB186.57 billion and RMB191.91 billion respectively. Based on financial performance and operating conditions of the last five years, the Company calculated the below working capital needs with the assumptions that the Company's revenue will grow at 10% in the next 3 years and the proportion of the current operating capital to revenue will remain the same from FY2021 to FY2023.

RMB billion	2016	2017	2018	2019	2020 Ending Balance	2020 % of Revenue	2021	2022	2023
Revenue	120.77	130.85	159.08	186.57	191.91	100.00%	211.10	232.21	255.43
Notes Receivables	1.59	1.11	1.82	0.27	0.29	0.15%	0.32	0.35	0.39
Accounts Receivables	27.29	31.38	42.15	47.34	52.75	27.48%	58.02	63.82	70.21
Advances to Suppliers	1.15	1.39	2.05	1.94	2.39	1.25%	2.63	2.89	3.18
Inventories	16.42	17.27	25.02	24.88	24.09	12.55%	26.50	29.15	32.06
Total Operating Assets	46.45	51.15	71.05	74.43	79.52	-	87.47	96.21	105.83
Notes Payables	3.68	3.95	4.17	5.05	4.93	2.57%	5.42	5.97	6.56
Accounts Payables	22.31	23.35	30.98	31.82	32.86	17.12%	36.15	39.76	43.74
Advance Payment	0.74	1.03	-	-	-	0.00%	-	-	-
Total Operating Liabilities	26.72	28.33	35.15	36.87	37.79	-	41.57	45.73	50.30
Working Capital	19.72	22.82	35.90	37.56	41.72	-	45.90	50.49	55.53
Increase of Working Capital	-	-	-	-	-	-	4.17	8.76	13.81

Based on the above calculation, the estimated working capital needs of the Company will reach RMB13.81 billion by 2023, more than the amount of proceeds allocated for working capital replenishment, which justifies the size of the Proposed Non-public Issuance of A-shares.

As is pointed out in the section headed "3. Fund raising alternatives" of Appendix II, the letter from the Independent Financial Adviser, to this circular, the average of asset to liability ratio of the comparable pharmaceutical companies of the Company was approximately 50.34% as at 31 December 2020. The asset to liability ratio of the Company is at 63.31%, which was nearly 13 percentage points higher than that of the comparable companies and also higher than the 2016 level by around 8 percentage points. In the past five years, the closing balance of short-term borrowings of the Company increased from RMB9,628 million at the end of 2016 to RMB20,139 million at the end of 2020, and the closing balance of long-term borrowings increased from RMB838 million at the end of 2016 to RMB1,184 million at the end of 2020 which give rise to further tightened liquidity conditions and borrowing constraints.

If the Company were to raise funds of the same scale through debt financing, additional interest expense will be incurred, and the high level of asset to liability ratio will lead to greater operating risk and higher financial costs of the Company, which will have adverse impact on the Company's long-term development and is not in the interest of the Company and the Shareholders as a whole. Simply applying the average debt financing cost of the Company in FY2020 as 3.15% (including corporate bonds, Super & Short-term Commercial Paper and bank borrowings, etc.) to the size of the Proposed Non-public Issuance of A Shares would generate an interest cost of approximately RMB453 million per year, which amounts to around 10% of the net profit attributable to equity owners of the Company in FY2020. This is in addition to the Company's existing financial expenses, which have already escalated from RMB677 million in FY2017 to RMB1.24 billion in FY2020.

C. Designed to bring in strategic investor in compliance with guidance of regulatory authorities

1. Requisite for introduction of "Strategic Investor" and optimization of corporate governance structure

The Company and Yunnan Baiyao have entered into extensive discussions, and a variety of possibilities have been considered. The first priority has been the equitable treatment of all shareholders within the context of a market-sensitive and commercially-positive framework. It has been made clear to the Board that the opportunities currently offered by Yunnan Baiyao are only commercially viable with an offer of the proposed size and scope. A smaller offer would lead to Yunnan Baiyao seeking commercial opportunities elsewhere in the market as the business model both for them and for the Company requires particular scale.

The size of issuance is also in line with the regulator's definition of strategic investors, failing which a proposal to issue new shares would not get approved by the CSRC and such cases abound in the A share market.

According to the New Financing Rules and the Supervisor's Q&A on the issuance of securities – Requirements on Matters Related to the Introduction of Strategic Investors by Way of Non-Public Issuance of Shares (發行監管問答——關於上市公司非公開發行股票引入戰略投資者有關事項的監管要求), a qualified strategic investor is defined as an investor "having important strategic resources in the same industry or related industry, seeking long-term common synergistic interests with the listed company, **willing to hold a substantial proportion of shares of the listed company for a long time, able and willing to diligently fulfill corresponding responsibilities, will appoint director(s) to the listed company and get truly involved in corporate governance, can enhance the level of governance of the listed company and serve to significantly improve the quality and intrinsic value of the listed company,** having a good credit track record without any administrative punishment by the CSRC or convicted of any crimes".

The definition of the qualified strategic investor means that the qualified strategic investor shall be an active participant of strategic investor in corporate governance of the listed company, which is infeasible without material shareholding in the listed companies. Under the current scheme of Proposed Non-public Issuance of A Shares, Yunnan Baiyao will hold approximately 18.02% of the total issued share capital of the Company upon the completion of the Proposed Non-public Issuance of A Shares, and is entitled to nominate one candidate for executive director, one candidate for non-executive director, and one candidate for supervisor. Such influential representation on the board comes only after a considerable shareholding, both catering to the definition of strategic investor as is prescribed by the regulators in the PRC.

The cooperation between the Company and Yunnan Baiyao not only optimizes the capital structure and improves the level of corporate governance of the Company, but also creates a strong strategic synergy between these two parties. A higher percentage of shareholding by Yunnan Baiyao is more conducive to aligning interests of both parties, thereby maximizing such strategic benefits.

As is pointed out in the section headed "2. Reasons for and Benefits of Proposed Non-public Issuance of A Shares" of Appendix II, the letter from the Independent Financial Adviser, to this circular, mixed-ownership reform to SOEs has been generally considered a healthy transformation to the shareholding and corporate governance structure, hence a bullish factor to the relevant listed company's share performance in most cases. The underlying rationale being that such moves can fundamentally improve the company's governance structure and thereby make it more market-oriented and performance driven, which taps into the core interests of shareholders in general.

The Yunnan Baiyao case aside, which is expounded in previous sections, the Independent Financial Adviser has conducted a search on A share listed companies which are engaged in pharmaceutical business and announced their controlling shareholder's plan for mixed-ownership reform since 2020 and identified two cases which form an exhaustive list. As shown in the summary below, the share price of both of the two relevant companies hit the daily upper limit by increasing 10% the next day after their respective announcement in relation to mixed-ownership reform, which demonstrates the market's positive perception of such reform with an expectation of post-reform improvement on corporate governance and alignment of interests of the management and the companies.

Announcement date	**Company name**	**Stock code**	**Increase of share price the next day after the announcement**
16 June 2020	Tianjin ZhongXin Pharmaceutical Group Corp. Ltd.	600329.SH	10%
16 June 2020	Tianjin Tianyao Pharmaceutical Co., Ltd.	600488.SH	10%

2. In line with market practices post issuance of the New Financing Rules

As stipulated in the *Supervisor's Q&A on the Issuance of Securities – Regulatory Requirements on Guiding and Normalizing Financing Activities of Listed Companies (Revised Version) (《發行監管問答——關於引導規範上市公司融資行為的監管要求(修訂版)》, the "**Supervisor's Q&A**")* published by CSRC on 14 February 2020, and the New Financing Rules, "when a listed company applies for non-public offering of shares, the number of shares to be issued shall in principle not exceed 30% of the total share capital before the offering".

This effectively lifted the upper limit of size of the non-public issuance of A shares as a percentage of total issued capital before offering from 20% to 30%, which manifests the CSRC's support on direct financing by listed companies.

After the publication of the New Financing Rules, among the ongoing and completed non-public issuances of A shares and up to the Latest Practicable Date, approximately 70 companies have issued or proposed to issue 30% of their respective total issued share capital before the issuance, accounting for nearly 30% of all placements on the market; more than 60 companies issued or proposed to issue more than 20% but less than 30% of their respective total issued share capital before the issuance, accounting for about another 25% of all placements. All in all, more than half of observed cases on the A share market had an issue size of over 20% of total issued share capital before the issuance, hence the Proposed Non-public Issuance of A Shares is in line with the recent market practice.

3. Difficulty in sequencing smaller issuances consecutively under the regulatory regime

According to the Listing Rules and relevant laws and regulations of the PRC, a specific mandate must always be sought and awarded from the shareholder's meeting for the issuance of new shares, which determines the key terms such as size of issuance, subscribers, price, use of proceeds, etc. and thereby limits the authority of the board.[1] This is entirely unlike many other stock markets, in which the board obtains a general mandate at the AGM for issuance of new shares during a 12-month period at their discretion. (In case the company is an SOE, an additional step for approval by the state-owned assets management authorities or the authorized state-funded enterprises has to precede the meeting of shareholders, which adds additional uncertainties, for example in timing.)

If approval is obtained for the detailed plan at the meeting of shareholders, the next-step necessary action is to proceed to the CSRC approval process, which usually takes several months at minimum. Additionally, the CSRC has restrictions on the frequency of financing activities by listed companies. For example, the Supervisor's Q&A establishes a restriction on the minimum interval between two issuances by stipulating that, "in principle, where a listed company applies for issuance of new shares, allotment of shares or private placement, the date of resolution by the board of directors for this issuance shall not be less than 18 months from the date on which funds from the previous issuance are in place."

Therefore, it is difficult and perhaps impossible for the Company to manage the timing of the issuance, placed into a series of smaller issuances. Instead, the Company must undertake an issue once and allocate proceeds over a longer period. Due to the presently different market norms between agreed standards in mainland China and other major markets, the Company always aims to adhere to the highest respective standards in all the markets in which it operates, in this case there is no common ground so the Company must find a mutually acceptable compromise from mainland China and Hong Kong markets.

1 For details of the Board's authority on the proposed issuance, please refer to the section headed "Proposal regarding Granting a Specific Mandate in relation to the Proposed Non-public Issuance of A Shares to the Board and Authorizing the Board and Its Authorized Person(s) to Deal with Relevant Matters in relation to the Proposed Non-public Issuance of A Shares and the Strategic Cooperation at the General Meeting" in this circular.

4. *Reform measures as a pilot company of The "Double Hundred Actions (雙百行動)" of SOE's reform*

The "Double Hundred Actions" of SOE's reform refers to an initiative by the State Council since 2018. Around 100 central state-owned enterprises and 100 local state-owned enterprises were selected as pilot companies to launch reforms to SOEs, which are expected to serve as model examples and have their testified practices extended to more SOEs.

Pertaining to the requirement to "achieve decisive results in important areas and key building blocks of the reform of state-owned enterprises," pilot enterprises are encouraged by the SASAC to make breakthroughs in five aspects, including mixed ownership reform, corporate governance structure, market-oriented operation mechanism, incentive mechanism and solving historical problems, in a direction that is conducive to the company's commercial success. For example, in August 2019, the State Council issued *Notice on Supporting and Encouraging "Double Hundred Enterprises" to Further Strengthen Reform and Innovation (《關於支持鼓勵「雙百企業」進一步加大改革創新力度有關事項的通知》(國資改辦[2019]302號))*, which on the one hand provides a fast track for the approval of major reforms such as the introduction of mixed ownership to the pilot SOEs, and on the other hand brings in quite a few preferential policies, including protective measures to ensure independence of the board and management from the government as the ultimate shareholder, more thorough authorization of power to management for business operations, recruitment of senior management from the market of professionals instead of appointment from the pool of government officials, availability of a wider range of choice of incentive tools, such as stock incentive plan, tolerance of innovation by trial-and-error, etc.

As one of the pilot enterprises of "Double Hundred Actions", the Company is undergoing a transition with the goal of becoming a more market-oriented enterprise with professional management, and has made several meaningful reform attempts as a result of empowerment by the preferential policies, including:

- Switched from budget-based performance assessment to benchmarked assessment;

- Set up independent innovation-driven (R&D oriented or new business model oriented) legal entities with management and key personnel being majority shareholder or shareholder with over 30% stake;

- Launched its first share option scheme at the end of 2019;

- Tailored incentive mechanism for R&D personnel in 2020.

As an outstanding reformer, the Company was also given the opportunity to make a speech at the national conference on "Double Hundred Actions" held by the SASAC in October 2020.

In order to further promote the comprehensive reform of SOEs, respond to the regulatory authorities' orientation on introduction of authentic strategic investors by listed companies through refinancing of material size, and create a model example for state-owned listed companies to diversify shareholding structure via the capital market, the Proposed Non-public Issuance of A Shares is formulated, which has obtained approval from the state-owned assets administrator, and will be formally submitted to the CSRC for approval after being passed at the general meeting.

Whereas the strategic value of Yunnan Baiyao *per se* has been expounded in the sections headed "2. Details of the Proposed Non-public Issuance of A Shares – (4) Issue Price and Pricing Principles", "Proposal regarding the Introduction of Strategic Investors to the Company" and "Proposal regarding the Conditional Strategic Cooperation Agreement between the Company and the Strategic Investor" in this circular, besides, the issue size and allocation between subscribers also take into account the following two factors:

a) First of all, in order to materially diversify the Company's shareholding structure and enable deep participation in corporate governance by the strategic investor and truly "enhance the level of governance of the listed company" and "significantly improve the quality and intrinsic value of the listed company," a non-SOE strategic investor holding a large proportion of the shares is to be introduced to exert sufficient impact both at the shareholders and board meeting levels.

   More specifically, the Company's board of Directors currently consists of 10 members, three Directors of whom are executive Directors and are appointed by the controlling shareholder of the Company, and the remaining seven Directors as non-executive Directors, with two out of the seven Directors also being appointed by the controlling shareholder of the Company. As specified in the Company's Articles of Association published on 24 June 2020, three executive Directors form the Executive Directors Committee, which is governed by unanimous approval and is authorized by the Board to oversee and resolve on all important matters of the Company besides those subject to board approval. If the strategic investor intends to be entitled to appoint two members on the Board, in particular one executive Director, it would be difficult to justify the rationale if the strategic investor holds less than half of the shareholding in the Company as compared to that held by the controlling shareholders of the Company.

   Meanwhile, the Independent Non-executive Directors will continue to perform their duties to provide independent and professional advice to the Board, which will further optimize the balance of the Board and the decision-making mechanism thereunder.

b) On the other hand, in order to maintain the SOE nature of the Company after the introduction of the strategic shareholder, which is a requirement under the current regulatory environment of the Company based on the relevant laws, regulations, and regulatory guidance in the PRC, the shareholding percentage of the controlling shareholder of the Company, i.e. Shanghai Shangshi, shall not fall below 33%. Therefore, an insufficient offer size, e.g. 20% of total shares before offering, would not meet all the requirements mentioned above. In addition, the controlling shareholder's continued interest at this level is a mark of confidence in management and will provide continued long-term stability to the Company.

SIIC, as a controlling shareholder, has provided significant value to the Company as demonstrated in the Company's exceptional growth and continuity in results. As a prestigious investment group, SIIC is well-regarded in the domestic and international markets, and frequently provides the Company with commercial opportunity introductions and the potential for financial support. As an SOE, SIIC provides the Company with significant support and connections in a highly-regulated environment, offering stability and group continuity as well as a platform against competitors. SIIC's strength would be complemented by the addition of an industry shareholder. If SIIC's shareholding were to be diluted, their guarantee and support would also be diluted, thereby diverting their resources to other investments.

The current proposal is formed and approved by the State-owned Assets Administrator in view of all the above requirements and guidance. This is also the first case ever of issuance of new A shares by a listed "Double Hundred Enterprise" to have received approval from the relevant state-owned assets administrator, as well as the first case of an SOE introducing strategic non-controlling shareholders by non-public issuance after promulgation of the "New Financing Rules." Failure to implement the scheme will likely bring on formidable challenges and hurdles for the Company's attempts at issuance of securities in all forms in the foreseeable future, including public issuance, private placement, rights issue to existing shareholders, etc. Given the 63% threshold of asset-liability ratio suggested by SASAC, which the Company has already touched, lack of support from equity financing will likely result in a trade-off of sustained business development against deleveraging. Other undesirable consequences may include curtailed entitlement to preferential policies enjoyed by "Double Hundred Enterprises", such as expansion of the base of participants in the share option scheme, further market-oriented reforms to the corporate governance structure, and tolerance of innovation by trial-and-error, all of which play a critical role in unleashing institutional growth momentum by aligning employees' interest with the Company and motivating healthy innovation, thereby undermining the fundamental interests of Shareholders.

(8) Lock-up Period

A Shares to be subscribed by Shanghai Tandong and Yunnan Baiyao pursuant to the Proposed Non-public Issuance of A Shares shall be subject to a lock-up period of 36 months from the date of completion of the Proposed Non-public Issuance of A Shares. Any additional Shares to be acquired by the Subscribers after the completion of the Proposed Non-public Issuance of A Shares due to bonus issue, conversion of capital reserve into share capital, etc. shall also be subject to the lock-up arrangement mentioned above.

The lock-up period of 36 months is longer than the regulatory requirements of 18 months and close to the high end of the range of lock-up periods of comparable transactions identified by the Independent Financial Adviser, which is in line with market practice and represents the Subscribers' faith in the future development of the Group and their long-term commitment in the Group. Please refer to "5. Assessment on the terms – (iv) Lock-up Period" of the Appendix II to this circular.

If the CSRC and the Shanghai Stock Exchange have other requirements for the lock-up period for the Proposed Non-public Issuance of A Shares, the Subscribers will adjust the lock-up period in accordance with such requirements.

(9) Place of Listing

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares shall be listed for trading on the Shanghai Stock Exchange.

(10) Arrangement for the Accumulated Undistributed Profits of the Company Prior to the Proposed Non-public Issuance of A Shares

The accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares will be shared by the Shareholders after the completion of the Proposed Non-public Issuance of A Shares on a *pro rata* basis according to their respective shareholding in the Company.

(11) Conditions Precedent

The Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement will be executed after being signed by the legal representatives or authorized representatives of relevant parties and affixed with the official seal, and they will become effective on the date when all the following conditions are fulfilled:

(a) the Board approves the Proposed Non-public Issuance of A Shares and the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement;

(b) the board of directors and shareholder(s) of Shanghai Tandong/Yunnan Baiyao (as the case may be) approve(s) Shanghai Tandong/Yunnan Baiyao to subscribe for the Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares and/or the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement;

(c) the Proposed Non-public Issuance of A Shares is approved by the state-owned assets management authorities or approved by authorized state-funded enterprises;

(d) the general meeting of the Company approves the Proposed Non-public Issuance of A Shares and the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement; and

(e) the Proposed Non-public Issuance of A Shares is approved by the CSRC.

(12) Effect of the Proposed Non-public Issuance of A Shares on the Shareholding Structure of the Company

As at the Latest Practicable Date, the total number of issued Shares of the Company is 2,842,089,322 Shares, including 919,072,704 H Shares and 1,923,016,618 A Shares. The shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed Non-public Issuance of A Shares (assuming that (a) 852,626,796 A Shares in total are issued under the Proposed Non-public Issuance of A Shares; and (b) there is no other changes in the current shareholding structure of the Company before the completion of the Proposed Non-public Issuance of A Shares) are as follows:

	Number of the Shares held as at the Latest Practicable Date		**Number of the Shares held immediately after the completion of the Proposed Non-public Issuance of A Shares**	
	Number of Shares	**Percentage of the total Shares in issue of the Company** *(Note 2)*	**Number of Shares**	**Percentage of the total Shares in issue of the Company** *(Note 2)*
SIIC *(Note 1)*	1,039,999,537	36.59%	1,226,999,537	33.21%
Shanghai Tandong	-	-	187,000,000	5.06%
Others	1,039,999,537	36.59%	1,039,999,537	28.15%
Yunnan Baiyao	-	-	665,626,796	18.02%
Other Public H Shareholders	817,891,004	28.78%	817,891,004	22.14%
Other A Shareholders	984,198,781	34.63%	984,198,781	26.64%
Total	**2,842,089,322**	**100.00%**	**3,694,716,118**	**100.00%**

Note 1: SIIC is a controlling shareholder of the Company. As at the Latest Practicable Date, SIIC directly and indirectly holds a total of 1,039,999,537 Shares of the Company, including 938,817,837 A shares and 101,181,700 H Shares.

Note 2: The aggregate of the percentage figures in the table above may not add up to the relevant total percentage figures shown due to rounding of the percentage figures to two decimal places.

After the completion of the Proposed Non-public Issuance of A Shares, the *de facto* controller of the Company remains to be Shanghai SASAC.

(13) Reasons for and Benefits of Proposed Non-public Issuance of A Shares

In the era of great changes in the pharmaceutical industry, the Company deeply realizes that in the face of new challenges and opportunities, only through continuous innovation can the Company gain vitality and achieve development in the great changes of the industry. In the pharmaceutical manufacturing and R&D industry, the Company has set the strategic goal of transforming from an ordinary generic pharmaceutical company to a research and development-oriented pharmaceutical company driven by technological innovation. In the pharmaceutical distribution field, the Company has established a strategic goal of transforming from a pharmaceutical supply chain service company to China's leading modern health service providers driven by services and technologies and continuing to promote the transformation and development measures centered on technological innovation.

The Proposed Non-public Issuance of A Shares will enhance the Company's capital strength, which will help the Company further increase its research and development investment, improve the Company's industrial sector research and development, manufacturing, and marketing management centers, promote the consistency evaluation of generic drugs, and strengthen international cooperation, continue to promote cooperation with scientific research institutes, universities, and hospitals, jointly build innovation platforms, translational medicine alliances, and multiple innovative technology companies or characteristic platforms, continue to expand the field of new indications, improve the existing research and development system, and maintain the leading position of the Company in the pharmaceutical manufacturing and R&D industry. On the other hand, the funds raised from the Proposed Non-public Issuance of A Shares are intended to be used to supplement working capital and repay the Company's debts, which will provide a strong guarantee for the Company to further expand its business scale, improve operational efficiency, and consolidate its leading position in the pharmaceutical distribution business, which will help the Company actively respond to the differentiation of the competitive landscape of the industry, strengthen sustainable and stable operation capabilities, and enhance core competitiveness of the Company, which are conducive to reducing the Company's financial costs and improving debt solvency.

Although the Company's cash at bank and on hand is RMB22,296.2 million as at 31 December 2020, the Company has plenty of subsidiaries who are involved in pharmaceutical distribution business. Subject to its business model, such subsidiaries need a large amount of working capital for advance as a guarantee for their daily operations. Secondly, the Company's current gearing ratio is at a relatively higher level compared with its peers. In order to support rapid development in the future without significantly increasing financial costs and operational risks, a large amount of working capital is required by the Company.

For details of the fund raising alternatives, please refer to "3. Fund raising alternatives" of the Appendix II to this circular.

After taking into account the above reasons and benefits, the Directors (excluding Independent Non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) are of the view that the terms of the transactions under the Proposed Non-public Issuance of A Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

For the reasons for and benefits of the Proposed Non-public Issuance of A Shares, please also refer to "2. Reasons for and Benefits of Proposed Non-public Issuance of A Shares" of the Appendix II to this circular.

3. PROPOSAL REGARDING THE FULFILMENT OF THE CRITERIA FOR THE NON-PUBLIC ISSUANCE OF A SHARES BY THE COMPANY

Pursuant to the requirements of relevant laws, regulations and regulatory documents in the PRC, the Board, by taking into account the actual situation of the Company, considers that the Company satisfies all the requirements under the relevant laws, regulations and regulatory documents in relation to the Proposed Non-public Issuance of A Shares, and the criteria for the Proposed Non-public Issuance of A Shares.

The resolution in relation to the satisfaction of the criteria for the Proposed Non-public Issuance of A Shares will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM, the A Share Class Meeting and the H Share Class Meeting, respectively.

4. PROPOSAL REGARDING THE PLAN OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO SUBSCRIBERS

Each of the following ten resolutions under the plan of the Proposed Non-Public Issuance of A Shares will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM, the A Share Class Meeting and the H Share Class Meeting, respectively. For details of the following ten resolutions, please refer to the sections headed "Details of the Proposed Non-public Issuance of A Shares" in this circular.

(1) class and par value of the shares to be issued;

(2) method and time of issuance;

(3) subscription method;

(4) issue price and pricing principles;

(5) number of shares to be issued and the subscribers;

(6) lock-up period;

(7) place of listing;

(8) arrangement for the accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

(9) validity period of the resolution in relation to the Proposed Non-public Issuance of A Shares; and

(10) amount and use of proceeds.

5. PROPOSAL FOR THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

For details of the proposal for the Proposed Non-public Issuance of A Shares, please refer to Appendix III to this circular.

6. PROPOSAL REGARDING THE FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

For details of the feasibility report on the use of proceeds from the Proposed Non-public Issuance of A Shares, please refer to Appendix IV to this circular.

7. PROPOSAL REGARDING THE REPORT ON THE USE OF PROCEEDS PREVIOUSLY RAISED BY THE COMPANY

For details of the report on the use of proceeds previously raised by the Company, please refer to Appendix V to this circular.

8. PROPOSAL REGARDING THE DILUTION OF IMMEDIATE RETURN RESULTING FROM THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND ITS REMEDIAL MEASURES

For details of the dilution of immediate return resulting from the Proposed Non-public Issuance of A Shares and its remedial measures, please refer to Appendix VI to this circular.

9. PROPOSAL REGARDING THE SHAREHOLDERS' RETURN PLAN FOR THE NEXT THREE YEARS (2021–2023)

For details of the shareholders' return plan for the next three years (2021-2023), please refer to Appendix VII to this circular.

10. PROPOSAL REGARDING GRANTING A SPECIFIC MANDATE IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO THE BOARD AND AUTHORIZING THE BOARD AND ITS AUTHORIZED PERSON(S) TO DEAL WITH RELEVANT MATTERS IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND THE STRATEGIC COOPERATION AT THE GENERAL MEETING

The Board intends to propose to the EGM and the Class Meetings to grant the Specific Mandate in relation to the Proposed Non-public Issuance of A Shares to the Board and authorize the Board and its authorized person(s) to deal with relevant matters in relation to the Proposed Non-public Issuance of A Shares and the strategic cooperation to the extent permitted under relevant laws and regulations, including but not limited to:

(i) to formulate and implement the detailed plan of the Proposed Non-public Issuance of A Shares based on the actual circumstances of the Company, including but not limited to determining subscribers, the issue price, the number of shares to be issued, the time of issuance, the issue period, the termination of issuance, specific subscription methods, the subscription percentage and other matters related to the Proposed Non-public Issuance of A Shares within the scope of the resolutions of the shareholders' general meeting;

(ii) to determine all matters related to the strategic cooperation according to actual circumstances, including but not limited to determining the target of strategic cooperation, formulating and implementing strategic cooperation plan, signing the strategic cooperation agreement, etc.;

(iii) to determine the sponsor (lead underwriter), law firm, accounting firm and other intermediaries related to the Proposed Non-public Issuance of A Shares, and prepare, revise, supplement, sign, submit, report and execute all relevant agreements and documents related to the Proposed Non-public Issuance of A Shares, including but not limited to the sponsor agreement, the underwriting agreement and other intermediaries' engagement letters;

(iv) to prepare and file application documents related to the Proposed Non-public Issuance of A Shares according to CSRC's requirements, respond to relevant vetting comments from the vetting department and examination committee of CSRC, and revise and supplement relevant application documents;

(v) to adjust relevant matters related to the Proposed Non-public Issuance of A Shares if there is any change as to laws, regulations, regulatory documents, and CSRC's policies for non-public issuance of shares or if there is any change as to market conditions (other than matters subject to re-voting at the shareholders' general meeting pursuant to relevant laws, regulations and the Articles of Association);

(vi) to handle the registration, lock-up and listing of shares issued and other relevant matters with the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository and Clearing Corporation Limited upon the completion of the Proposed Non-public Issuance of A Shares;

(vii) to set up the special deposit account for proceeds raised from the Proposed Non-public Issuance of A Shares;

(viii) to amend the relevant provisions in the Articles of Association to reflect the updated registered share capital and shareholding structure of the Company subject to the completion of the Proposed Non-public Issuance of A Shares, and submit the updated Articles of Association to relevant governmental departments and authorities and complete the industrial and commercial registration;

(ix) to adjust the use of proceeds within the scope of the resolutions of the shareholders' general meeting subject to the vetting process of relevant authorities, changes in relevant market conditions, changes in the conditions of use of proceeds and other factors;

(x) to authorize the Board to handle other specific matters related to the Proposed Non-public Issuance of A Shares and the strategic cooperation, including but not limited to amending, supplementing and signing all relevant agreements and documents related to the Proposed Non-public Issuance of A Shares (other than matters subject to re-voting at the shareholders' general meeting pursuant to relevant laws, regulations and the Articles of Association); and

(xi) to authorize the Board to re-authorize the chairman of the Board or other persons authorized by him to decide, handle and deal with all the above matters related to the Proposed Non-public Issuance of A Shares and the strategic cooperation.

The above authorizations shall be effective within 12 months since the date of approval at the shareholders' general meeting of the Company.

11. PROPOSAL REGARDING THE INTRODUCTION OF STRATEGIC INVESTORS TO THE COMPANY

In order to facilitate the long-term development of the Company and build stable business development and capital cooperation relationship and fully function the synergy effect between Yunnan Baiyao and the Company, the Company intends to introduce Yunnan Baiyao as a strategic investor to the Company by way of the Proposed Non-public Issuance of A Shares.

12. PROPOSAL REGARDING THE CONDITIONAL STRATEGIC COOPERATION AGREEMENT BETWEEN THE COMPANY AND THE STRATEGIC INVESTOR

On 11 May 2021, the Company entered into the Strategic Cooperation Agreement with Yunnan Baiyao, pursuant to which, the Company and Yunnan Baiyao will carry out strategic cooperation in various business fields such as customer resource expansion, product innovation, traditional Chinese medicine industry chain, and general health.

Pursuant to the Strategic Cooperation Agreement, Yunnan Baiyao will, subject to applicable laws and regulations and the Articles of Association, be entitled to nominate a candidate each as an executive Director, a non-executive Director and a Supervisor. Such candidates will be appointed as an executive Director, a non-executive Director or a Supervisor (as the case may be) of the Company after necessary approval procedures within the Company. Pursuant to the Strategic Cooperation Agreement, the Company shall distribute profit in cash of no less than 40% of the distributable profit each year to the Shareholders if feasible after the completion of the Proposed Non-public Issuance of A Shares.

The term of the Strategic Cooperation Agreement will be three years commencing from the effective date of the Strategic Cooperation Agreement, which can be extended after mutual agreement upon its expiration.

13. PROPOSAL REGARDING THE CONDITIONAL SUBSCRIPTION AGREEMENTS BETWEEN THE COMPANY AND THE SUBSCRIBERS

On 11 May 2021, the Company entered into the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement with Shanghai Tandong and Yunnan Baiyao, respectively, pursuant to which, each of Shanghai Tandong and Yunnan Baiyao will subscribe for the A Shares to be non-publicly issued pursuant to the subscription agreements, respectively.

For details of the transactions contemplated under the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement, please refer to the section headed "Details of the Proposed Non-public Issuance of A Shares" in this circular.

14. PROPOSAL REGARDING THE CONNECTED TRANSACTION/RELATED PARTY TRANSACTION RELATING TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

As at the Latest Practicable Date, Shanghai Tandong, one of the Subscribers, is a wholly-owned subsidiary of Shanghai Shangshi, a controlling shareholder of the Company, and therefore Shanghai Tandong 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 Shanghai Tandong Subscription Agreement constitutes a connected transaction of the Company and is subject to the reporting, annual review and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Pursuant to the listing rules of the Shanghai Stock Exchange, the transaction contemplated under the Yunnan Baiyao Subscription Agreement will constitute a related party transaction and is subject to, among others, the Shareholders' approval at the general meeting of the Company.

15. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Shanghai Tandong, one of the Subscribers, is a wholly-owned subsidiary of Shanghai Shangshi, a controlling shareholder of the Company, and therefore Shanghai Tandong 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 Shanghai Tandong Subscription Agreement constitutes a connected transaction of the Company and is subject to the reporting, annual review and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For the Proposed Non-public Issuance of A Shares, a specific mandate is sought from the Shareholders as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

16. SPECIFIC MANDATE

The A Shares under the Proposed Non-public Issuance of A Shares will be issued under the Specific Mandate. The Proposed Non-public Issuance of A Shares and the Shanghai Tandong Subscription Agreement are subject to the approvals from, among others, the approvals by the Shareholders at the EGM, the A Share Class Meeting and the H Share Class Meeting, respectively.

17. EGM AND H SHARE CLASS MEETING

The proxy form and reply slip for the EGM and the H Share Class Meeting are also enclosed herewith.

Shanghai Shangshi, the sole shareholder of Shanghai Tandong and having material interest in the Proposed Non-public Issuance of A Shares, shall abstain from voting on the corresponding resolutions to be proposed at the EGM and the Class Meetings (i.e. resolutions 1 to 12 at the EGM, resolutions 1 to 5 at the H Share Class Meeting, and resolutions 1 to 12 at the A Share Class Meeting). 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 Proposed Non-public Issuance of A Shares and are required to abstain from voting on the EGM and the Class Meetings.

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

If you intend to attend the EGM and the H Share Class Meeting in person or by proxy, you are required to complete and return the reply slips to Computershare Hong Kong Investor Services Limited (for holders of H Shares) on or before 2 August 2021.

We refer to (i) the notice of the extraordinary general meeting of the Company dated 11 June 2021, (ii) the notice of the H share class meeting of the Company dated 11 June 2021, (iii) the circular of the extraordinary general meeting and the H share class meeting of the Company dated 11 June 2021, and (iv) the announcement in relation to the cancellation of extraordinary general meeting and the H share class meeting of the Company dated 27 June 2021. In order to make overall internal work arrangement, the Company canceled the extraordinary general meeting and the H share class meeting originally scheduled to be held on Tuesday, 29 June 2021 and based on the current commercial consideration and taking into account the benefits and rationale of the Proposed Non-public Issuance of A Shares as disclosed in this circular, the Company intends to hold the EGM and the H Share Class Meeting on Thursday, 12 August 2021 to consider and, if thought fit, approve, among other things, the Proposed Non-public Issuance of A Shares. If there is any change to the arrangement of the EGM and the H Share Class Meeting, the Company will publish an announcement to notify the Shareholders and potential investors in due course.

18. VOTING BY POLL

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

19. RECOMMENDATION OF THE BOARD

The Board has passed the relevant resolutions to be submitted to the Shareholders for consideration and approval. At the relevant Board meeting, two Directors, i.e. Mr. ZHOU Jun and Mr. GE Dawei, who have material interests in the Proposed Non-public Issuance of A Shares, have abstained from voting on board resolutions approving the Proposed Non-public Issuance of A Shares. Except for the above Directors, no Directors have or are deemed to have material interest in the Proposed Non-public Issuance of A Shares. In addition, no Director abstained from voting on other resolutions set out in this circular. Save for the above, to the best of Directors' knowledge, information and belief, and after making all reasonable enquiries, no other Director had material interest in the Proposed Non-public Issuance of A Shares or shall abstain from voting on board resolutions approving the Proposed Non-public Issuance of A Shares.

The Board of Directors (including independent non-executive Directors) considers that all resolutions to be proposed at the EGM and H Share Class Meeting 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 EGM and H Share Class Meeting.

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

Shanghai, the PRC, 26 July 2021

* *For identification purpose only*

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)

26 July 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES; (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SHANGHAI TANDONG SUBSCRIPTION; AND (3) SPECIFIC MANDATE

We refer to the circular dated 26 July 2021 issued by Shanghai Pharmaceuticals Holding Co., Ltd.* (the "**Circular**") of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee by the Board to advise the Independent Shareholders in respect of the Proposed Non-public Issuance of A Shares, the Proposed Shanghai Tandong Subscription and the Specific Mandate. Maxa Capital has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regard.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the section headed "Letter from Maxa Capital" in the Circular, we concur with the view of Maxa Capital and consider that the Proposed Non-public Issuance of A Shares and the Proposed Shanghai Tandong Subscription, though not in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole, and the terms of the Proposed Non-public Issuance of A Shares, the Proposed Shanghai Tandong Subscription and the Specific Mandate are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

* *For identification purpose only*

Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the EGM and the H Share Class Meeting for approving the Proposed Non-public Issuance of A Shares, the Proposed Shanghai Tandong Subscription and the Specific Mandate.

Yours faithfully,
For and on behalf of
The Independent Board Committee

Mr. CAI Jiangnan	**Mr. HONG Liang**	**Mr. GU Zhaoyang**	**Mr. Manson FOK**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*

邁時資本
MAXA CAPITAL

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

26 July 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES (2) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SHANGHAI TANDONG SUBSCRIPTION; AND (3) SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) the connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 26 July 2021 issued by the Company (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement (the "**Announcement**") of the Company dated 12 May 2021 in relation to, among other things, the Proposed Non-public Issuance of A Shares. On 11 May 2021, the Company entered into the Shanghai Tandong Subscription Agreement and Yunnan Baiyao Subscription Agreement with Shanghai Tandong and Yunnan Baiyao, respectively, pursuant to which, the Company will, subject to the fulfillment of the conditions precedent as disclosed in the Letter from the Board, issue a maximum of 187,000,000 and 665,626,796 A Shares, representing no more than 30% of the total number of Shares in issue prior to the Proposed Non-public Issuance of A Shares, to Shanghai Tandong and Yunnan Baiyao, respectively, at an issue price of RMB16.87 per A Share. The proceeds from the Proposed Non-public Issuance of A Shares are expected to be no more than RMB14,383,814,048.52. The Proposed Non-public Issuance of A Shares is subject to, among others, the approvals from (i) competent state-owned assets supervision and administration authorities, (ii) Shareholders at the EGM, A Share Class Meeting and H Share Class Meeting, respectively, and (iii) the board meeting and general meeting of Yunnan Baiyao, and (iv) the CSRC.

As at the Latest Practicable Date, Shanghai Tandong, one of the Subscribers, is a wholly-owned subsidiary of Shanghai Shangshi, a controlling shareholder of the Company, and therefore Shanghai Tandong 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 Proposed Shanghai Tandong Subscription constitutes a connected transaction of the Company and is subject to the reporting, annual review and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For the Proposed Non-public Issuance of A Shares, a specific mandate shall be sought from the Shareholders as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. We are not associated or connected with the Company and its respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on (i) the Proposed Non-public Issuance of A Shares, (ii) connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate. Save for this appointment, we have also been appointed once as the independent financial adviser to the independent shareholders of the Company in the last two years in relation to the acquisition of 100% equity interest in SPH Biological Medicine Co., Ltd., 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, 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 (i) the Proposed Non-public Issuance of A Shares, (ii) connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate. Apart from normal professional fees payable to us in connection with the past appointment and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company and their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. 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 also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors' representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

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 Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor do doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, conducted any independent verification on the information provided to us by the Company and the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company, Shanghai Tandong, Yunnan Baiyao and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate, we have taken into consideration the following principal factors and reasons:

1. Background information

(i) 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

	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.

(ii) Information of Shanghai Tandong

Shanghai Tandong is a company incorporated under the laws of PRC with limited liabilities, which is mainly engaged in corporate management consulting, and technology development, technical services, technical consulting, technology transfer, etc. in the fields of medicine and biotechnology. As at the Latest Practicable Date, Shanghai Tandong is a wholly-owned subsidiary of Shanghai Shangshi.

(iii) Information of Yunnan Baiyao

Yunnan Baiyao is a joint stock company incorporated under the laws of PRC with limited liabilities, which is currently engaged in pharmaceuticals, health products, Chinese medicine resources and pharmaceutical logistics, etc. with many well-known brands in such areas. The shares of Yunnan Baiyao are listed on the Shenzhen Stock Exchange with stock code 000538. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at Latest Practicable Date, Yunnan Baiyao is a third party independent of the Company and connected persons of the Company.

Yunnan Baiyao is a China Hundred-year Time-honoured Brand established in 1902. As one of the Famous Trademark of China, Yunnan Baiyao was authorised to be the first batch of Innovative Enterprise. The main economic indicators of Yunnan Baiyao maintain at the front row of traditional Chinese medicine industry; it ranks 37 in Pharm Exec's Top 50 Companies 2020 and was chosen as top 2000 of Forbes Global Enterprise, top 50 of the best listed companies in Asia, top 500 of Fortune China, and takes the lead in the ranking of Chinese brand published by Interbrand, Hurun and BrandZ.

As at 31 December 2020, the total assets of Yunnan Baiyao amounted to approximately RMB55.52 billion, and its net assets amounted to approximately RMB38.05 billion. In FY2020, its revenue and net profit attributable to the owners were approximately RMB32.74 billion and approximately RMB5.52 billion, respectively.

2. Reasons for and Benefits of Proposed Non-public Issuance of A Shares

In the era of great changes in the pharmaceutical industry, the Company deeply realises that in the face of new challenges and opportunities, only through continuous innovation can the Company gain vitality and achieve development in the great changes of the industry. In the pharmaceutical manufacturing and R&D industry, the Company has set the strategic goal of transforming from an ordinary generic pharmaceutical company to a research and development-oriented pharmaceutical company driven by technological innovation. In the pharmaceutical distribution field, the Company has established a strategic goal of transforming from a pharmaceutical supply chain service company to China's leading modern health service providers driven by services and technologies and continuing to promote the transformation and development measures centered on technological innovation.

The Proposed Non-public Issuance of A Shares will enhance the Company's capital strength, which will help the Company further increase its research and development investment, improve the Company's industrial sector research and development, manufacturing, and marketing management centers, promote the consistency evaluation of generic drugs, and strengthen international cooperation, continue to promote cooperation with scientific research institutes, universities, and hospitals, jointly build innovation platforms, translational medicine alliances, and multiple innovative technology companies or characteristic platforms, continue to expand the field of new indications, improve the existing research and development system, and maintain the leading position of the Company in the pharmaceutical manufacturing and R&D industry. On the other hand, the funds raised from the Proposed Non-public Issuance of A Shares are intended to be used to supplement working capital and repay the Company's debts, which will provide a strong guarantee for the Company to further expand its business scale, improve operational efficiency, and consolidate its leading position in the pharmaceutical distribution industry, which will help the Company actively respond to the differentiation of the competitive landscape of the industry, strengthen sustainable and stable operation capabilities, and enhance core competitiveness of the Company, which are conducive to reducing the Company's financial costs and improving debt solvency.

We have discussed with the Company and concur that although the Company's cash at bank and on hand is approximately RMB22,296.2 million as at 31 December 2020, the Company has plenty of subsidiaries which are involved in pharmaceutical distribution business. Subject to its business model, such subsidiaries need a large amount of working capital for advance as a guarantee for their daily operations. Secondly, the Company's current gearing ratio is at a relatively higher level compared with its peers. In order to support rapid development in the future without significantly increasing financial costs and operational risks, a large amount of equity capital is required by the Company. Please refer to "3. Fund raising alternatives" below for our further analysis in this regard.

Upon completion of the Proposed Non-public Issuance of A Shares, Shanghai SASAC will remain to be the *de facto* controller of the Company and Yunnan Baiyao will become a substantial Shareholder of the Company. In addition to entering into the Yunnan Baiyao Subscription Agreement, in order to build long-term and stable business development and capital cooperation relationship and fully functioning the synergy effect between Yunnan Baiyao and the Company, on 11 May 2021, the Company entered into the Strategic Cooperation Agreement with Yunnan Baiyao, pursuant to which, the Company and Yunnan Baiyao will carry out strategic cooperation in various business fields such as customer resource expansion, product innovation, traditional Chinese medicine industry chain, general health and pharmaceutical distribution. The value of the Company will be further enhanced by multi-dimension alliance including integration of marketing channels, enhancement of brands and capital cooperation. The term of the Strategic Cooperation Agreement will be three years commencing from the effective date of such agreement, which can be extended after mutual agreement upon its expiration. It is believed the participation of the two subscribers in the Proposed Non-public Issuance of A Shares represent their faith in the future development of the Group and their long-term commitment in the Group.

We have also observed that in the China market, mixed-ownership reform to SOEs, which is generally considered a healthy transformation to the shareholding and corporate governance structure, represents in most cases a bullish factor to the relevant listed company's share performance.

On one hand, Yunnan Baiyao launched its mixed-ownership reform in 2016 by bringing in two strategic investors from the private sector, namely New Huadu Industrial Group Co., Ltd. (新華都實業集團股份有限公司) and Jiangsu Yuyue Science and Technology Development Co., Ltd. (江蘇魚躍科技發展有限公司), which was completed in 2019. Its market capitalisation has more than doubled from around RMB72 billion on 18 July 2016 to RMB145 billion on 31 December 2020. Yunnan Baiyao also announced its first ESOP on 11 October 2019, and its share price hit the daily upper limit by increasing 10% the next day.

On the other hand, we have conducted a search on A share listed companies which are engaged in pharmaceutical business and announced their controlling shareholder's plan for mixed ownership reform since 2020 and, on our best-effort basis, identified two cases which form an exhaustive list. As shown in the summary below, the share price of both of the two relevant companies hit the daily upper limit by increasing 10% the next day after their respective announcement in relation to mixed ownership reform.

Announcement date	Company name	Stock code	Increase of share price the next day after the announcement
16 June 2020	Tianjin ZhongXin Pharmaceutical Group Corp. Ltd.	600329.SH	10%
16 June 2020	Tianjin Tianyao Pharmaceutical Co., Ltd.	600488.SH	10%

Source: Wind

The improvement in share performance of the above three cases demonstrates the market's positive perception of such mixed ownership reform with an expectation of post-reform improvement on corporate governance and alignment of interests of the management and the companies.

We have conducted a further search on A share listed companies which has completed their mixed-ownership reform since 2016 and, on our best-effort basis, identified eight cases which form an exhaustive list. As shown in the summary below, the market capitalisation of most of such companies increases substantially after the completion of mixed ownership reform.

Stock code	Company name	Completion date	Market Capitalisation as at 1 year before the completion date *(RMB million)*	Market Capitalisation as at the Latest Practicable Date *(RMB million)*	Increase in market capitalisation from the completion date to the Latest Practicable Date
000538.SZ	Yunnan Baiyao Group Co., Ltd	29/12/2016	77,428	133,271	72.12%
000597.SZ	Northeast Pharmaceutical Group Co., Ltd.	10/08/2018	5,947	7,036	18.30%
002129.SZ	Tianjin Zhonghuan Semiconductor Co., Ltd.	29/09/2020	33,728	148,219	339.45%
600248.SH	Shanxi Construction Engineering Group	01/12/2018	3,412	17,706	419.01%
600329.SH	Tianjin Zhongxin Pharmaceutical Group Corp. Ltd.	21/12/2020	10,334	20,788	135.82%
600488.SH	Tianjin Tianyao Pharmaceutical Co., Ltd	19/12/2020	4,488	4,678	4.25%
600859.SH	Wangfujing Group Co., Ltd	14/09/2016	10,459	21,766	141.81%
600893.SH	Aecc Aviation Power Co, Ltd	29/09/2017	66,763	161,802	142.35%

Source: Wind

After taking into account the above reasons and benefits, we concur with the Directors (including independent non-executive Directors) that the Proposed Non-public Issuance of A Shares is in the interests of the Company and the Shareholders as a whole.

3. Fund raising alternatives

The Company did not conduct any fund-raising activities involving the issue of equity securities within 12 months immediately prior to the date of the Announcement.

We have discussed with the management of the Company regarding the alternative financing options available and considered by the Company, such as debt and other equity financing methods. Based on the discussion, we concur with the Company that debt financing is the least preferable financing method for the Company.

In recent years, the Company has continuously increased capital expenditures in order to support the development of its main business. At the same time, as the Company's business scale continues to grow, its daily liquidity requirements have also continued to increase. In order to meet capital needs of the Company, in addition to supplementing working capital with cash generated from operating activities, the Company also raises funds through external financing such as bank borrowings, resulting in a high gearing ratio. The Company's gearing ratio has risen from 55.48% at the end of 2016 to 63.31% at the end of 2020 during the past five years.

We have conducted a search and on our best-efforts basis, identified eight listed companies which are national leading companies in China in the pharmaceutical distribution or comprehensive pharmaceutical companies engaged in both pharmaceutical manufacturing and R&D and pharmaceutical distribution businesses (the **"Comparable Companies"**) and form an exhaustive list. The asset to liability ratios for Comparable Companies are summarised below.

Company name	**(Stock code)**	**Asset to liability ratio (As at 31 December 2020)**
China Resources Pharmaceutical Group Limited	3320.HK	61.78%
Huadong Medicine Co., Ltd.	000963.SZ	37.28%
Sinopharm Group Co. Ltd.	1099.HK	71.10%
China National Medicines Corporation Ltd.	600511.SH	47.42%
Tianjin ZhongXin Pharmaceutical Group Corp. Ltd.	600329.SH	28.17%
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	600196.SH 2196.HK	45.05%
Humanwell Healthcare Group Co Ltd.	600079.SH	59.10%
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.	600332.SH 0874.HK	52.80%
Average		50.34%

Source: Wind

As illustrated in the above table, the average of asset to liability ratio of the comparable pharmaceutical companies of the Company was approximately 50.34% as at 31 December 2020. The asset to liability ratio of the Company was nearly 13% higher than that of the Comparable Companies. If the Company were to raise funds of the same scale through debt financing, additional interest expense will be incurred, and the high level of asset to liability ratio will lead to greater operating risk and higher financial costs of the Company, which will have adverse impact on the Company's long-term development and is not in the interest of the Company and the Shareholders as a whole. Simply applying the average debt financing cost of the Company in FY2020 as 3.15% (including corporate bonds, Super & Short-term Commercial Paper and bank borrowings, etc.) to the size of the Proposed Non-public Issuance of A Shares would generate an underestimated interest cost of approximately RMB453 million per year, which amounts to around 10% of the Company's net profit attributable to equity owners of the Company in FY2020.

On the other hand, rights issue and open offer have been considered by the Directors but were not adopted because they are likely to involve (i) additional costs, such as underwriting fees, higher professional fees and costs for document preparation; (ii) additional time for the trading of cum-rights shares and minimum offer period for the rights and open offer shares; and (iii) additional uncertainty on the availability of underwriters and the level of acceptances. More importantly, rights issue and open offer could not bring strategic shareholder which can create strategic synergy with the Group and will benefit the Group's long-term development.

Set out below is a chart showing the historical closing price of the Company's A Shares and H Shares since 2 July 2019 and up to the Latest Practicable Date (the "**Review Period**"). We noted that the historical price of H Shares of the Company represented a significant discount to the price of A Shares of the Company. The Issue Price is at a premium over both the market price of H Shares and net assets per Share during the Review Period. The H Shares have never been traded above the Issue Price and have been trading at a discount of 6.63%-43.29% to the Issue Price during the Review Period. More specifically, the closing price of the H Shares for 312 days during the Review Period represents a deep discount of approximately 25% to 35%. According to a provision under the Proposed Non-public Issuance of A Shares, if the Issue Price is lower than the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the completion of the Proposed Non-public Issuance of A Shares, the Issue Price will be adjusted to the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the Proposed Non-public Issuance of A Shares. Therefore, we consider that it is reasonable to involve A Shares only but not H Shares of the Company in this round of fund raising, and the Proposed Non-public Issuance of A Shares will not have dilutive impact either in terms of pricing or net assets per Share to H Shareholders.

* *The closing prices of A Shares after 19 July 2021 and the closing prices of H Shares after 15 July 2021 have been adjusted upward by RMB0.48 to exclude the impact of dividend distribution for FY2020.*

Source: Wind

Note: HK/RMB = 0.8334

Notwithstanding that the Proposed Non-public Issuance of A Shares will result in dilution of shareholding interests of the existing public Shareholders, it will bring an important strategic Shareholder, Yunnan Baiyao, which will create strategic synergy while providing capital to the Group at the same time. We are of the view that it signifies the continuous support from the Company's controlling shareholder and the confidence and commitment of the Company's controlling shareholder and Yunnan Baiyao in the Group's prospects.

After taking into account all of the above factors and considerations, we concur with the Directors' view that the choice of raising fund by the Proposed Non-public Issuance of A Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Major terms of the Proposed Non-public Issuance of A Shares

(1) Class and nominal value of the Shares

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares are domestic listed RMB ordinary shares (A Shares) with the nominal value of RMB1.00 each.

(2) Method and time of issuance

The Proposed Non-public Issuance of A Shares shall be conducted by way of non-public issuance of A Shares to specific subscribers. The Company will proceed in due course during the validity period of the relevant CSRC approval on the Proposed Non-public Issuance of A Shares (generally 12 months).

(3) Subscription method

All Subscribers shall subscribe in cash for the A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares.

(4) Issue Price and pricing principles

The Price Benchmark Date of the Proposed Non-public Issuance of A Shares shall be the date of the Announcement of relevant Board resolutions, i.e. 12 May 2021. The average trading price of A Shares over the 20 trading days prior to the Price Benchmark Date is RMB21.08 per A Share.

The Issue Price is RMB16.87 per A Share, being 80% of the average trading price of A Shares over the 20 trading days prior to the Price Benchmark Date. If the Issue Price is lower than the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the Proposed Non-public Issuance of A Shares, then the Issue Price will be adjusted to the Company's audited net assets per Share attributable to the parent company of the most recent period prior to the completion of the Proposed Non-public Issuance of A Shares. The final number of Shares subscribed by the Subscribers will be reduced in accordance with the percentage of the original number of Shares to be subscribed by the Subscribers to the original total number of Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares.

During the period from the Price Benchmark Date to the Issuance Date, in the event of ex-entitlement and ex-dividend activities such as dividend distribution, bonus issue or conversion of capital reserve into share capital, the issue price of the Proposed Non-public Issuance of A Shares shall be adjusted. in accordance with the formula as follows:

Dividend Distribution: $P_1=P_0-D$

Bonus Issue or Conversion of Capital Reserve into Share Capital: $P_1=P_0/(1+N)$

Both at the Same Time: $P_1=(P_0-D)/(1+N)$

among which, P_0 is the Issue Price prior to the adjustment, P_1 is the Issue Price after the adjustment, D is the dividend distributed per Share, and N is the number of Shares as bonus or converted from capital reserve per Share.

If the relevant laws, regulations and regulatory documents or the CSRC's regulatory policies on the non-public issuance of A Shares have other different requirements on Issue Price, pricing method, etc., then the Proposed Non-public Issuance of A Shares will be implemented in accordance with these requirements.

The Issue Size and the Issue Price under the Proposed Non-public Issuance of A Shares are in compliance with relevant provisions in the Administrative Measures for the Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》2020年修訂, "**New Financing Rules**") promulgated by the CSRC.

The discounted issuance of A Shares is mainly based on the consideration that Yunnan Baiyao, which is to be introduced as a strategic investor, can bring great development potential to the Company in terms of institutional innovation and strategic business coordination, which will facilitate the Company's long-term development.

From the perspective of the value-added effect of the strategic investor, Yunnan Baiyao will bring new development power to the Company and will facilitate the Company's long-term development. Firstly, as a benchmark case of mixed ownership reformation of state-owned enterprises in the pharmaceutical manufacturing and R&D industry, Yunnan Baiyao can help the Company to promote further optimisation of its system and mechanism, and brings sustaining power to the long-term development of the Company's business performance. Secondly, Yunnan Baiyao, as an industry leader with outstanding reputation in various fields such as customer resources, brand management, market channels, the entire industrial chain layout of Chinese medicine, enlarged-health-conception consumption, and regional pharmaceutical distribution, will cooperate with the Company in capital, industry, products to management and create resource matching, integration and development coordination at multiple levels to make up for the Company's shortcomings in competitiveness, and to fully explore the Company's deep R&D genes and product potential; especially in the enlarged-health-concept field around Chinese medicine, it will rely on the Company's multiple time-honored brands and rich product reserve, combined with the long-term experience of Yunnan Baiyao in brand building and sales promotion, to develop and promote the Company's innovative business in this field, create a new high-value-added business segment, and bring new growth momentum.

Taking into account the necessity of fundraising, the strategic synergy, the capital cost associated with the long-term lock-up period of the subscribers, general market practice, etc., the Board considers the Issue Price is fair and reasonable, and the Proposed Non-public Issuance of A Shares would make significant contribution to the long-term development of the Company and is in the interest of the Company and Shareholders as a whole.

In addition, the Issue Price is at premium over the market price of H Shares and net assets per Share, and hence will not have dilution impact to H Shareholders in terms of net assets per Share.

(5) Amount and use of proceeds

The total proceeds from the Proposed Non-public Issuance of A Shares shall be no more than RMB14,383,814,048.52, and the net proceeds after deducting issuance expenses shall be used for the replenishment of working capital and repayment of debt of the Company, among which, RMB3,000 million will be used for repayment of debt of the Company and the rest will be used for the replenishment of working capital of the Company. Details are set out below.

a. RMB3,000 million for repayment of debt of the Company and to reduce financial costs and optimise the capital structure

As mentioned in "3. Fund raising alternatives" above, the Company's gearing ratio increased from approximately 55.48% as at 31 December 2016, to approximately 63.31% as at 31 December 2020, which is nearly 13% higher than that of its peers. Part of the proceeds raised from the Proposed Non-public Issuance of A Shares will be used to repay debts, which will help the Company optimise its capital structure, reduce the gearing ratio, enhance its anti-risk ability, and provide financial protection and momentum for the Company's future business development, which is in the interest of the Company and Shareholders.

b. Among the proceeds used for the replenishment of working capital,

(a) no more than approximately 60% of the proceeds will be used to increase the R&D and innovation investment

In the past five years, the Company has continuously increased its R&D investment in accordance with the established innovation and transformation strategy. From approximately RMB671 million in 2016 to approximately RMB1.972 billion in 2020, it increased by nearly 2 times within 5 years, with a CAGR of more than 30%. After years of technology accumulation and research investment, in terms of innovative drugs, the number of drugs in the Company's pipeline has increased from 11 in 2018 to 25 at the end of 2020, 15 of which have entered clinical trials or been marketed, and many of them have entered Phase II or III clinical trials. In terms of generic drugs, as of the end of March 2021, the Company has a total of 25 varieties (31 product specifications) of generic drugs that have passed consistency evaluation, and several other varieties have completed the US ANDA application and been approved for marketing. In addition, the Company has carried out strategic cooperation with many first-class scientific research institutes and medical institutions, and is committed to promoting the research and development and transformation of pharmaceutical projects through cooperation in project incubation, commercial transformation, and targeted research and development.

The Company will take multiple measures centered on several major therapeutic areas, further enrich the product pipeline, continue to optimize the product portfolio, and consolidate and enhance its leading position in the pharmaceutical manufacturing and R&D industry: (1) accelerating the advancement of the existing R&D pipeline and in the next 2 to 3 years, the number of innovative drugs entering Phase II and Phase III clinical trials in the Company's pipeline will significantly increase, accompanied by R&D expenses; (2) through the introduction of BD products, expanding and deepening cooperation with scientific research institutes, universities, hospitals, strengthening international cooperation and other channels, continuing to license in innovative drug products, accelerating the enrichment of product pipelines, and continuously launching new products on the market; (3) in terms of generic drugs, on the one hand, continuing to carry out the consistency evaluation of generic drugs, giving full play to the Company's advantages in industrial production, and improving the competitiveness of existing products; on the other hand, accelerating the development of sustained and controlled release formulations, inhalation formulations, oral dissolution/transdermal absorption preparations, complex injections and other high-end formulations, based on improved new drugs with the characteristics of difficult to imitate, first to imitate, complex formulations, etc., launching high-end drugs with technical barriers and core competitiveness in a tiered manner, which will bring considerable benefits to the Company in the short to medium term; (4) relying on the Company's strong industrial foundation and professional talent team, expanding into new businesses such as vaccines, creating new high value-added business segments, and providing new impetus for the Company's performance growth.

(b) no more than approximately 30% of the proceeds will be used to accelerate the expansion of market network

As a multi-business group company with a leading position in both the pharmaceutical manufacturing and R&D industry and pharmaceutical distribution industry, the Company has continuously expanded its business scope and scale, and its overall demand for market network has also increased.

In terms of pharmaceutical distribution, the Company will further improve and complete the network layout, innovate business models, and rely on the nationwide network that also connects with the rest of the world to provide integrated full-life-cycle solutions for upstream and downstream business partners, and realise the transformation from traditional business operations to an innovative pharmaceutical supply chain service company, thereby consolidate and strengthen the national leading position of pharmaceutical distribution, and expand the space for value-added services.

In the pharmaceutical manufacturing and R&D industry, the Company will adapt to the needs of innovation transformation and expansion in the field of enlarged-health-conception and at the same time, leverage the strategic cooperation with Yunnan Baiyao in market development and channel expansion, actively expand the marketing network of innovative drug products and traditional Chinese medicine health products, strengthen channel and team building, create a product ecosystem, develop high-quality product service scenarios, fully tap and release product value, and continue to create high-value-added blockbuster products.

(c) the rest of the proceeds will be used for the Company's digital transformation and the replenishment of daily working capital

The Company will continue to promote the digital transformation strategy, and leverage digitisation, informatisation, and intelligence to improve the level of management refinement, internal operating efficiency, and system capabilities, create an efficient organisation, and enhance corporate efficiency. The rest of the working capital will be used to supplement daily working capital of the Company.

The Company will make specific arrangements of the use of the above-mentioned working capital in accordance with actual operating needs.

As a recent strategic move, the Company is at the stage of innovative transformation, and related expenditures have increased significantly. The research and development cycle of the pharmaceutical industry is usually longer than that of most other industries, and the corresponding expenditures relatively higher, which in turn necessitates sustained funding for a rather prolonged period.

In the past 5 years, the Company has continued to increase R&D investment based on the dual-motivated R&D innovation model of "self-research + license-in". As shown below, Such R&D investment increased by nearly 2 times within 5 years from approximately RMB671 million in 2016 to approximately 1.972 billion in 2020, with a CAGR of more than 30%.

Past 5-Year R&D Investments

(RMB million)	2016	2017	2018	2019	2020	5-Year CAGR
R&D Investment (expensed + capitalised)	671	836	1,389	1,509	1,972	30.95%
R&D Expense	654	790	1,061	1,350	1,657	26.14%

Set out below is a ballpark analysis of the Company's requirements for R&D investment, including self research, licensed-in products, and consistency evaluation of generic drugs, based on publicly available information.

1) Self R&D of Innovative Drugs: As of the Latest Practicable Date, the number of innovative drugs in the Company's pipeline at pre-clinical trial or clinical-trial stage has reached 25, among which 14 products have launched clinical trials and 9 products have enter into Phase II or Phase III clinical trials (5 in Phase II and 4 in Phase III), and is expected to increase significantly within the next 2-3 years. Among all the Company's pipeline products, anti-tumor drugs account for about half.

In terms of the cost of clinical trials, the KMR Group, a subsidiary of the WPP Group, the world's largest communications group, published a study on the cost of clinical trials in 2016. It counted the data of costs of 726 clinical trials conducted by 7 large pharmaceutical companies during 2010-2015. The results showed that the median cost of each phase of the study was: US$3.4 million for Phase I, US$8.6 million for Phase II, and US$21.4 million for Phase III. In addition, according to a study released by Eastern Research Group, Inc. on clinical trial costs and barriers for drug development in 2014, the costs of clinical trials in various therapeutic areas diverge greatly. Among them, average cost in the field of oncology was at the upper end of the range, and the total cost of a complete clinical trial was about US$78.6 million.

After 6 years of the above research analysis, it is logical to estimate the costs of clinical trials to be higher than those during 2010-2015, especially for Phase II and Phases III. Although the cost of clinical trials in China is generally lower than that of European and American countries, it has witnessed a salient upward trend in recent years. In order for the Company's self R&D to bear fruit, it must invest a large amount of capital in the long-term, on par with other innovative pharmaceutical companies.

2) Licensed-in Products: In recent years, the Company has successively licensed in a number of products under development. For example, in November 2019, the Company obtained the exclusive commercial rights in mainland China to the acute ischemic stroke class 1 innovative drug LT3001 from Taiwan-based Lumosa Therapeutics Co., Ltd. for RMB260 million; in August 2020, the Company obtained the exclusive rights in Greater China to commercialise the new generation of recombinant herpes oncolytic virus T3011 from Shenzhen Immvira Co., Ltd. for a total consideration of RMB1.15 billion. In both cases, the consideration will be paid by milestones accomplished from clinical trials to marketing, and does not include the additional clinical trial and commercialisation costs that the Company needs to undertake in the process. The above facts can demonstrate that the license-in approach can indeed populate the Company's pipeline in a relatively fast manner, but the associated costs also demand sustained financial support.

3) Consistency Evaluation of Generic Drugs: as of the end of 2020, the Company has a total of 21 varieties (27 specifications) of generic drugs that have passed consistency evaluation. The Company has also made applications for consistency evaluation of 36 varieties (51 specifications), among which 30 varieties (39 specifications) are solid preparations and 6 varieties (12 specifications) are injection preparations. According to the historical data of the Company, the average R&D costs for approved consistency evaluation per specification amount to about RMB6.495 million. In the future, the Company will proceed to carry out consistency evaluation of more varieties and specifications, with average costs higher than before.

The following illustrated the Company's other working capital requirements amid such industry and transition.

RMB billion	2016	2017	2018	2019	2020 Ending Balance	2020 % of Revenue	2021	2022	2023
Revenue	120.77	130.85	159.08	186.57	191.91	*100.00%*	211.10	232.21	255.43
Notes Receivables	1.59	1.11	1.82	0.27	0.29	*0.15%*	0.32	0.35	0.39
Accounts Receivables	27.29	31.38	42.15	47.34	52.75	*27.48%*	58.02	63.82	70.21
Advances to Suppliers	1.15	1.39	2.05	1.94	2.39	*1.25%*	2.63	2.89	3.18
Inventories	16.42	17.27	25.02	24.88	24.09	*12.55%*	26.50	29.15	32.06
Total Operating Assets	**46.45**	**51.15**	**71.05**	**74.43**	**79.52**	**–**	**87.47**	**96.21**	**105.83**
Notes Payables	3.68	3.95	4.17	5.05	4.93	*2.57%*	5.42	5.97	6.56
Accounts Payables	22.31	23.35	30.98	31.82	32.86	*17.12%*	36.15	39.76	43.74
Advance Payment	0.74	1.03	–	–	–	*0.00%*	–	–	–
Total Operating Liabilities	**26.72**	**28.33**	**35.15**	**36.87**	**37.79**	**–**	**41.57**	**45.73**	**50.30**
Working Capital	19.72	22.82	35.90	37.56	41.72	–	45.90	50.49	55.53
Increase of Working Capital	**–**	**–**	**–**	**–**	**–**	**–**	**4.17**	**8.76**	**13.81**

From FY2016 to FY2020, the revenue of the Company was approximately RMB120.77 billion, RMB130.85 billion, RMB159.08 billion, RMB186.57 billion and RMB191.91 billion respectively. Based on financial performance and operating conditions of the last five years, the Company calculated the below working capital needs with the assumptions that the Company's revenue will grow at 10% in the next 3 years and the proportion of the current operating capital to revenue will remain the same from FY2021 to FY2023.

Based on the above calculation, the estimated working capital needs of the Company will reach approximately RMB13.81 billion by 2023, more than the amount of proceeds allocated for working capital replenishment, which justifies the size of the Proposed Non-public Issuance of A-shares.

(6) Method of payment and payment period

Within ten business days from the date when the Proposed Non-public Issuance of A Shares is approved by the general meeting of the Company, Shanghai Tandong shall pay a subscription deposit of RMB30 million to the Company's designated bank account. Within ten business days from the date when the Proposed Non-public Issuance of A Shares is approved by the Board and the general meeting of Yunnan Baiyao, Yunnan Baiyao shall pay a subscription deposit of RMB100 million to the Company's designated bank account.

After the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement come into effective, each of Shanghai Tandong and Yunnan Baiyao shall, within ten business days since the issuance of the written subscription payment notice, remit the subscription funds in full to the specific bank account for the Proposed Non-public Issuance of A Shares. The balance after the completion of capital verification by an accounting firm engaged by the Company and the deduction of related issuance expenses will be remitted to the designated deposit account for proceeds opened by the Company.

Within ten business days after the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement come into effect and each of Shanghai Tandong and Yunnan Baiyao have made the subscription payment in full in accordance with the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement, respectively, the Company shall return the subscription deposit paid by each of Shanghai Tandong and Yunnan Baiyao and the interests accrued to their respective designated bank account.

(7) Number of Shares to be issued and the Subscribers

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares shall be no more than 852,626,796, representing 30% of the total number of the Shares in issue prior to the Proposed Non-public Issuance of A Shares. During the period from the Price Benchmark Date to the Issuance Date, in the event of ex-entitlement activities such as bonus issue, conversion of capital reserve into share capital, etc., the number of A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares shall be adjusted accordingly. The final number of Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares is subject to the number of Shares approved by the CSRC.

The Proposed Non-public Issuance of A Shares has two subscribers, i.e. Shanghai Tandong and Yunnan Baiyao. Pursuant to the Shanghai Tandong Subscription Agreement and Yunnan Baiyao Subscription Agreement, details of subscription of each subscriber are as follows:

No.	**Subscriber**	**Maximum number of Shares of the proposed subscription** *(A Shares)*	**Maximum amount of the proposed subscription** *(RMB)*
1	Shanghai Tandong	187,000,000	3,154,690,000.00
2	Yunnan Baiyao	665,626,796	11,229,124,048.52
	Total	**852,626,796**	**14,383,814,048.52**

(8) Lock-up period

A Shares to be subscribed by Shanghai Tandong and Yunnan Baiyao pursuant to the Proposed Non-public Issuance of A Shares shall be subject to a lock-up period of 36 months from the date of completion of the Proposed Non-public Issuance of A Shares. Any additional Shares to be acquired by the Subscribers after the completion of the Proposed Non-public Issuance of A Shares due to bonus issue, conversion of capital reserve into share capital, etc. shall also be subject to the lock-up arrangement mentioned above.

If the CSRC and the SSE have other requirements for the lock-up period for the Proposed Non-public Issuance of A Shares, the Subscribers will adjust the lock-up period in accordance with such requirements.

(9) Place of listing

The A Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares shall be listed for trading on the SSE.

(10) Arrangement for the accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares

The accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares will be shared by the Shareholders after the completion of the Proposed Non-public Issuance of A Shares on a pro rata basis according to their respective shareholding in the Company.

(11) Conditions Precedent

The Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement will be executed after being signed by the legal representatives or authorised representatives of relevant parties and affixed with the official seal, and they will become effective on the date when all the following conditions are fulfilled:

(a) the Board approves the Proposed Non-public Issuance of A Shares and the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement;

(b) the board of directors and shareholder(s) of Shanghai Tandong/Yunnan Baiyao (as the case may be) approve(s) Shanghai Tandong/Yunnan Baiyao to subscribe for the Shares to be issued pursuant to the Proposed Non-public Issuance of A Shares and/or the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement;

(c) the Proposed Non-public Issuance of A Shares is approved by the state-owned assets management authorities or approved by authorized state-funded enterprises;

(d) the general meeting of Shareholders of the Company approves the Proposed Non-public Issuance of A Shares and the Shanghai Tandong Subscription Agreement/the Yunnan Baiyao Subscription Agreement; and

(e) the Proposed Non-public Issuance of A Shares is approved by the CSRC.

5. Assessment on the terms

In assessing the fairness and reasonableness of the terms of the Proposed Non-public Issuance of A Shares and the Proposed Shanghai Tandong Subscription, we have conducted a search and on our best-efforts basis, identified fourteen transactions (the **"Comparable Transactions"**) regarding successful non-public issuance of A Shares by companies with both listed A shares and H shares since 14 February 2020, being the effective date of the New Financing Rules, and up to the Latest Practicable Date, which is an exhaustive list. Despite the businesses, operations and prospects of the Company are not exactly the same as the companies involved in the Comparable Transactions, the Comparable Transactions are adequate and appropriate to demonstrate the market practices regarding non-public issuance of A Shares by companies with both listed A shares and H shares. Set out below are the details of the Comparable Transactions:

Announcement date	Company name	Stock code (H share/ A share)	Subscriber	Lock-up period	Percentage of the issue price to the net assets per share attributable to the parent company	Percentage of the issue price to the average trading price for the period of last 20 trading days preceding the price benchmark date
2021-05-26	Weichai Power Co., LTD.	2338.HK/ 000338.SZ	25 independent target subscribers	6 months	231%	86%
2021-03-26	Postal Savings Bank of China Co., Ltd.	1658.HK/ 601658.SH	Controlling shareholder	60 months	100%	112%
2021-02-18	First Tractor Company Limited	0038.HK/ 601038.SH	Controlling shareholder	36 months	100%	85%
2021-02-05	Zoomlion Heavy Industry Science and Technology Co., Ltd.	1157.HK/ 000157.SZ	8 independent target subscribers	6 months	174%	80%
2021-01-19	Flat Glass Group Co., Ltd.	6865.HK/ 601865.SH	18 independent target subscribers	6 months	1157%	85%
2020-12-29	CSC Financial Co., Ltd.	6066.HK/ 601066.SH	31 independent target subscribers	6 months	548%	80%
2020-12-22	Lanzhou Zhuangyuan Pasture Co., Ltd.	1533.HK/ 002910.SZ	4 independent target subscribers	6 months	137%	80%
2020-12-08	Dynagreen Environmental Protection Group Co., Ltd.	1330.HK/ 601330.SH	5 independent target subscribers and the controlling shareholder	18 months for controlling shareholder and 6 months for other subscribers	248%	80%
2020-11-26	Bank of Zhengzhou Co., Ltd.	6196.HK/ 002936.SZ	23 independent target subscribers and 3 connected persons	60 months for substantial shareholders, 18 months for connected person and 6 months for other subscribers	100%	122%
2020-08-06	Haitong Securities Co., Ltd.	6837.HK/ 600837.SH	4 connected persons and 9 independent target subscribers	48 months for a 5% shareholder 18 months for 3 connected persons and 6 months for independent subscribers	137%	87%

Announcement date	Company name	Stock code (H share/ A share)	Subscriber	Lock-up period	Percentage of the issue price to the net assets per share attributable to the parent company	Percentage of the issue price to the average trading price for the period of last 20 trading days preceding the price benchmark date
2020-07-31	Central China Securities Co., Ltd.	1375.HK/ 601375.SH	18 independent target subscribers	6 months	174%	106%
2020-07-10	Beijing Jingcheng Machinery Electric Company Limited	187.HK/ 600860.SH	Controlling shareholder	36 months	427%	90%
2020-06-18	China Southern Airlines	1055.HK/ 600029.SH	Controlling shareholder	36 months	100%	100%
2020-03-18	Cosco Shipping Energy Transportation Co., LTD.	1138.HK/ 600026.SH	Controlling shareholder and 2 independent target subscribers	36 months for controlling shareholder and 12 months for other subscribers	115%	83%
				Maximum	1157%	122%
				Minimum	100%	80%
				Average*	335%	86%
				Median*	174%	83%
	The Company	**2607.HK/ 601607.SH**	**Shanghai Tandong (a subsidiary of a controlling shareholder) and Yunnan Baiyao (an independent target subscriber)**	**36 months**	**106%**	**80%**

Source: Wind

* Four of the Comparable Transactions with issue price set at the net assets per share attributable to parent company have been excluded in the calculation of the average and median percentages.

(i) Issue Price

According to the New Financing Rules, the issue price of non-public issuance of A shares should not be lower than 80% of the average trading price for the period of last 20 trading days preceding the price benchmark date. The Issue Price under the Proposed Non-public Issuance of A Shares is in compliance with the New Financing Rules. We also noted four of the Comparable Transactions have issue price set at the net assets per share attributable to parent company and generally representing higher premium to trading price, which are less comparable to the Proposed Non-public Issuance of A Shares due to difference in pricing mechanism. Among the remaining ten transactions with issue price higher than the net assets per share attributable to parent company and not only involving controlling shareholder as subscriber, the issue prices of eight transactions were set as 80% or close to 80% of the average trading price of the last 20 trading days preceding the price benchmark date, which are comparable to the pricing mechanism of the Proposed Non-public Issuance of A Shares.

In addition, the Issue Price is the same for Shanghai Tandong and Yunnan Baiyao. Yunnan Baiyao, as a strategic investor, will bring immense strategic value to the Company, not only in the aspect of **institutional reform** but also in the **strategic synergies**. In the PRC, Yunnan Baiyao itself is regarded as a benchmark of mixed-ownership reform of state-owned enterprises and also been evidenced in China's capital market by doubling its market capitalisation (from around RMB72 billion on 18 July 2016 to RMB145 billion on 31 December 2020) and substantial increasing its revenue and net profit post reform. Upon completion of the Proposed Non-Public Issuance of A Shares, the shareholding structure of the Company will be substantively diversified which is expected to bring major overhaul to the institutional systems and mechanisms, including but not limited to the decision making mechanism, performance assessment and incentive mechanism. This is expected to induce transformational vitality and bring sustaining power to the long-term development of the Company.

Yunnan Baiyao, as an industry leader, possesses outstanding reputation in various fields such as customer resources, brand management, market channels, management of the entire industrial chain of traditional Chinese medicine ("**TCM**"), general health products, and regional pharmaceutical distribution. In the PRC, Yunnan Baiyao is especially known for its capability in innovating and marketing OTC and general health products. Its two key TCM products, toothpaste and band-aid products, have obtained gratifying sales since their first launching, and after then the sales volumes have been climbing all the way up. By the end of 2020, the toothpaste product has taken 22.2% of the total market share (No. 1 in the PRC) and the band-aid product has taken 65% of the total market. Both products have differentiated advantages compared with competitors by deriving functional properties such as hemostasis and pain relief from Yunnan Baiyao, which is both the name of the company and its key TCM products. With a well-established salesforce of around 5,200 full-time equivalent that focuses on OTC and general health products, Yunnan Baiyao has pioneered a new business model of generalising the fast-moving consumer goods trait of TCM to general health products.

On the other hand, the Company abounds in TCM resources, with 7 TCM subsidiaries, 9 widely-recognised core brands, 5 major therapeutic areas (cardiovascular, digestion, respiratory, skeletal muscle, and urogenital), 3 classified TCM formulae, and 860 TCM products. Total sales revenue of TCM business of the Company was close to RMB7 billion in FY2020, roughly a third of the Company's industrial product business.

According to the Circular, Yunnan Baiyao has entered into a strategic agreement with the Company to fully tap into the partners' resources in multiple aspects, thereby complement each other's advantages and create synergistic effects. Amongst other things, the parties are planning on jointly building a platform for TCM and general health products to complement the Company's rich collection of product resources with Yunnan Baiyao's zero-to-one promotional capabilities, thereby replicate their success in OTC and general health products and roll out new blockbusters. The two parties have screened and shortlisted some core TCM and general health products for cooperation on the joint platform, including but not limited to:

- anti-aging series, probiotic series, saffron series, etc.;
- OTC specifications of existing products, such as Babaodan OTC specifications, plasters under Leiyunshang, etc.;
- new health food series based on Vitaco's existing varieties.

In recent years, China government has attached great importance to the development of the TCM industry and issued a series of policies and measures, which established policy guidelines and top-level support for the innovation and development of TCM. It is a great chance for both parties to seize the momentum of preferential policies. Relying on the Company's extensive collection of time-honored brands and rich product reserve, combined with the testified experience of Yunnan Baiyao in brand building and sales promotion, the strategic partnership is expected to bring tremendous value to the Company by creating a new high-value-added business segment and bringing new growth momentum.

In addition, the lock-up period of 36 months under the Proposed Non-public Issuance of A Shares is longer than the regulatory requirements of 18 months and also close to the high end of the range of the lock-up periods of the Comparable Transactions.

Based on the analysis above, we concur with the Company that the Issue Price is fair and reasonable, and the Proposed Non-public Issuance of A Shares would contribute significantly to the long term development of the Company and is in the interest of the Company and the Shareholders as a whole.

(ii) Number of Shares to be issued

The Proposed Non-public Issuance of A Shares has already been approved by SASAC and is subject to the approvals from (i) the shareholders at the EGM, A Share Class Meeting and H Share Class Meeting, and (ii) the CSRC. The Proposed Non-public Issuance of A Shares requires a specific mandate instead of a general mandate

According to the the Supervisor's Q&A on the Issuance of Securities – Regulatory Requirements on Guiding and Normalising Financing Activities of Listed Companies (Revised Version) (《發行監管問答–關於引導規範上市公司融資行為的監管要求(修訂版)》) released by CSRC on 14 February 2020 along with the New Financing Rules, when a listed company applies for non-public offering of shares, the number of shares to be issued shall in principle not exceed 30% of the total share capital before the offering. The Issue Size under the Proposed Non-public Issuance of A Shares is in compliance with the regulatory requirements.

The size of the Proposed Non-public Issuance of A Shares is sufficiently justified by the proposed use of proceeds as set out above. Meanwhile, we are of the view that it is essential for the Company to issue 30% of the total share capital before the offering, not only for the future requirement of R&D investment and other working capital that is illustrated above but also for complying with the definition of "Strategic Investor" in the New Financing Rules. According to the New Financing Rules and the Supervisor's Q&A on the Issuance of Securities – Requirements on Matters Related to the Introduction of Strategic Investors by Way of Non-Public Issuance of Shares (《發行監管問答–關於上市公司非公開發行股票引入戰略投資者有關事項的監管要求》), a qualified strategic investor should be willing to hold a substantial proportion of shares of the listed company for a long time, able and willing to diligently fulfill corresponding responsibilities, will appoint director(s) to the listed company and get truly involved in corporate governance, can enhance the level of governance of the listed company and serve to significantly improve the quality and intrinsic value of the listed company.

Under the Proposed Non-public Issuance of A Shares, Yunnan Baiyao will hold 18.02% of the total issued share capital of the Company upon the completion of the Proposed Non-public Issuance of A Shares, which is in line with the requirement of holding "a substantial proportion of shares" in the regulations.

More specifically, the Company's board of Directors currently consists of 10 members, three Directors of whom are executive Directors and are appointed by the controlling shareholder of the Company, and the remaining seven Directors as non-executive Directors, with two out of the seven Directors also being appointed by the controlling shareholder of the Company. As specified in the Company's Articles of Association published on 24 June 2020, three executive Directors form the Executive Directors Committee, which is governed by unanimous approval and is authorised by the Board to oversee and resolve on all important matters of the Company besides those subject to board approval. If the strategic investor intends to be entitled to appoint two members on the Board, in particular one executive Director, it would be difficult to justify the rationale if the strategic investor holds less than half of the shareholding in the Company held by the controlling shareholders of the Company.

We understood from the Company's legal adviser that a state-owned enterprise, such as the Company, has to maintain its SOE nature after the introduction of a strategic shareholder, which is a requirement based on the relevant laws, regulations, and regulatory guidance in the PRC. Therefore, the shareholding percentage of the controlling Shareholder of the Company, i.e. Shanghai Shangshi, shall not fall below 33%. Therefore, Shanghai Shangshi has to participate in the Proposed Non-Public Issuance of A Shares to maintain its shareholding in the Company, while an insufficient offer size, e.g. 20% of total shares before offering, would not meet all the requirements mentioned above. For more details, please refer to the sub-section headed "(7) Number of Shares to be Issued and the Subscribers" in the Letter from the Board.

(iii) Subscribers

The Proposed Non-public Issuance of A Shares is expected to be subscribed by two subscribers, one of which is a wholly-owned subsidiary of the controlling shareholder of the Company while the other will become a substantial shareholder of the Company upon the completion of the Proposed Non-public Issuance of A Shares. As shown in the above table, eight out of the fourteen cases involved the subscription by connected parties. Therefore, we are of the view that it is relatively common for connected parties to participate in the subscription of the non-public issuance of A shares in the China market.

(iv) Lock-up period

The A Shares to be subscribed by Shanghai Tandong and Yunnan Baiyao pursuant to the Proposed Non-public Issuance of A Shares shall be subject to a lock-up of 36 months from the date of completion of the Proposed Non-public Issuance of A Shares, which is longer than the regulatory requirements of 18 months and close to the high end of the range of the lock-up periods of the Comparable Transactions. Therefore, we are of the view the lock-up period of 36 months under the Proposed Non-public Issuance is in line with market practice, and represents the subscribers' faith in the future development of the Group and their long-term commitment in the Group.

6. Effect on the Shareholding Structure of the Company

As illustrated by the table under the sub-section headed "(12). Effect of the Proposed Non-public Issuance of A Shares on the Shareholding Structure of the Company" in the Letter from the Board, assuming that (i) 852,626,796 A Shares in total are issued under the Proposed Non-public Issuance of A Shares, and (ii) there is no other changes in the current shareholding structure of the Company before the completion of the Proposed Non-public Issuance of A Shares, the shareholding of the existing public Shareholders (including all of the public A Shareholders and H Shareholders) in the Company would be diluted by approximately 14.63% to 48.78% immediately after completion of such issuance and the sufficient public float will be maintained.

7. Financial Effect

As confirmed by the Company, it is expected the Proposed Non-public Issuance of A Shares will: (i) decrease the earnings per Share; (ii) increase the net asset value per Share; and (iii) increase the Group's cash reserve and working capital by the amount of net proceeds raised through the Proposed Non-public Issuance of A Shares, immediately upon the issuance of the A Shares to the Subscribers.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Non-public Issuance of A Shares, the Shanghai Tandong Subscription Agreement and the Specific Mandate are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Proposed Non-public Issuance of A Shares and the Proposed Shanghai Tandong Subscription are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the EGM and the H Share Class Meeting in respect of (i) the Proposed Non-public Issuance of A Shares, (ii) the connected transaction in relation to the Proposed Shanghai Tandong Subscription; and (iii) the Specific Mandate.

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 corporate finance industry.

Stock Code: 601607 **Stock Abbreviation: SPH**
Security Code: 155006 **Security Abbreviation: 18 SPH 01**

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD. PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES IN 2021

May 2021

Statement

1. The Company and all members of the Board of Directors warrant that the contents of this Proposal are true, accurate and complete and confirm that there are no false records, misleading statements or material omissions and assume joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

2. This Proposal is a description of the Non-public Issuance of A Shares by the Board of Directors of the Company, and any statement to the contrary is a misrepresentation.

3. The Company shall be solely responsible for any changes in the Company's operation and earnings after the completion of the Non-public Issuance of A Shares; investors shall be solely responsible for any investment risks arising from the Non-public Issuance of A Shares.

4. If investors have any questions, they should seek advice from their own stockbrokers, lawyers, professional accountants or other professional advisers.

5. The matters described in this Proposal do not represent the substantive judgment, confirmation, approval of the approving authority in respect of the matters relating to the Non-public Issuance of A Shares, and the effectiveness and completion of the matters relating to the Non-public Issuance of A Shares described in this Proposal are subject to the approval of the competent state-owned assets supervision and administration authorities, the approval of the board of directors and shareholders' general meeting of Yunnan Baiyao, the shareholders' general meeting of the Company, the A Share Class Meeting, the H Share Class Meeting and the CSRC. There is uncertainty as to whether the relevant approvals will be obtained for the Offering and there is uncertainty as to the timing of obtaining the relevant approvals in respect of the above matters. Investors are advised to note the relevant risks.

Special Note

The words or abbreviations mentioned in this section have the same meaning as those defined in the "Definitions" of this Proposal.

1. The matters relating to the Non-public Issuance of A Shares have been considered and approved at the 22nd Meeting of the 7th Session of the Board and the 16th Meeting of the 7th Session of the Board of Supervisors of the Company. In accordance with the provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures for the Issuance and the Implementation Rules and other relevant laws, regulations and regulatory documents, the Non-public Issuance of A Shares is subject to the approval of the competent state-owned assets supervision and administration authorities, the approval of the board of directors and shareholders' general meeting of Yunnan Baiyao, the shareholders' general meeting of the Company, the A Share Class Meeting and the H Share Class Meeting and the CSRC.

2. The Non-public Issuance complies with the provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Administrative Measures for the Issuance and the Implementation Rules and other laws, administrative regulations, departmental regulations and regulatory documents, and the Company has all the conditions for the Non-public Issuance of A Shares.

3. The total proceeds from the Non-public Issuance of A Shares will not exceed RMB14,383,814,000 (inclusive, the same below), which will be used to supplement the working capital and repay the debts of the Company after deducting the relevant issue expenses.

4. The price benchmark date for the Non-public Issuance of A Shares is the announcement date of the board resolution, i.e. 12 May 2021. The average trading price of the Company's A Shares for the 20 Trading Days prior to the price benchmark date is RMB21.08 per share (average trading price of A Shares for the 20 Trading Days prior to the price benchmark date = total trading price of A Shares for the 20 Trading Days prior to the price benchmark date/total trading amount of A Shares for the 20 Trading Days prior to the price benchmark date).

   The price of the Non-public Issuance of A Shares is RMB16.87 per share, which is 80% of the average trading price of the Company's A Shares for the 20 Trading Days prior to the price benchmark date. If the ex-rights and ex-dividend matters such as dividend payment, stock dividend or capitalization of capital surplus, etc. occur during the period from the price benchmark date to the issuance date, the issue price will be adjusted accordingly.

5. The total number of A Shares to be non-publicly offered to specific targets shall not exceed 852,626,796 shares (inclusive), and the number of shares to be offered shall not exceed 30% of the total share capital of the Company before the Non-public Issuance. If any ex-rights events such as stock dividend or capitalization of capital surplus occur during the period from the

price benchmark date to the issuance date, the number of shares in the Non-public Issuance will be adjusted accordingly. The number of shares in the Non-public Issuance shall be subject to the number of shares finally approved for issuance by the CSRC.

6. The Non-public Issuance of shares is for two specific target subscriber subscribers, namely, Shanghai Tandong, and Yunnan Baiyao. All target subscribers subscribe for the Non-public Issuance of shares in cash. According to the Share Subscription Contract with Conditional Effect signed between the Company and each target subscriber, the proposed subscription of each target subscriber is as follows:

No.	**Target Subscriber**	**Proposed Number of Shares Subscribed** *(Share)*	**Amount to be Subscribed** *(RMB)*
1	Shanghai Tandong	187,000,000	3,154,690,000.00
2	Yunnan Baiyao	665,626,796	11,229,124,048.52
Total		**852,626,796**	**14,383,814,048.52**

In the event of any ex-rights events such as stock dividend or capitalization of capital surplus, during the period from the price benchmark date to the issuance date, the number of subscriptions by each target subscriber will be adjusted accordingly.

7. After the completion of this issuance, the shares subscribed by each target subscriber and the shares derived from the stock dividend or capitalization of capital surplus or other circumstances shall not be transferred within 36 months from the date of closing of this issuance. If the CSRC and the Shanghai Stock Exchange have other requirements on the lock-up period of the additional shares in this issue, the target subscriber will adjust the lock-up period accordingly in accordance with the requirements of the CSRC and the Shanghai Stock Exchange.

8. This Offering will not lead to a change in the controlling shareholder and the actual controller of the Company, and will not lead to the disqualification of the distribution of the Company's shareholding for listing.

9. The undistributed profits rolled over by the Company before the Non-public Issuance of shares will be jointly enjoyed by the new and old shareholders after the completion of the Non-public Issuance of shares in proportion to the shares after this issuance.

10. To further promote the establishment of a scientific, sustainable and stable dividend distribution mechanism, facilitate the formation of stable investment return expectations of investors and protect the legitimate rights and interests of investors, in accordance with the Notice on Further Implementation of Matters Relating to Cash Dividends of Listed Companies and Guideline No. 3 on Supervision of Listed Companies-Cash Dividends for Listed Companies issued by the CSRC, the Company held the 22nd meeting of the 7th Session of the

Board on 11 May 2021 to consider and adopt the Shareholder Return Plan for the Next Three Years (2021-2023) of Shanghai Pharmaceuticals Holding Co., Ltd. The Plan is subject to the consideration and approval of the shareholders' general meeting.

For information on the formulation and implementation of the Company's cash dividend policy, cash dividends for the last three years, and arrangements for the use of undistributed profits, please refer to "Section VI – Profit Distribution Policy and Its Implementation" in this Proposal.

11. According to the Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17), Opinions of the General Office of the State Council on Further Strengthening the Protection of Lawful Rights and Interests of Medium and Small Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) and the Guiding Opinions on Matters Relating to the Dilution of Current Returns as a Result of Initial Public Offering, the Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31), the Company has formulated measures to make remedy for the dilution of immediate return after the Non-public Issuance of shares, and the controlling shareholders, directors and senior management of the Company have made commitments to adopt measures to make remedy for the return of the Company. For details of the relevant measures and commitments, please refer to Section VII - Dilution of Current Returns and Remedial Measures for the Non-public Issuance of Shares of this Proposal.

12. The Company will pay close attention to the changes in laws, regulations and relevant policies. If the relevant regulations and policies of the regulator on the Non-public Issuance of shares of the listed company are adjusted and implemented before this issuance, the Company will promptly perform the relevant consideration procedures and adjust, improve and disclose in a timely manner the specific terms of the Non-public Issuance program in accordance with the relevant adjusted policies.

Definitions

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

The Company, Company, Issuer, Listed Company, 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 also listed on the Main Board of the Stock Exchange of Hong Kong Limited with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries (if applicable)
Shareholders' General Meeting	the shareholders' general meeting of the Company
Board or Board of Directors	the Board of Directors of the Company
Board of Supervisors	the Board of Supervisors of the Company
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
The Issuance, the Non-Public Issuance, this Non-Public Issuance of Shares	Non-public Issuance of A Shares by the listed company to Shanghai Tandong and Yunnan Baiyao to raise funds, the number of shares to be issued shall not exceed 852,626,796 shares
Central Committee of the CPC	Central Committee of the Communist Party of China
State Council	State Council of the People's Republic of China
Shanghai Stock Exchange	the Shanghai Stock Exchange
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會)
Shanghai SASAC	Shanghai State-owned Assets Supervision and Administration Commission
NMPA	National Medical Products Administration
NHSA	National Healthcare Security Administration
NDRC	National Development and Reform Commission

* *For identification purpose only*

Former CFDA	China Food and Drug Administration. In March 2018, according to the institutional reform program of the State Council approved at the first meeting of the 13th National People's Congress, the responsibilities of the China Food and Drug Administration were integrated to form the State Administration for Market Regulation of the People's Republic of China and China Food and Drug Administration was no longer retained
NHC	National Health Commission
SIIC	Shanghai Industrial Investment (Holdings) Co., Ltd.
Shanghai Shangshi	SIIC Shanghai (Holdings) Co., Ltd.
Shanghai Pharmaceutical (Group)	Shanghai Pharmaceuticals Holding Co., Ltd.
Yunnan Baiyao, the Strategic Investor	Yunnan Baiyao Group Co., Ltd.（雲南白藥集團股份有限公司）
Shanghai Tandong	Shanghai Tandong Enterprise Consulting Services Co., Ltd.
Strategic Cooperation Agreement	the Strategic Cooperation Agreement between Shanghai Pharmaceuticals Holding Co., Ltd. and Yunnan Baiyao Group Co., Ltd. entered into between Shanghai Pharmaceuticals and Yunnan Baiyao
Share Subscription Contract with Conditional Effect	the Share Subscription Contract with Conditional Effect between Shanghai Pharmaceuticals Holding Co., Ltd. and Shanghai Tandong Enterprise Consulting Services Co., Ltd. in relation to the Non-public Issuance of A Shares in 2021 and Share Subscription Contract with Conditional Effect between Shanghai Pharmaceuticals Holding Co., Ltd. and Yunnan Baiyao Group Co., Ltd. in relation to the Non-public Issuance of A Shares in 2021 entered into between Shanghai Pharmaceuticals and the target subscribers i.e. Shanghai Tandong and Yunnan Baiyao, respectively
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Administrative Measures for the Issuance	Administrative Measures for the Issuance of Securities by Listed Companies (2020 Revision)
Implementation Rules	Implementation Rules for the Non-public Issuance of Shares by Listed Companies (2020 Revision)
Questions and Answers on Issue Regulation	Questions and Answers on Issue Regulation - Regulatory Requirements on Matters Relating to the Introduction of Strategic Investors in Non-public Issuance of Shares by Listed Companies

Drug Administration Law	Drug Administration Law of the People's Republic of China
Articles of Association	the Articles of Association of Shanghai Pharmaceuticals Holding Co., Ltd.
Measures for the Administration of Proceeds	Regulations of Shanghai Pharmaceuticals Holding Co., Ltd. on the Management of Proceeds
Two-Vote System	Drugs and medical devices are invoiced once from the manufacturer to the primary distributor, and again from the distributor to the hospital, reducing the circulation link
New Medical Reform	The new round of reform of China's medical and health system, which started in 2009
Consistency Evaluation	One of the drug quality requirements in the 12th Five-Year Plan on National Drug Safety, i.e., the state requires generic drugs to be of the same quality and efficacy as the original drugs, specifically requiring consistent impurity profiles, consistent stability, and consistent dissolution patterns in vitro and in vivo
"4+7"	National organization of pilot centralized drug procurement in 11 cities, namely Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu, and Xi'an
MAH System	Pharmaceutical marketing license holder system
CMO	CMO (Contract Manufacture Organization) is mainly commissioned by pharmaceutical companies to provide services such as process development, formulation development, clinical trial drug, chemical or biosynthetic API production, intermediate manufacturing, preparations production and packaging, etc. required for product manufacturing
license-in	License introduction
first-in-class	A class of first-in-class drugs, the first to discover a new drug target or mechanism of action
BD	Business Development, introduction of new drug development
Shareholder Return Planning	Shareholder Return Plan of Shanghai Pharmaceuticals Holding Co., Ltd. for the Next Three Years (2021-2023)
Last Three Years	2018, 2019 and 2020
Working Days	any day on which commercial banks in the PRC are open for corporate business (excluding statutory holidays)
Trading Days	Business days of the Shanghai Stock Exchange

Statutory Holidays or Rest Days	Statutory and government-designated holidays or rest days in the People's Republic of China (excluding statutory holidays and/or rest days in the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan)
RMB, RMB0'000	If not specifically stated, it refers to RMB, RMB0'000

Note: If there is any discrepancy between the total count and the sum of the sub-values in this Proposal, it is due to rounding.

Section I Summary of the Proposal for Non-public Issuance of A Shares

I. BASIC INFORMATION OF THE ISSUER

Company Name: Shanghai Pharmaceuticals Holding Co., Ltd.

English Name: Shanghai Pharmaceuticals Holding Co., Ltd.

Stock Exchange on Which Shares are Listed: the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited

Abbreviation & Code of A Shares: SPH, 601607

Abbreviation & Code of H Shares: SPH, 02607

Legal Representative: Zhou Jun

Date of Establishment: 18 January 1994

Registered Capital: RMB2,842,089,322

Paid-up Capital: RMB2,842,089,322

Unified Social Credit Code: 9131000013358488X7

Telephone: +86-21-63730908

Registered Address: No. 92 Zhangjiang Road, Pilot Free Trade Zone, China (Shanghai)

Office Address: Shanghai Pharmaceutical Building, No.200 Taicang Road, Shanghai, the PRC

Postal Code: 200020

Industry: F52 retail industry

Scope of business: research and development, manufacturing and sales of API and various dosage forms (including but not limited to tablets, capsules, aerosols, immune preparations, granules, ointments, pills, oral liquids, inhalants, injections, applications, tinctures, suppositories) of pharmaceutical products (including but not limited to chemical API, chemical preparations, Chinese herbal medicines, Chinese patent medicines, TCM decoction, biochemical drugs, biological products, narcotic drugs, psychotropic drugs, toxic drugs for medical use fall into the scope of business, vaccines), health care products, medical equipment and related products, manufacturing, sales and engineering installation, maintenance of pharmaceutical equipment, warehousing and logistics, sea, land and air freight forwarding business, industrial investment, asset management, the provision of international economic and trade information and consulting services, own housing leases, self-employed and agent for the import and export of various types of drugs and related goods and technologies business. Items subject to approval by law shall be operated with the approval of relevant authorities.

II. BACKGROUND AND PURPOSE OF THIS NON-PUBLIC ISSUANCE

(I) Background of the Non-public Issuance

1. The state issued a number of incentives to support the pharmaceutical industry innovation and transformation

Related to the people's livelihood, the pharmaceutical industry is an important part of the national economy and is closely related to the people's vital interests. With the implementation of China's strategic goal of building a well-off society, General Secretary Xi Jinping proposed that "without the health of all people, there is no well-off society in all aspects and people's health should be given priority in the strategic development". Health and people's livelihood have gradually become the key areas where national policies favor and the pharmaceutical industry has ushered in unprecedented development opportunities.

In recent years, in order to implement the Healthy China strategy, the State Council, the NHC, the NMPA (the former NFDA) and the NHSA have successively introduced a series of policies to encourage drug innovation, proposing systematic reform measures for all aspects of drug research and development, registration, production, distribution, payment and use, providing fertile ground for enterprises to innovate and transform, and paving the way for industry restructuring.

On 1 December 2019, the newly revised Drug Administration Law came into force; on 1 July 2020, the new version of the Measures for Drug Registration and Administration and Measures for Drug Production Supervision and Administration came into force. After the implementation of the above regulations, review, verification and inspection were changed from "tandem" to "parallel", significantly optimizing the drug review and approval workflow; new regulations set up four acceleration channels of breakthrough therapeutic drugs, conditional approval, priority review and approval and special approval, clarified review time frame to improve the efficiency of drug registration and the expected time frame for registration. In addition to process optimization, the new regulations also clarify the MAH system and the formal separation of marketing and manufacturing licenses, which further mobilizes the R&D enthusiasm of drug R&D institutions, researchers and drug manufacturers and enables many CMO companies to see the huge business opportunities as trustees, which is conducive to improving China's new drug R&D level and international competitiveness and helps accelerate the integration of China's pharmaceutical manufacturing and R&D industry into the global industry chain.

In October 2016, the Healthy China 2030 Planning Outline was officially released, clearly proposing to improve the multi-level medical security system with basic medical insurance as the main body and supplemented by other various forms of supplementary insurance and commercial insurance. In February 2020, the Central Committee of the CPC and the State Council issued the Opinions on Deepening the Reform of the Medical Security System, which serves as the top-level design for future medical insurance reform, establishes the key work of China's medical reform and health insurance reform in the next 10 years and strives to further support the development and use of high-quality generic drugs and promote the import substitution of generic drugs by improving medical insurance payment standards and drug bidding and procurement mechanisms. The construction of a multi-level medical insurance system will improve the accessibility of pharmaceutical services, which will benefit the development of the pharmaceutical industry as a whole.

In December 2020, a new round of medical insurance catalog adjustment work was officially launched. This time, a total of 119 varieties were under successful negotiations with the average price reduction of 50.64%. The negotiation adhered to the functional positioning of "guaranteeing the basics" of the national medical insurance. Through "vacating cage to change bird", the price of original varieties with high cost was lowered through negotiation and the drugs with low clinical values were transferred out to promote the innovative drugs with high value to get into the medical insurance catalog. With the accelerated entry of innovative drugs into medical insurance, the accessibility of new drugs has been rapidly improved, and the R&D investment of pharmaceutical companies has been quickly recovered. The measure further promoted the development of the domestic innovative drug market, pushed Chinese pharmaceutical companies to compete directly with foreign pharmaceutical companies, and accelerated the improvement of internationalization and innovation capability.

2. China's pharmaceutical manufacturing and R&D industry developed fast, the process level requirements continued to improve and the environment for innovative drugs to be listed continued to be optimized

Subject to the aging population, the increasing level of urbanization of residents and the gradual improvement of the medical security system, China's pharmaceutical manufacturing and R&D industry is experiencing a period of high growth. According to the economic indicators of industrial enterprises above the national scale calculated by comparable caliber in 2019 released by the National Bureau of Statistics, industrial enterprises above the designated scale of pharmaceutical manufacturing industry achieved operating revenue of RMB2,390.86 billion in 2019, up 7.4% year-on-year, higher than the overall level of industrial enterprises above the national scale in the same period by 3.6 percentage points, and achieved total profit of RMB311.95 billion, up 5.9% year-on-year, higher than the overall level of industrial enterprises above the national scale for the same period by 9.2 percentage points.

At the same time of the rapid development of the pharmaceutical manufacturing and R&D industry, China put higher requirements for the level of generic drug processes. For generic drugs, in 2016, the State Council issued the Opinions on Conducting Consistency Evaluation of Generic Drug Quality and Efficacy (Guo Ban Fa [2016] No. 8) to promote consistency evaluation of generic drugs across the country. After the introduction of this policy, the domestic generic drug stock pattern was reconstructed, which put forward higher requirements on the level of preparation prescription process of enterprises of pharmaceutical manufacturing and R&D industry, and the concentration of the generic drug industrial production industry was expected to be further improved.

In terms of innovative drugs, the Outline of National Innovation-driven Development Strategy, the "13th Five-Year Plan" National Technology Innovation Plan and the Guide on Pharmaceutical Industry Development Planning have all put forward targets for the development of innovative drugs, and major special projects have been set up to promote the research and development of innovative drugs. The implementation of the MAH system and the optimization of the approval process have greatly encouraged the development of innovative drugs and the policy environment to encourage the launch of innovative drugs has been optimized and the vitality of innovation has been released. The 2019 Annual Drug Review Report released by the Drug Review Center of the NMPA showed that in 2019, the Drug Review Center accepted a total of 319 varieties of Class 1 innovative drug registration applications (involving 700 applications, the number of varieties of chemical drugs is counted by active ingredients, and the number of varieties of both TCM and biological products are counted by the generic name of the drug, the same below), representing an increase of 20.8% as compared with 2018. Among them, 302 varieties of new drug clinical trial (IND) applications for Class 1 innovative drugs were accepted, representing an increase of 26.4% as compared with 2018. With the support of various national policies, the innovation enthusiasm of manufacturers in pharmaceutical manufacturing and R&D industry continues to rise, and the number of innovative drug declarations and approvals in China will maintain high growth.

3. China promoted the volume-based centralized procurement of drugs, the pharmaceutical industry entered the era of cost control and structural adjustment and the advantages of R&D capabilities of pharmaceutical enterprises were increasingly prominent

At the beginning of 2019, the General Office of the State Council announced the National Organization for the Pilot Program of Centralized Procurement and Use of Drugs, which clarified the work deployment of "4+7" cities with volume-based procurement, opening a new era of drug price management. The winning price of the varieties that entered the quantity procurement catalog fell by an average of 52%, with the highest drop of more than 90%. At the end of 2019, the implementation of the volume-based procurement policy in pilot cities was effective and the country carried out the "4+7" alliance areas outside the city for the same variety, the second batch of centralized procurement, the third batch of centralized procurement, the fourth batch of centralized procurement to drive the national drug prices down and improve the level of medical protection for patients.

Since 2019, China has continued to promote the expansion of centralized volume-based procurement of drugs, which has also forced Chinese pharmaceutical companies to re-define their own positioning: pharmaceutical companies that focus on generic drug R&D and production need to improve their ability to select variety, develop technology platform and control cost and increase production and sales volume to thicken corporate profits; pharmaceutical companies that take innovative drug R&D and production as their strategic development goal need to increase their innovation transformation efforts, while optimizing their product structure to enhance the core R&D strength of enterprises. With the deepening of the centralized volume-based procurement policy, China's pharmaceutical companies need to improve the level of investment in research and development to maintain their market position and competitiveness in the future policy environment of full implementation of volume-based procurement.

4. As medical reform continued to deepen, the domestic pharmaceutical supply chain needed to further improve efficiency, accelerate model innovation and industry integration and the scale effect of the pharmaceutical distribution leader initially took shape

Since the establishment of the NHSA in 2018, China's health care reform has entered a new phase, with drug prices facing greater price reduction pressure. In the first half of 2019, the implementation of the "two-vote system" and "zero cost increase" in the national public hospitals has been basically completed, and the distribution and retail industry continued to transform and upgrade. Meanwhile, the integration of the pharmaceutical distribution sector continued to accelerate, and the concentration of the industry was further enhanced. In this context, the importance of the scale effect and brand effect advantage of enterprises has become more and more prominent. Abundant capital, efficient warehousing and distribution capabilities, multi-channel procurement capabilities, comprehensive service capabilities, etc. gradually become the core competitiveness of the long-term sustainable development of pharmaceutical distribution enterprises. The deepening of medical reform has accelerated the elimination of pharmaceutical distribution enterprises, which has put forward more stringent requirements for the operational efficiency of pharmaceutical enterprises. In the future, with the further differentiation of the competitive landscape of the pharmaceutical distribution industry, high-quality leading enterprises with scale effect, high operational efficiency and innovative models will accelerate their rise in the medical reform environment by virtue of their own advantages, while enterprises that do not adapt to the market environment and policy requirements will withdraw one after another, and the pharmaceutical distribution industry ushers in an important opportunity period for integration.

5. Promoting the intensive release of Chinese medicine policies was conducive to the long-term sustainable development of the Chinese medicine industry

In December 2020, the NMPA issued the Implementation Opinions on Promoting the Inheritance and Innovative Development of TCM, which required the improvement of the review and approval mechanism of Chinese medicine and the promotion of innovative drug development and industrial development of TCM. In February 2021, the General Office of the State Council issued Several Policy Measures on Accelerating the Featured Development of TCM, which proposed to comprehensively improve sound measures to promote the future long-term sustainable development of the TCM industry, involving a total of seven major directions such as improving the vitality of the development of the TCM industry, enhancing the development momentum of TCM, implementing major projects for the development of TCM, and improving the benefits of TCM development. In March 2021, the outline of the 14th Five-Year Plan was voted by the fourth session of the 13th National People's Congress, which explicitly called for the vigorous development of TCM, the improvement of the TCM service system, and the unique advantages of TCM in the prevention, treatment and rehabilitation of diseases.

In the future, with the increase of national policy support, the increase of government support for the TCM industry, and the gradual increase of social capital recognition and investment in the TCM industry, the enthusiasm of relevant enterprises will be further mobilized, and high-quality leading TCM enterprises are expected to usher in good opportunities for development, which will further promote the healthy and long-term sustainable development of China's TCM industry.

(II) The purpose of the Non-public Issuance

1. To introduce the Strategic Investor and promote the long-term development of the Company

As one of the top three industrial groups in China's pharmaceutical industry and a leading enterprise in Shanghai's biopharmaceutical industry, the Company is accelerating to become a leading Chinese pharmaceutical enterprise with international competitiveness and influence, and has been selected as one of the top 50 global pharmaceutical enterprises. However, in the era of great changes in the pharmaceutical industry, the Company is also deeply aware that, in the face of new challenges and opportunities, the only way for the Company to gain vitality and win development in the great changes in the industry is through continuous innovation. In this regard, in pharmaceutical manufacturing and R&D industry, the Company has set the strategic goal of transforming from a general generic pharmaceutical company to a research and development pharmaceutical company driven by technology and innovation; in the pharmaceutical distribution field, the Company has set the strategic goal of transforming from a pharmaceutical supply chain service company to a service-driven and technology-driven leading modern health service provider in China, and continues to promote the transformation and development initiatives driven by technology and innovation.

Yunnan Baiyao, a century-old Chinese brand and a well-known trademark in China, ranked among the first batch of national innovative enterprises and ranked steadily among the top in China's Chinese medicine industry in terms of major economic indicators. Yunnan Baiyao is listed in the Forbes Global 2000, Asia's 50 Best Listed Companies and Fortune China 500, and is ranked among the leading Chinese brands by Interbrand, Hurun and BrandZ. Yunnan Baiyao has a number of well-known brands in the fields of pharmaceuticals, health products, Chinese medicine resources and pharmaceutical distribution. Its products are well sold in China, Southeast Asia and gradually entering developed countries such as Europe, America and Japan, and it has strong strength and development advantages in the health industry.

The strategic cooperation can further enhance the governance of the listed company, expand customer resources of both sides. Relying on the high-quality resources of both sides, it may jointly develop new products and services, promote cooperation in intelligent manufacturing of TCM, strengthen brand, marketing and channel linkage, enhance the ability of both sides in product value mining and refined operation, accelerate resource integration, better promote the layout of the Company's business network, accelerate the innovation and upgrade of business model, and significantly enhance the market influence of both sides.

2. With independent research and development and BD two-wheel drive, the competitiveness of the pharmaceutical manufacturing and R&D industry sector continued to be enhanced

Since 2015, the State Council, the NMPA and the NHC have successively introduced a series of policies to encourage drug R&D innovation, opening up an era of innovation in the pharmaceutical industry. Seizing the industry policy dividend, the Company has continued to increase investment in R&D innovation in recent years, introduced market-based mechanisms, promoted an open and diversified innovation model, accelerated external cooperation, built a nationwide and global-oriented innovation platform and continuously strengthened the core strengths of the pharmaceutical manufacturing and R&D industry, which has made significant progress in multiple dimensions.

From 2018 to 2020, the Company's total combined R&D investment reached RMB4.87 billion, with an average compound annual growth rate of 19.15%, of which expensed R&D investment was RMB4.067 billion, accounting for a combined net profit attributable to shareholders of the parent company of up to 32.64% during the period. After years of technology accumulation and research investment, for innovative drugs, the Company's innovative drug pipeline has grown from 11 products in 2018 to 25 in 2020, 15 of which have entered the clinic or gone to market. For generic drugs, as of the end of March 2021, the total number of generic drugs evaluated by the Company reached 25 varieties (31 specifications), and several other varieties have completed the U.S. ANDA production filing and been approved for marketing. In addition, the Company has developed strategic cooperation with many research institutes and medical institutions, such as Shanghai Institute of Drug Research of Chinese Academy of Sciences, Innovation Center of Excellence in Molecular Cell Science of Chinese Academy of Sciences, School of Medicine of Shanghai Jiaotong University, School of Pharmacy of Fudan University, East China University of Science and Technology, Shanghai University of Traditional Chinese Medicine, Tianjin University of Traditional Chinese Medicine, Ruijin Hospital, Renji Hospital, Shanghai Tenth People's Hospital, Shanghai Children's Medical Center, etc. The Company is committed to promoting the R&D and transformation of pharmaceutical projects through project incubation, commercialization, targeted R&D, etc.

The Non-public Issuance will enhance the capital strength of the Company and is conducive to further increase the investment in R&D, improve the construction of the three management centers of R&D, manufacturing and marketing in the industrial segment of the Company and promote the consistency evaluation of generic drugs. Meanwhile, it will strengthen international cooperation, continue to promote cooperation with research institutes, universities and hospitals, build innovation platforms, translational medicine alliances and multiple innovative technology companies or specialty platforms, continue to expand new indication areas, improve the existing R&D system, and maintain the Company's leading position in the pharmaceutical manufacturing and R&D industry.

3. *Seizing integration opportunities, improving operational efficiency and consolidating the national leading position of pharmaceutical distribution*

The pharmaceutical distribution business is usually characterized by a large capital consumption, so sufficient working capital is necessary for the Company to further expand its business scale and improve operational efficiency. With the in-depth implementation of reform policies such as "two-vote system", "zero cost increase" and "volume-based procurement", the pharmaceutical distribution industry continues to transform and upgrade, industry integration continues to accelerate, and industry concentration is further increased. The concentration of the industry has further increased, and the pharmaceutical distribution industry has ushered in an important opportunity period for integration.

From 2018 to 2020, the revenue of the pharmaceutical distribution segment of the Company was increased from RMB139.622 billion to RMB168.166 billion. With the continuous expansion of the business scope and scale of operation, the overall demand for working capital of the Company will also increase. The issue of proceeds is planned to be used to replenish working capital and repay the Company's debts, provide a strong guarantee for the Company to further expand its business scale, improve operational efficiency and consolidate its leading position in the pharmaceutical distribution nationwide, which is conducive to the Company's active response to the divergence of the industry's competitive landscape, strengthen its ability to operate in a sustainable and sound manner and enhance its core competitiveness.

4. *Reducing financial costs and improving debt servicing capacity*

To support the strategic development of the Company's pharmaceutical manufacturing and R&D industry and distribution business, the Company has increased the scale of capital expenditure in recent years. Meanwhile, as the scale of the Company's assets and the scale of the pharmaceutical manufacturing and R&D industry and distribution business continued to grow, the daily working capital demand is also increasing. In order to meet the capital requirements for business development, the Company not only replenished working capital through cash generated from operating activities, but also raised funds through external financing such as bank borrowings to support the Company's development by financial leverage, resulting in a high gearing ratio. In the past five years, the closing balance of short-term borrowings of the Company increased from RMB9,628 million at the end of 2016 to RMB20,139 million at the end of 2020, and the closing balance of long-term borrowings increased from RMB838 million at the end of 2016 to RMB1,184 million at the end of 2020, and the gearing ratio increased accordingly from 55.48% at the end of 2016 to 63.31% at the end of 2020.

The proceeds will be used to supplement the working capital and repay the Company's debts. The availability of the proceeds will help the Company optimize its capital structure, effectively control the growth of financial costs and provide financial security and impetus for the Company's future business development, which is in the interest of the Company and its shareholders as a whole.

III. THE TARGET SUBSCRIBER OF THE NON-PUBLIC ISSUANCE AND ITS RELATIONSHIP WITH THE COMPANY

This issuance is a non-public issuance for specific targets. The target subscribers are Shanghai Tandong and Yunnan Baiyao. All the target subscribers subscribe the shares of this issuance in cash at the same price.

Shanghai Tandong, the target subscriber, is a related party of Shanghai Pharmaceuticals.

According to the arrangement of the Non-public Issuance, it is expected that Yunnan Baiyao will hold 18.02% of the shares of the listed Company after the completion of this issuance, and thus become a related party of the Company.

IV. SUMMARY OF THE PROPOSAL OF THE NON-PUBLIC ISSUANCE

(I) Type and par value of the shares to be issued

The type of shares to be issued in the Non-public Issuance is domestic listed RMB ordinary shares (A Shares) with par value of RMB1.00 per share.

(II) Method and time of issuance

This Offering will be made in the form of a non-public issuance to specific targets and will be made at an opportune time during the validity period of the approval documents of the CSRC for this issuance.

(III) Subscription method

All the target subscribers of the Non-public Issuance will subscribe for the shares of this issuance in cash.

(IV) Issue price and pricing principles

The price benchmark date for the Non-public Issuance of A Shares is the announcement date of the board resolution, i.e. 12 May 2021. The average trading price of the Company's A Shares for the 20 Trading Days prior to the price benchmark date is RMB21.08 per share (average trading price of A Shares for the 20 Trading Days prior to the price benchmark date = total trading price of A Shares for the 20 Trading Days prior to the price benchmark date/total trading amount of A Shares for the 20 Trading Days prior to the price benchmark date).

The price of the Non-public Issuance of A Shares is RMB16.87 per share, which is 80% of the average trading price of the Company's A Shares for the 20 Trading Days prior to the price benchmark date.

If the ex-rights and ex-dividend matters such as dividend payment, stock dividend or capitalization of capital surplus, etc. occur during the period from the price benchmark date to the issuance date, the issue price will be adjusted accordingly. The adjustment formula is as follows:

Dividend payment: $P_1=P_0-D$;

Stock dividend or capitalization of capital surplus: $P_1=P_0/(1+N)$;

Occurrence of both of the above at the same time: $P_1=(P_0-D)/(1+N)$.

Where P_0 is the issue price before adjustment, P_1 is the issue price after adjustment, D is the dividend per share, and N is the number of stock dividend or capitalization of capital surplus per share.

If the net assets per share attributable to the shareholders of the parent company for the latest audited period before this issuance is higher than the issue price, the issue price will be adjusted to the net assets per share attributable to the shareholders of the parent company for the latest audited period, and the number of shares subscribed by the issuer will be reduced accordingly in accordance with the ratio of the number of shares subscribed by the issuer to the total number of shares in the Non-public Issuance.

If there are other requirements on the issue price and pricing method in the relevant laws, regulations and regulatory documents or the regulatory review policy of the CSRC on the Non-public Issuance of A Shares, the relevant matters of this issuance will be carried out in accordance with such requirements at that time.

(V) Number of shares to be offered and target subscribers

The total number of A Shares under this issuance shall not exceed 852,626,796 shares (inclusive), and shall not exceed 30% of the total share capital of the Company before this issuance. If any ex-rights events such as stock dividend or capitalization of capital surplus occur during the period from the price benchmark date to the issuance date, the number of shares in the Non-public Issuance will be adjusted accordingly. The number of shares in the Non-public Issuance shall be subject to the number of shares finally approved for issuance by the CSRC.

This Offering is a non-public issuance for 2 specific targets. The target subscribers are Shanghai Tandong and Yunnan Baiyao. According to the Share Subscription Contract with Conditional Effect signed between the Company and each target subscriber, the proposed subscriptions by each target subscriber are as follows:

No.	Target Subscriber	Number of Shares to be Subscribed *(Share)*	Amount to be Subscribed *(RMB)*
1	Shanghai Tandong	187,000,000	3,154,690,000.00
2	Yunnan Baiyao	665,626,796	11,229,124,048.52
Total		**852,626,796**	**14,383,814,048.52**

In the event of any ex-rights events such as stock dividend or capitalization of capital surplus during the period from the price benchmark date to the issuance date, the number of subscriptions for each target subscriber will be adjusted accordingly.

(VI) Lock-up period

The newly issued shares subscribed by Shanghai Tandong and Yunnan Baiyao shall not be transferred within 36 months from the closing date of the Non-public Issuance. After the closing of this issuance, the shares of the Company subscribed by the above-mentioned target subscriber derived from stock dividend or capitalization of capital surplus and other circumstances shall also comply with the above-mentioned share sale restriction arrangement.

If the CSRC and the Shanghai Stock Exchange have other requirements on the lock-up period of the additional shares in this issuance, the target subscribers will adjust the lock-up period accordingly in accordance with the requirements of the CSRC and the Shanghai Stock Exchange.

(VII) Place of listing

The A Shares of the Non-public Issuance will be listed and traded on the Shanghai Stock Exchange.

(VIII) Arrangement of undistributed profits rolled over before the completion of this issuance

The undistributed profits of the Company before the completion of the Non-public Issuance shall be jointly enjoyed by the new and existing shareholders after the completion of the Non-public Issuance in proportion to their shares after the issuance.

(IX) Period of validity of the resolution

The resolution of this issuance shall be valid for twelve months from the date of consideration and approval of the relevant proposal of this issuance at the shareholders' general meeting of the Company.

(X) Amount and purpose of proceeds

The total amount of proceeds raised from this issuance shall not exceed RMB14,383,814,000 (inclusive), and the net proceeds after deducting the issuance expenses shall be used to supplement the working capital and repay the debts of the Company, of which: RMB3,000,000,000 shall be used to repay the debts of the Company and the remaining portion shall be used to supplement the working capital.

V. WHETHER THE OFFERING CONSTITUTES A RELATED TRANSACTION

Shanghai Tandong, one of the target subscribers, is a wholly-owned subsidiary of Shanghai Shangshi, and the issuance constitutes a related transaction.

According to the arrangement of the Non-public Issuance, it is expected that after the completion of this issuance, Yunnan Baiyao will hold 18.02% of the shares of the listed company and become a related party of the Company, so Yunnan Baiyao's participation in the subscription of the Non-public Issuance constitutes a related transaction with the Company.

The Company will strictly comply with the laws and regulations and the internal regulations of the Company to fulfill the approval procedures of the related transactions. The independent directors of the Company have pre-approved and expressed their independent opinions on the related transactions involved in the Non-public Issuance. The related directors have recused themselves from voting when the relevant proposals were considered by the Board of the Company. The related shareholders will recuse themselves from voting when the relevant proposals are considered at the shareholders' general meeting of the Company.

VI. WHETHER THE OFFERING WILL RESULT IN A CHANGE OF CONTROL OF THE COMPANY

As of the date of this Proposal, SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and Shanghai Pharmaceutical (Group) held 1,039,999,537 shares of the Company, accounting for 36.59% of the total share capital of the Company. The target subscribers of the Non-public Issuance are Shanghai Tandong and Yunnan Baiyao. Before and after the completion of the Non-public Issuance, the changes in the total shares held by SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and Shanghai Tandong (its wholly-owned subsidiaries), and Shanghai Pharmaceuticals (Group), and the total share capital of the Company are as follows:

	Before this issuance		After this issuance	
Shareholder	**Number of Shares held** *(Share)*	**Proportion**	**Number of Shares held** *(Share)*	**Proportion**
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and Shanghai Tandong (its wholly-owned subsidiaries) and Shanghai Pharmaceuticals (Group)	1,039,999,537	36.59%	1,226,999,537	33.21%
Other shareholders of the Company	1,802,089,785	63.41%	2,467,716,581	66.79%
Total	**2,842,089,322**	**100.00%**	**3,694,716,118**	**100.00%**

After the completion of this issuance, the actual controller of the Company will remain Shanghai SASAC. Therefore, this issuance will not result in a change in the actual control of the Company.

VII. THE APPROVAL OF THE RELEVANT AUTHORITIES ON THIS ISSUANCE AND THE PROCEDURES TO BE SUBMITTED FOR APPROVAL

(I) The approval obtained by this issuance

The matters related to the Non-public Issuance of shares have been considered and approved at the 22nd Meeting of the 7th Session of the Board and the 16th Meeting of the 7th Session of the Board of Supervisors of the Company.

(II) Procedures to be submitted for approval of this issuance

In accordance with the relevant laws and regulations, the Non-public Issuance is subject to the approval of the competent state-owned assets supervision and administration authorities, the approval of the board and shareholders' general meeting of Yunnan Baiyao, the shareholders' general meeting of the Company, the A Share Class Meeting and the H Share Class Meeting and the CSRC.

Section II Basic Information of the Target Subscribers

I. BASIC INFORMATION OF SHANGHAI TANDONG

(I) Basic information

Company Name: Shanghai Tandong Enterprise Consulting Services Co., Ltd.

Nature of Enterprise: limited liability company (sole proprietorship of legal person invested or controlled by non-natural person)

Registered Office: Room 138, Business Building A, No. 921, Xinshen Road, Xinhe Town, Chongming District, Shanghai

Date of Establishment: 30 April 2006

Unified Social Credit Code: 91310230787854754H

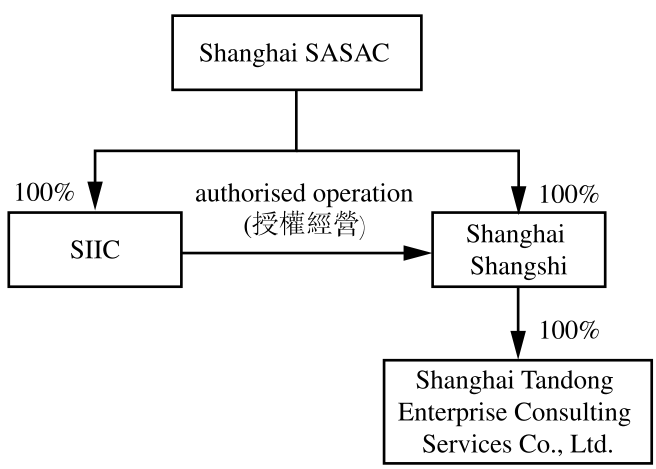
Legal Representative: Xu Bo

Registered Capital: RMB10 million

Scope of business: General items: business management consulting, technology development, technical services, technical consulting, technology transfer in the field of medicine and biotechnology. Items subject to approval by law shall be operated with business license independently according to law

(II) Shareholding structure

Shanghai Tandong is a wholly-owned subsidiary of Shanghai Shangshi, and the actual controller is Shanghai SASAC. As of the date of this Proposal, the property rights and control relationship between Shanghai Tandong and its actual controller is as follows:



(III) Main business and operation in the last three years

The primary business of Shanghai Tandong is enterprise management consulting, technology development, technical service, technical consultation and technology transfer in the field of medicine and biotechnology, etc. No actual business operation has been carried out in the last three years.

(IV) Brief financial information of the previous year

Item	31 December 2020/2020
Total asset (RMB0'000)	998.49
Net asset (RMB0'000)	998.49
Revenue (RMB0'000)	–
Net profit (RMB0'000)	-0.29

Note: The financial data of Shanghai Tandong for 2020 has been audited by Shanghai Acumen Accounting Firm Co., Ltd.

(V) Description of administrative penalties, criminal penalties or major civil litigation or arbitration related to economic disputes of Shanghai Tandong and its directors, supervisors and senior management within the last five years

As of the date of this Proposal, Shanghai Tandong and its directors, supervisors and senior management have not been subject to administrative penalties (except those obviously unrelated to the securities market) or criminal penalties in the last five years, and there is no significant civil litigation or arbitration related to economic disputes.

(VI) Horizontal competition and related transactions between the target subscriber and the Company after the completion of this issuance

1. Horizontal competition

After this issuance, Shanghai Tandong is not subject to horizontal competition with the Company due to this issuance.

2. Related transactions

Shanghai Tandong is a related party of the Company and the Non-public Issuance of A Shares to Shanghai Tandong constitutes a related transaction. After this issuance, if the Company has related transactions with Shanghai Tandong for normal operation in the future, the Company will perform the corresponding approval procedures in accordance with the provisions of the relevant system, sign the related transaction agreement and determine the price of related transactions in accordance with the law and the principles of fairness, openness and justice, so as to ensure the fairness of related transactions and protect the interests of the listed company and non-related shareholders.

(VII) Significant transactions between the target subscriber and its controlling shareholder, actual controller and the Company within 24 months before the disclosure of the issuance proposal

During the 24 months before the date of this Proposal, there are no other significant transactions between Shanghai Tandong and its controlling shareholders, actual controller and the Company, except for the transactions disclosed in the Company's periodic reports or interim announcements.

(VIII) Description of Shanghai Tandong's compliance with the requirements of Article 7 of the Implementation Rules

Shanghai Tandong is a wholly-owned subsidiary of Shanghai Shangshi and a related party of the controlling shareholder of the Company, which meets the requirements of Article 7 of the Implementation Rules.

(IX) The source of subscription funds of Shanghai Tandong

Shanghai Tandong has issued a commitment letter that the funds for this subscription are legitimately owned fund funds or self-financing funds and there is no dispute or potential dispute, which complies with the relevant provisions of the CSRC; the funds for this subscription are not subject to circumstances such as external fund-raising, holding by proxy, structured arrangements; there is no direct or indirect use of funds of Shanghai Pharmaceuticals and its subsidiaries for this subscription, nor is there any acceptance of financial support or compensation from Shanghai Pharmaceuticals or its subsidiaries. There are no cases of holding by proxy, trust or entrusted shareholding for the subscribed shares.

II. BASIC INFORMATION ON YUNNAN BAIYAO

(I) Basic information

Company Name: Yunnan Baiyao Group Co., Ltd.

Nature of Enterprise: Other limited liability company (listed)

Registered Office: No. 3686, Yunnan Baiyao Street, Chenggong District, Kunming City, Yunnan Province

Date of Establishment: 30 November 1993

Unified Social Credit Code: 9153000021652214XX

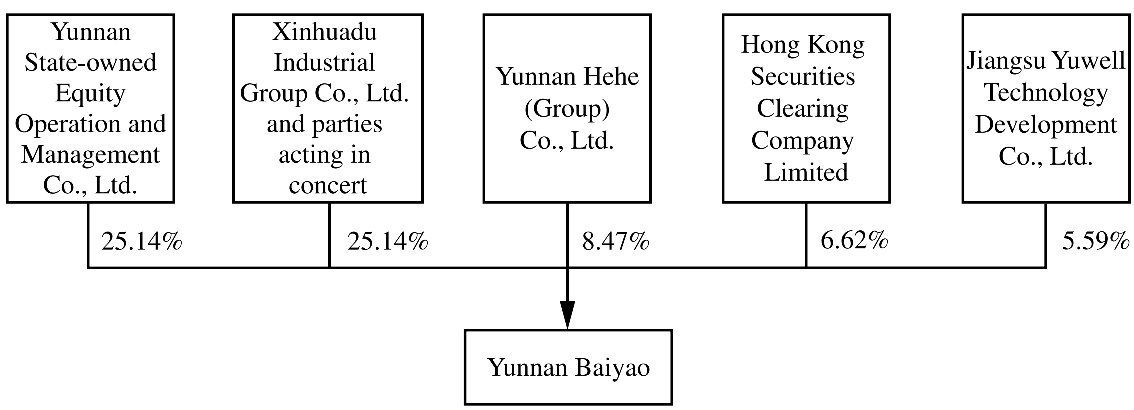
Legal Representative: Wang Minghui

Registered Capital: RMB1,277,403,317

Scope of business: development, production and sales of chemical APIs, chemical medicine preparations, Chinese patent medicines, Chinese herbal medicines, biological products, medical devices, health food, food, beverages, special labor protection and protective supplies, non-household textile products, daily chemical products, cosmetics, outdoor products; sales of rubber plasters, plasters, disinfection products, electronic and digital products; information technology, science and technology and economic and technical advisory services; goods import and export; property management (carry out business activities with qualification certificate). Items subject to approval according to law can only operate after approval by relevant departments.

(II) Shareholding structure of Yunnan Baiyao

As at 31 March 2021, Yunnan Baiyao had no controlling shareholder and actual controller, and its shareholding structure was as follows:



(III) Main business and operation in the last three years

As a century-old Chinese brand founded in 1902 and a well-known trademark in China, Yunnan Baiyao is one of the first batch of national innovative enterprises. The company has successfully extended from pharmaceutical brands to health and service brands through technological, product and management innovations, and is now involved in pharmaceuticals, health products, Chinese medicine resources and pharmaceutical logistics, etc. Its products are sold well in China, Southeast Asia and gradually entered developed countries such as Europe, America and Japan.

(IV) Brief financial information of the previous year

Item	**31 December 2020**
Total assets (RMB0'000)	5,521,944.82
Net assets attributable to shareholders of the listed company (RMB0'000)	3,805,255.00
Revenue (RMB0'000)	3,274,276.68
Net profit attributable to shareholders of the listed company (RMB0'000)	551,607.22

Note: Yunnan Baiyao's financial data for the year 2020 have been audited by Mazars Accountants (Special General Partnership).

(V) Description of administrative penalties, criminal penalties or major civil litigation or arbitration related to economic disputes of Yunnan Baiyao and its directors, supervisors and senior management within the last five years

As of the date of this Proposal, Yunnan Baiyao and its directors, supervisors and senior management have not been subject to administrative penalties (except those obviously unrelated to the securities market) or criminal penalties in the last five years, and there is no significant civil litigation or arbitration related to economic disputes.

(VI) Horizontal competition and related transactions between the target subscriber and the Company after the completion of this issuance

1. Horizontal competition

Both Yunnan Baiyao and the Company are mainly engaged in pharmaceutical-related business, but such business has been formed before the Non-public Issuance. After the completion of the Non-public Issuance, Yunnan Baiyao will become a shareholder holding more than 5% of the shares of the Company, but it will not lead to a change in the effective control of the Company and will not be able to interfere with the Company's independent business decisions or seek improper benefits to the detriment of the legitimate rights and interests of the Company and other shareholders. At the same time, the Company and Yunnan Baiyao, as listed companies, have a sound corporate governance structure, with important matters being decided by the shareholders' general meeting and implemented by the Board and senior management. Moreover, Yunnan Baiyao and the Company are independent of each other in terms of assets, personnel, finance, institutions and business and operate strictly in accordance with the law, which will not harm the interests of listed company and its shareholders.

In summary, after the completion of the Non-public Issuance, there will be no significant changes in the business relationship, operating relationship and management relationship between the Company and Yunnan Baiyao, and no new horizontal competition will be incurred.

2. Related transactions

According to the arrangement of the Non-public Issuance, it is expected that after the completion of this issuance, Yunnan Baiyao will hold 18.02% of the shares of the listed company and become a related party of the Company. Therefore, Yunnan Baiyao's participation in the subscription of the Non-public Issuance of A Shares of the Company constitutes a related transaction with the Company.

Based on the strategic synergy arrangement between the Parties, Yunnan Baiyao may generate related transactions in the course of cooperation with the Company in conducting business. The Company will perform the corresponding approval procedures in accordance with the provisions of the relevant system, enter into related transaction agreements and determine the prices of related transactions in accordance with the principles of fairness, openness and impartiality and in accordance with the law to ensure the fairness of related transactions and protect the interests of the listed company and non-related shareholders.

(VII) Significant transactions between the target subscriber and their controlling shareholder, actual controller and the Company within 24 months prior to the disclosure of the issuance proposal

There were no significant transactions between Yunnan Baiyao and the Company within 24 months prior to the date of this Proposal. As Yunnan Baiyao had no controlling shareholder and actual controller, there were no significant transactions between the controlling shareholder and actual controller and the Company.

(VIII) Description of Yunnan Baiyao's compliance with Article 7 of the Implementation Rules and the relevant requirements of the Questions and Answers on Issue Regulation as a Strategic Investor

1. Yunnan Baiyao has strong strategic resources in the health care industry

Yunnan Baiyao, a century-old Chinese brand and a well-known trademark in China, ranked among the first batch of national innovative enterprises and ranked steadily among the top in China's Chinese medicine industry in terms of major economic indicators. Yunnan Baiyao is listed in the Forbes Global 2000, Asia's 50 Best Listed Companies and Fortune China 500, and is ranked among the leading Chinese brands by Interbrand, Hurun and BrandZ. Yunnan Baiyao has a number of well-known brands in the fields of pharmaceuticals, health products, Chinese medicine resources and pharmaceutical distribution. Its products are well sold in China, Southeast Asia and gradually entering developed countries such as Europe, America and Japan, and it has strong strength and development advantages in the general health industry.

2. Yunnan Baiyao intends to start multi-dimensional business cooperation with the listed company

The Company and Yunnan Baiyao have agreed to cooperate in the following areas in the future, and the Parties can further expand the areas of cooperation according to the specific cooperation needs.

(1) Expansion of customer resources

Through this strategic cooperation, the Parties will cooperate closely in the market and customer network, service value enhancement, and health business expansion. After years of building and accumulating, centering on its main brand, Yunnan Baiyao continues to promote diversified brand development, and the brand recognition of Yunnan Baiyao among the general consumers continues to increase, forming a wider range of customer resources. As a leading pharmaceutical industry group in China, the Company continues to serve the health of the public and has a number of pharmaceutical companies and pharmaceutical products with excellent historical heritage and health reputation, as well as a wide range of customer resources in retail services and other areas. Based on this strategic cooperation, the Parties can further explore the potential of their existing businesses by developing specialty products in pharmaceuticals and personal care, synergizing marketing and commercial channels, and sharing health data, etc. The Parties will jointly promote the development and introduction of modern pharmaceutical products and technologies as well as the inheritance and innovation of traditional Chinese medicine, and further expand their customer resources and promote the development of their primary business by strengthening cooperation in technologies, products and services for major and difficult diseases, chronic diseases and health management.

(2) Product innovation interaction

Currently, the Company is accelerating its innovation and transformational development and has gradually formed several major fields such as innovative drugs, chemical drugs, TCM and health care products, rare disease drugs and medical devices, and has strengthened the layout of new products through independent research and development, external cooperation and introduction, and other ways. Yunnan Baiyao, with Baiyao (a white medicinal powder for treating hemorrhage, wounds, bruises, etc.) as its core product, has formed a product pattern that radiates natural medicines, Chinese herbal medicines, specialty medicines, medical devices, health care products, personal care products and other fields and is steadily promoting its internationalization. In response to the national "Healthy China 2030" strategy, the Parties will establish a joint research institute or product innovation cooperation platform based on the high-quality resources of the Parties, focus on innovative research on disease prevention and treatment, further explore the value of existing products and resources in pharmaceuticals, biological products, medical devices, health food, medical and recreational services, etc., and jointly develop new products and services. In this way, they can realize product innovation interaction, further promote the combination of traditional medicine and modern technology and promote Chinese pharmaceutical enterprises to the world.

(3) Cooperation in the TCM industry chain

The Company has established a number of standardized Chinese herbal medicine planting bases in various provinces and cities across the country. Yunnan Baiyao is steadily promoting the construction of strategic herbal medicine planting and breeding bases by taking advantage of Yunnan's unique climate and geographical conditions. Through the strategic cooperation, the Parties can fully mobilize high-quality resources to promote cooperation in base development, seedling selection and breeding, standard cultivation, processing, product testing, storage and logistics, and distribution and trading of strategic Chinese herbs, including the establishment of analysis and control of active ingredients of Chinese herbs, a data analysis platform for source-tracing information of key Chinese herbs, and joint creation of an ecosphere of Chinese herbal resources industry, so as to better develop Chinese herbs cultivation and decoction business. Meanwhile, with the strategic cooperation, the Parties will promote the intelligent manufacturing of Chinese medicine, carry out exchanges and interactions on the concept, technology and equipment of intelligent production, and jointly improve the level of Chinese medicine business in production automation, leaning, digitalization, green and intelligence.

(4) Market and channel linkage

Through this strategic cooperation, the Parties, based on their respective advantages in product resources, medical resources and management system, deepen cooperation in market development and channel expansion, deepen cooperation in modern pharmaceutical products, health food, daily chemical products, medical devices and other fields based on existing products, focus on key areas and strengthen brand, marketing and channel linkage, and enhance the ability of the Parties to explore product value and refine operation.

(5) Pharmaceutical business cooperation

As the second largest pharmaceutical supply chain service provider and the largest provider of imported drugs in China, the Company is promoting the layout of its nationwide commercial network, while Yunnan Baiyao has a good market base for its pharmaceutical distribution business in Yunnan based on the regional market. Through the strategic cooperation, the Parties will accelerate the integration of resources in the pharmaceutical distribution business from the capital and business levels, and better promote the layout of the Company's commercial network.

(6) Cooperation in the field of health

The health sector is a long-term investment and development direction for both companies. In recent years, Yunnan Baiyao has introduced a new retail concept to create a combination of online and offline consumption models and launched a series of new business models such as online "Baiyao Healthcare" and "Baiyao Life+" micro-mall and offline health studio. The Parties will jointly explore cooperation in recreation platforms, health parks, communities and other sectors to promote the enrichment of business ecology, expand the scene of quality products and services, and accelerate the innovation and upgrading of business models.

(7) Brand enhancement

The Company is a comprehensive pharmaceutical industry group with strong overall strength in China, and was shortlisted in the Fortune 500 and ranked 48th among the top 50 global pharmaceutical companies in 2020; Yunnan Baiyao is one of the leading companies in China's general health industry and has been listed in the China Brand Ranking released by Interbrand, Hurun and BrandZ for many years, with a brand value of over RMB25 billion in 2019. The strong cooperation between the Parties is conducive to the superposition of brand effects, which is expected to significantly enhance the market influence of the listed company.

(8) Capital cooperation

Subject to the compliance with applicable laws, regulations and regulatory requirements, the Parties will rely on the overall resources available and focus on promoting cooperation between the Parties in the capital market, capital structure optimization and capital utilization.

3. Yunnan Baiyao intends to hold equity interests in the listed company for a long period of time

According to the arrangement of the Non-public Issuance, it is expected that after the completion of this issuance, Yunnan Baiyao will hold 18.02% of the shares of the listed company, holding a larger proportion of the equity of the listed company and becoming the second largest shareholder of the Company.

Yunnan Baiyao intends to hold the equity interest of the listed company for a long period of time and has not considered any future exit plan for the time being. If Yunnan Baiyao withdraws in the future, it will strictly comply with the provisions of laws and regulations and fulfill its information disclosure obligations.

4. Yunnan Baiyao is capable of fulfilling its shareholder responsibilities and intends to participate in the governance of the listed company

Yunnan Baiyao, a century-old Chinese brand and a well-known trademark in China, ranked among the first batch of national innovative enterprises and ranked steadily among the top in China's Chinese medicine industry in terms of major economic indicators. Yunnan Baiyao is listed in the Forbes Global 2000, Asia's 50 Best Listed Companies and Fortune China 500, and is ranked among the leading Chinese brands by Interbrand, Hurun and BrandZ.

After Yunnan Baiyao completes the subscription of shares to be issued by the listed company under the Non-public Issuance, it is entitled to exercise voting rights, proposal rights, supervision rights and other related shareholders' rights in accordance with the law, and to nominate one candidate for executive director, one candidate for non-executive director and one candidate for supervisor to the listed company in accordance with the laws and regulations and the articles of association of the Company.

The equity investment of Yunnan Baiyao will enable it to cooperate with the Company in business development, capital cooperation, development strategy and other levels in an all-round and multi-dimensional manner, as well as optimize the shareholder structure of the Company, improve the level of corporate governance, make operational decisions more reasonable and scientific, and help improve the Company's market competitiveness in order to maximize shareholders' interests.

5. Yunnan Baiyao has a good integrity record

As of the date of this Proposal, Yunnan Baiyao has a good integrity record and has not been subject to administrative penalties by the CSRC or held criminally liable in the last three years.

6. This strategic cooperation is conducive to enhancing the innovation capability and core competitiveness of the listed company and improving the profitability of the listed company

Based on the above circumstances and combined with the Share Subscription Contract with Conditional Effect and the Strategic Cooperation Agreement signed between Yunnan Baiyao and the Company, Yunnan Baiyao, as a Strategic Investor, meets the requirements of Article 7 of the Implementation Rules and the relevant Questions and Answers on Issue Regulation and this strategic cooperation is conducive to enhancing the innovation capability and core competitiveness of the listed company and improving the profitability of the listed company.

(IX) The source of funds for subscription of Yunnan Baiyao

Yunnan Baiyao has issued a commitment letter that the funds for this subscription are legitimately owned funds or self-financing funds and there is no dispute or potential dispute, which complies with the relevant provisions of the CSRC; the funds for this subscription are not subject to circumstances such as external fund-raising, holding by proxy, structured arrangements; there is no direct or indirect use of funds of Shanghai Pharmaceuticals and its subsidiaries for this subscription, nor is there any acceptance of financial support or compensation from Shanghai Pharmaceuticals and its subsidiaries. There is no financial support, compensation or other agreement arrangement provided by Shanghai Pharmaceuticals and its controlling shareholder or actual controller to Yunnan Baiyao directly or through stakeholders. There are no cases of holding by proxy, trust or entrusted shareholding for the subscribed shares.

Section III Summary of the Contents of the Agreements Relating to the Non-public Issuance

The Company entered into the Share Subscription Contract with Conditional Effect with Shanghai Tandong and Yunnan Baiyao respectively on 11 May 2021, and entered into the Strategic Cooperation Agreement with Yunnan Baiyao on 11 May 2021, the main contents of which are summarized as follows:

I. SUMMARY OF THE CONTENTS OF THE SHARE SUBSCRIPTION CONTRACT WITH CONDITIONAL EFFECT SIGNED WITH SHANGHAI TANDONG

(I) Subject of the agreement, date of signing

Party A (Issuer): Shanghai Pharmaceuticals Holding Co., Ltd.*

Party B (Subscriber): Shanghai Tandong Enterprise Consulting Services Co., Ltd.

Date of Signing: 11 May 2021

(II) Subject of subscription and quantity of subscription

Party A and Party B agree that Party B shall subscribe for part of the shares to be issued by Party A in accordance with the conditions stipulated in the contract, and the number of shares to be subscribed by Party B in this issuance of Party A shall be 187,000,000 RMB ordinary shares with subscription capital not exceeding RMB3,154,690,000.00 (inclusive).

Unless otherwise specified in the documents of the China Securities Regulatory Commission (the "CSRC") approving the Offering, if the total number of shares in the Non-public Issuance is reduced due to changes in regulatory policies or in accordance with the requirements of the issuance approval documents or the relevant agreement of this Agreement, the final number of shares subscribed by Party B will be reduced in proportion to the number of shares originally subscribed by Party B to the total number of shares in the Non-public Issuance.

If, during the period from the price benchmark date to the issuance date, Party A has any ex-rights events such as stock dividend or capitalization of capital surplus, the number of shares subscribed by Party B will be adjusted accordingly.

(III) Subscription method

Party B will subscribe for the shares of this issuance from Party A in cash.

(IV) Subscription price and pricing principles

The Parties agree that the price benchmark date for the Non-public Issuance of shares shall be the date of announcement of the resolution of the Board of Party A to consider and approve the Non-public Issuance proposal. The issue price is RMB16.87 per share, which is 80% of the average price

* *For identification purpose only*

of Party A's stock transactions in the 20 Trading Days prior to the price benchmark date (average trading price of shares for the 20 Trading Days prior to the price benchmark date = total trading price of shares for the 20 Trading Days prior to the price benchmark date/total trading amount of shares for the 20 Trading Days prior to the price benchmark date).

If the ex-rights and ex-dividend matters such as dividend payment, stock dividend or capitalization of capital surplus, etc. occur for Party A's shares during the period from the price benchmark date to the issuance date, the issue price will be adjusted accordingly. The adjustment formula is as follows:

Dividend payment: $P_1=P_0-D$;

Stock dividend or capitalization of capital surplus: $P_1=P_0/(1+N)$;

Occurrence of both of the above at the same time: $P_1=(P_0-D)/(1+N)$.

Where P_0 is the issue price before adjustment, P_1 is the issue price after adjustment, D is the dividend per share, and N is the number of stock dividend or capitalization of capital surplus per share.

If, prior to this issuance, the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period is higher than the price determined by the above terms, the issue price will be adjusted to the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period, and the number of shares ultimately subscribed by Party B will be reduced accordingly in accordance with the proportion of the number of shares originally subscribed by Party B to the original total number of shares in the Non-public Issuance.

(V) Payment method and payment term of subscription money

1. Within 10 working days from the date of approval of this Proposal at the shareholders' general meeting of Party A, Party B shall pay the subscription deposit of RMB30 million to the account designated by Party A.

2. After the contract takes effect, Party B shall remit the subscription funds in full to the account specially opened by the sponsor (lead underwriter) for this issuance within 10 working days from the date of written notice of subscription payment issued by Party A or the sponsor (lead underwriter) of this issuance. The balance after the completion of capital verification by the accounting firm and deduction of relevant issuance costs will then be transferred to the special storage account opened by Party A for the proceeds.

3. Within 10 working days after the contract takes effect and Party B has paid the subscription price in full in accordance with the contract, Party A shall return the subscription deposit paid by Party B and its corresponding interest yield to Party B's account.

4. In case Party A fails to obtain the approval of Party A's superior state-owned assets supervision and administration department or the state-funded enterprise, or fails to obtain the approval of Party A's shareholders' general meeting, or is not approved by the CSRC, or this issuance is not completed within 12 months from the date of approval of this issuance by the CSRC, or this issuance is terminated early according to the contract (except in the case of early termination of the contract due to Party B), Party A shall return to Party B the subscription deposit paid by Party B and the corresponding interest yield within 10 working days after the occurrence of the aforesaid circumstances.

5. In case Party B fails to perform the relevant obligations in accordance with the contract or unilaterally revoke/terminate the contract in violation of the contract (whether the contract is effective or not) before the effective date of this agreement, the subscription deposit shall be retained by Party A without refund. After the contract becomes effective, Party B shall pay the subscription price in full and on time in accordance with the requirements of Party A and the sponsor (lead underwriter). If Party B fails to pay in full and on time within the specific payment date determined by the written notice of subscription payment, Party B shall bear the liability for breach of contract in accordance with Article 11 of the contract, but shall not bear the liability for breach of contract before the agreement becomes effective as agreed in this subparagraph.

(VI) Time and method of delivery of shares

After Party B has paid the subscription money in full in accordance with the prescribed procedures, Party A shall engage an accounting firm with securities-related qualifications to conduct a capital verification.

Within 30 working days after Party B has fully paid the subscription amount in accordance with the prescribed procedures, Party A shall credit the actual shares subscribed by Party B to Party B through the securities registration system of the Shanghai branch of China Securities Depository and Clearing Corporation Limited in accordance with the procedures prescribed by the CSRC, the Shanghai Stock Exchange and the securities registration and settlement department to realize the delivery and handle the listing procedures of the shares subscribed by Party B on the Shanghai Stock Exchange.

(VII) Lock-up period

For a period of 36 months from the date of closing of the Non-public Issuance, Party B shall not transfer the shares subscribed under the Non-public Issuance. During the period from the closing date of the Non-public Issuance to the date of share release, Party B shall also comply with the above agreement in respect of the A Shares subscribed by Party B under the Non-public Issuance of Party A and the shares of Party A acquired as a result of stock dividend or capitalization of capital surplus by Party A.

Party B shall issue relevant lock-up commitment in respect of the shares subscribed in the Non-public Issuance in accordance with the relevant laws and regulations and the relevant provisions of the CSRC and the Shanghai Stock Exchange and Party A's requirements and handle the relevant share lock-up matters. If the CSRC and the Shanghai Stock Exchange have other requirements on the lock-up period for the additional shares subscribed by Party B, the Parties will adjust the lock-up period accordingly in accordance with the requirements of the CSRC and the Shanghai Stock Exchange.

(VIII) Liability for breach of Contract

1. Party A and Party B agree that if either party breaches its representations, warranties or undertakings made in the Contract, or breaches or fails to perform part or all of its obligations under the Contract, it shall be deemed to be in breach of the Contract, and such party (hereinafter referred to as the "Breaching Party") shall, within 30 days from the date of receipt of the notice sent to it by the other party not in breach of the Contract (hereinafter referred to as the "Non-breaching Party"), rectify its breach and compensate for the direct loss caused to the Non-breaching Party as a result of the breach.

2. After the Contract comes into effect, if Party B expressly indicates in writing to Party A that it will not participate in the subscription of this issue before Party B receives the notice of subscription payment, it constitutes a fundamental breach of the Contract and Party A has the right to terminate the Contract and require Party B to pay RMB60 million as liquidated damages. If Party B fails to pay the subscription price of the shares under the Contract in full within the specific payment date determined by the written notice of subscription payment, Party B shall be in default and Party A shall be entitled to require Party B to pay a late payment fee of one ten thousandth of the subscription price payable but unpaid for each day of delay; if Party B's late payment exceeds 30 working days, Party A shall be entitled to terminate the Contract and require Party B to pay RMB60 million as liquidated damages.

3. If the actual shares subscribed by Party B are not delivered to Party B in accordance with Article 5 of the Contract due to Party A's fault, Party B shall have the right to request Party A to pay a late payment of one ten thousandth of the subscription price paid for each day of delay; if Party A's late delivery exceeds 30 working days, Party B shall be entitled to terminate the Contract and request Party A to pay RMB60 million as liquidated damages.

4. If the Non-public Issuance of A Shares and the subscription as agreed in the Contract are not approved by any of the following parties: (1) Party A's superior state-owned assets management department or the state-funded enterprise with the right to do so; (2) Party A's shareholders' general meeting; and (3) the approval of the CSRC, it shall not constitute a breach of Contract by the relevant party.

5. The inability of either party to perform or partially perform its obligations under the Contract due to force majeure will not be regarded as a breach of Contract, but all necessary remedial measures shall be taken as conditions permit to prevent the expansion of losses. The party affected or hindered by force majeure shall notify the other party of the event in writing as soon as reasonably possible and submit to the other party a report of the inability to perform or partial inability to perform its obligations under the Contract and the reasons for the need for extension of performance within 15 days after the event. If the force majeure lasts for more than 30 days, one party shall have the right to terminate the Contract by written notice.

(IX) Conditions for the Contract to take effect and the effective time

The Contract shall be established after it is signed and sealed by the legal representatives or authorized representatives of the Parties and shall take effect on the date when all of the following conditions are met:

1. The Board of Party A approves this issuance and the Contract;

2. The shareholders of Party B approve Party B's subscription for the shares to be issued under this issuance by Party A and/or Contract;

3. Party A's issuance is approved by its superior state-owned assets management department or state-funded enterprises in accordance with the law;

4. The shareholders' general meeting of Party A approves this issuance and the Contract;

5. Party A's issuance is approved by the CSRC.

After all the above conditions are fulfilled, the date of the last condition shall be the effective date of the Contract. Notwithstanding the above, the provisions under the Contract relating to Article 7 Guarantee of Party A, Article 8 Guarantee of Party B, Article 9 Confidentiality Clause and Article 13 Notice, as well as the provisions of the Contract relating to "Subscription Deposit" shall be effective from the date of signature and sealing by the legal representatives or authorized representatives of the Parties.

If the laws and regulations applicable to this private issuance are amended by the regulatory authorities before the closing of this non-public issuance, and if other mandatory approval requirements or exemptions from some administrative licensing matters are introduced, the laws and regulations in effect at the time being shall prevail and be adjusted.

After the establishment of the Contract, the Parties shall make active efforts to create conditions for the fulfillment and achievement of the conditions precedent of the Contract to take effect. Any party who violates the provisions of the Contract, resulting in the Contract not taking effect and causing losses to the other party shall be liable for compensation. Neither party shall be liable if the Contract does not come into effect for reasons not attributable to the Parties (including but not limited to the failure of the relevant state-owned assets management department or the state-funded enterprise to approve the Non-public Issuance, the failure of the shareholders' general meeting of Party A to approve the Non-public Issuance, or the failure of the CSRC to approve the Non-public Issuance), except in the case where one party intentionally or grossly negligently causes the conditions precedent to be unfulfilled.

(X) Termination of the Contract

The Contract is terminated as of the date of any of the following events:

1. The obligations hereunder of the Parties have been fully performed;

2. The Parties agree to terminate the Contract early;

3. Significant changes take place in the regulatory provisions and policies of the CSRC for non-public issuances of the listed company, resulting in the Non-public Issuance being unable to be implemented, and Party A withdraws the application materials from the CSRC by mutual consensus;

4. If Party A takes the initiative to withdraw the application materials to the CSRC without the consensus of the Parties, Party B may unilaterally terminate the Contract early, and at the same time, Party A shall return the subscription deposit paid by Party B and its corresponding period interest yield to Party B within ten days after Party B issues the notice of early termination of the Contract, and pay Party B a one-time liquidated damages of RMB60 million;

5. If any representations and warranties of either party under the Contract are untrue or incorrect, or if there is a breach of any undertaking or covenant in the Contract resulting in the unfeasibility of the Non-public Issuance, and either of the foregoing is not remedied or eliminated within thirty days after written notice by the other party, the other party may terminate the Contract early.

6. If this issuance is not completed within eighteen (18) months from the date of the Contract (or such extended period as the Parties may agree), either Party may terminate the Contract early; provided that if the failure of this issuance to be completed on or before such date is caused by or results from the failure of either Party to perform any of its obligations under the Contract, such Party shall not be entitled to terminate the Contract in accordance with this paragraph.

7. Either party may terminate the Contract early if any governmental authority having jurisdiction issues an order, decree or ruling, or has taken any other action, restraining, preventing or otherwise prohibiting the proposed transaction under the Contract, and such order, decree, ruling or other action is final and not subject to application for review, prosecution or appeal.

II. SUMMARY OF THE CONTENTS OF THE SHARE SUBSCRIPTION CONTRACT WITH CONDITIONAL EFFECT AND THE STRATEGIC COOPERATION AGREEMENT WITH YUNNAN BAIYAO

(I) Summary of the contents of the Share Subscription Contract with Conditional Effect

1. Subject of the agreement, date of signing

Party A (Issuer): Shanghai Pharmaceuticals Holding Co., Ltd.*

Party B (Subscriber): Yunnan Baiyao Group Co., Ltd.

Date of Signing: 11 May 2021

2. Subject of subscription and quantity of subscription

Party A and Party B agree that Party B shall subscribe for part of the shares issued by Party A in accordance with the conditions agreed in the Contract, and the number of shares to be subscribed by Party B in this issuance of Party A shall be 665,626,796 RMB ordinary shares with subscription capital not exceeding RMB11,229,124,048.52 (inclusive).

Unless otherwise specified in the documents of the China Securities Regulatory Commission (the "CSRC") approving this issuance, if the total number of shares in the Non-public Issuance is reduced due to changes in regulatory policies or in accordance with the requirements of the documents approving this issuance or the relevant agreement of this Contract, the final number of shares subscribed by Party B will be reduced in proportion to the number of shares originally subscribed by Party B to the total number of shares in the Non-public Issuance.

If, during the period from the price benchmark date to the issuance date, Party A has any ex-rights events such as stock dividend or capitalization of capital surplus, the number of shares subscribed by Party B will be adjusted accordingly.

3. Subscription method

Party B subscribes for the shares issued by Party A in cash.

4. Subscription price and pricing principles

The Parties agree that the price benchmark date for the Non-public Issuance of shares shall be the date of announcement of the resolution of the Board of Party A to consider and approve the Non-public Issuance proposal. The issue price is RMB16.87 per share, which is 80% of the average price of Party A's stock transactions in the 20 Trading Days prior to the pricing benchmark day (average trading price of shares for the 20 Trading Days prior to the

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price benchmark date = total trading price of shares for the 20 Trading Days prior to the price benchmark date/total trading amount of shares for the 20 Trading Days prior to the base day for pricing).

If the ex-rights and ex-dividend matters such as dividend payment, stock dividend or capitalization of capital surplus, etc. occur for Party A's shares during the period from the base day for pricing to the issuance date, the issue price will be adjusted accordingly. The adjustment formula is as follows:

Dividend payment: $P_1=P_0-D$;

Stock dividend or capitalization of capital surplus: $P_1=P_0/(1+N)$;

Occurrence of both of the above at the same time: $P_1=(P_0-D)/(1+N)$.

Where P_0 is the issue price before adjustment, P_1 is the issue price after adjustment, D is the dividend per share, and N is the number of stock dividend or capitalization of capital surplus per share.

If, prior to this issuance, the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period is higher than the price determined by the above terms, the issue price will be adjusted to the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period, and the number of shares ultimately subscribed by Party B will be reduced accordingly in accordance with the proportion of the number of shares originally subscribed by Party B to the original total number of shares in the Non-public Issuance.

5. Payment method and payment term of subscription money

(1) Within 10 working days from the date of approval of the proposal at the board meeting of Party A and the shareholders' general meeting of Party B, Party B shall pay the subscription deposit of RMB100 million to the account designated by Party A.

(2) After the Contract takes effect, Party B shall remit the subscription funds in full to the account specially opened by the sponsor (lead underwriter) for this issuance within 10 working days from the date of written notice of subscription payment issued by Party A or the sponsor (lead underwriter) of this issuance. The balance after the completion of capital verification by the accounting firm and deduction of relevant issuance costs will then be transferred to the special storage account opened by Party A for the proceeds.

(3) Within 10 working days after the Contract takes effect and Party B has paid the subscription price in full in accordance with the Contract, Party A shall return the subscription deposit paid by Party B and its corresponding period yield to Party B's account.

(4) In case Party A fails to obtain the approval of Party A's superior state-owned assets supervision and administration department or the state-funded enterprise, or fails to obtain the approval of Party A's shareholders' general meeting, or is not approved by the CSRC, or this issuance is not completed within 12 months from the date of approval of this issuance by the CSRC, or this issuance is terminated early according to the Contract (except in the case of early termination of the Contract due to Party B), Party A shall return to Party B the subscription deposit paid by Party B and the corresponding interest yield within 10 working days after the occurrence of the aforesaid circumstances.

(5) In case Party B fails to perform the relevant obligations in accordance with the Contract or unilaterally revoke/terminate the Contract in violation of the Contract (whether the Contract is effective or not) before the effective date of this agreement, the subscription deposit shall be retained by Party A without refund. After the Contract becomes effective, Party B shall pay the subscription price in full and on time in accordance with the requirements of Party A and the sponsor (lead underwriter). If Party B fails to pay in full and on time within the specific payment date determined by the written notice of subscription payment, Party B shall bear the liability for breach of Contract in accordance with Article 11 of the Contract, but shall not bear the liability for breach of Contract before the agreement becomes effective as agreed in this subparagraph.

6. Time and method of delivery of shares

After Party B has paid the subscription money in full in accordance with the prescribed procedures, Party A shall engage an accounting firm with securities-related qualifications to conduct a capital verification.

Within 30 working days after Party B has fully paid the subscription amount in accordance with the prescribed procedures, Party A shall credit the actual shares subscribed by Party B to Party B through the securities registration system of the Shanghai branch of China Securities Depository and Clearing Corporation Limited in accordance with the procedures prescribed by the CSRC, the Shanghai Stock Exchange and the securities registration and settlement department to realize the delivery and handle the listing procedures of the shares subscribed by Party B on the Shanghai Stock Exchange.

7. Lock-up period

For a period of 36 months from the date of closing of the Non-public Issuance, Party B shall not transfer the shares subscribed under the Non-public Issuance. During the period from the closing date of the Non-public Issuance to the date of share release, Party B shall also comply with the above agreement in respect of the A Shares subscribed by Party B under the Non-public Issuance of Party A and the shares of Party A acquired as a result of stock dividend or capitalization of capital surplus by Party A.

Party B shall issue relevant lock-up commitment in respect of the shares subscribed in the Non-public Issuance in accordance with the relevant laws and regulations and the relevant provisions of the CSRC and the Shanghai Stock Exchange and Party A's requirements and handle the relevant share lock-up matters. If the CSRC and the Shanghai Stock Exchange have other requirements on the lock-up period for the additional shares subscribed by Party B, the Parties will adjust the lock-up period accordingly in accordance with the requirements of the CSRC and the Shanghai Stock Exchange.

8. Liability for breach of Contract

(1) Party A and Party B agree that if either party breaches its representations, warranties or undertakings made in the Contract, or breaches or fails to perform part or all of its obligations under the Contract, it shall be deemed to be in breach of the Contract, and such party (hereinafter referred to as the "Breaching Party") shall, within 30 days from the date of receipt of the notice sent to it by the other party not in breach of the Contract (hereinafter referred to as the "Non-breaching Party"), rectify its breach and compensate for the direct loss caused to the Non-breaching Party as a result of the breach.

(2) After the Contract comes into effect, if Party B expressly indicates in writing to Party A that it will not participate in the subscription of this issue before Party B receives the notice of subscription payment, it constitutes a fundamental breach of the Contract and Party A has the right to terminate the Contract and require Party B to pay RMB200 million as liquidated damages. If Party B fails to pay the subscription price of the shares under the Contract in full within the specific payment date determined by the written notice of subscription payment, Party B shall be in default and Party A shall be entitled to require Party B to pay a late payment fee of one ten thousandth of the subscription price payable but unpaid for each day of delay; if Party B's late payment exceeds 30 working days, Party A shall be entitled to terminate the Contract and require Party B to pay RMB200 million as liquidated damages.

(3) If the actual shares subscribed by Party B are not delivered to Party B in accordance with Article 5 of the Contract due to Party A's fault, Party B shall have the right to request Party A to pay a late payment of one ten thousandth of

the subscription price paid for each day of delay; if Party A's late delivery exceeds 30 working days, Party B shall be entitled to terminate the Contract and request Party A to pay RMB200 million as liquidated damages.

(4) If the Non-public Issuance of A Shares and the subscription as agreed in the Contract are not approved by any of the following parties: 1) Party A's superior state-owned assets management department or the state-funded enterprise with the right to do so; 2) Party A's shareholders' general meeting; 3) Party B's board meeting and/or shareholders' general meeting; and 4) the CSRC, it shall not constitute a breach of Contract by the relevant party.

(5) The inability of either party to perform or partially perform its obligations under the Contract due to force majeure will not be regarded as a breach of Contract, but all necessary remedial measures shall be taken as conditions permit to prevent the expansion of losses. The party affected or hindered by force majeure shall notify the other party of the event in writing as soon as reasonably possible and submit to the other party a report of the inability to perform or partial inability to perform its obligations under the Contract and the reasons for the need for extension of performance within 15 days after the event. If the force majeure lasts for more than 30 days, one party shall have the right to terminate the Contract by written notice.

9. Conditions for the Contract to take effect and the effective time

The Contract shall be established after it is signed and sealed by the legal representatives or authorized representatives of the Parties and shall take effect on the date when all of the following conditions are met:

(1) The Board of Party A approves this issuance and the Contract;

(2) The board and the shareholders' general meeting of Party B approve its subscription for the shares to be issued under this issuance by Party A and/or the Contract;

(3) Party A's issuance is approved by Party A's superior state-owned assets management department or state-funded enterprises in accordance with the law;

(4) The shareholders' general meeting of Party A approves this issuance and the Contract; and

(5) Party A's issuance is approved by the CSRC.

After all the above conditions are fulfilled, the date of the last condition shall be the effective date of the Contract. Notwithstanding the above, the provisions under the Contract relating to Article 7 Guarantee of Party A, Article 8 Guarantee of Party B, Article 9

Confidentiality Clause and Article 13 Notice, as well as the provisions of the Contract relating to "Subscription Deposit" shall be effective from the date of signature and sealing by the legal representatives or authorized representatives of the Parties.

If the laws and regulations applicable to this private issuance are amended by the regulatory authorities before the closing of this Non-public Issuance, and if other mandatory approval requirements or exemptions from some administrative licensing matters are introduced, the laws and regulations in effect at the time being shall prevail and be adjusted.

After the establishment of the Contract, the Parties shall make active efforts to create conditions for the fulfillment and achievement of the conditions precedent of the Contract to take effect. Any party who violates the provisions of the Contract, resulting in the Contract not taking effect and causing losses to the other party shall be liable for compensation. Neither party shall be liable if the Contract does not come into effect for reasons not attributable to the Parties (including but not limited to the failure of the relevant state-owned assets management department or the state-funded enterprise to approve the Non-public Issuance, the failure of the shareholders' general meeting of the Parties to approve the Non-public Issuance, or the failure of the CSRC to approve the Non-public Issuance), except in the case where one party has intentionally or grossly negligently caused the conditions precedent to be unfulfilled.

10. Termination of the Contract

The Contract is terminated as of the date of any of the following events:

(1) The obligations hereunder of the Parties have been fully performed;

(2) The Parties agree to terminate the Contract early;

(3) Significant changes take place in the regulatory provisions and policies of the CSRC for non-public issuances of the listed company, resulting in the Non-public Issuance being unable to be implemented, and Party A withdraws the application materials from the CSRC by mutual consensus;

(4) If Party A takes the initiative to withdraw the application materials to the CSRC without the consensus of the Parties, Party B may unilaterally terminate the Contract early, and at the same time, Party A shall return the subscription deposit paid by Party B and its corresponding period interest yield to Party B within ten days after Party B issues the notice of early termination of the Contract, and pay Party B a one-time liquidated damages of RMB200 million;

(5) If any representations and warranties of either party under the Contract are untrue or incorrect, or if there is a breach of any undertaking or covenant in the Contract resulting in the unfeasibility of the Non-public Issuance, and either of the foregoing is not remedied or eliminated within thirty days after written notice by the other party, the other party may terminate the Contract early;

(6) If this issuance is not completed within eighteen (18) months from the date of the Contract (or such extended period as the Parties may agree), either Party may terminate the Contract early; provided that if the failure of this issuance to be completed on or before such date is caused by or results from the failure of either Party to perform any of its obligations under the Contract, such Party shall not be entitled to terminate the Contract in accordance with this paragraph;

(7) Either party may terminate the Contract early if any governmental authority having jurisdiction issues an order, decree or ruling, or has taken any other action, restraining, preventing or otherwise prohibiting the proposed transaction under the Contract, and such order, decree, ruling or other action is final and not subject to application for review, prosecution or appeal.

(II) Summary of the contents of the Strategic Cooperation Agreement

1. Subject of the agreement, date of signing

Party A (Issuer): Shanghai Pharmaceuticals Holding Co., Ltd.*

Party B (Strategic Investor): Yunnan Baiyao Group Co., Ltd.

Date of Signing: 11 May 2021

2. Purpose of the Agreement

(1) Before signing this Agreement, the Parties have evaluated in detail the impact of its content on the current and future business operation development of the Parties and are satisfied that the content is indeed in the interest of the Parties and the joint cooperation.

(2) The Parties acknowledge that the signing and execution of this Agreement will establish long-term and stable business development and capital cooperation between the parties and jointly promote the long-term development of the Parties.

3. The advantages of the Strategic Investor and its synergistic effect with the listed company

(1) Advantages possessed by the Strategic Investor

Party B, a century-old Chinese brand and a well-known trademark in China, ranked among the first batch of national innovative enterprises and ranked steadily among the top in China's Chinese medicine industry in terms of major economic indicators. Party B is listed in the Forbes Global 2000, Asia's 50 Best Listed Companies and Fortune China 500, and is ranked among the leading Chinese brands by Interbrand,

* *For identification purpose only*

Hurun and BrandZ. Party B has a number of well-known brands in the fields of pharmaceuticals, health products, Chinese medicine resources and pharmaceutical distribution. Its products are well sold in China, Southeast Asia and gradually entering developed countries such as Europe, America and Japan, and it has strong strength and development advantages in the general health industry.

(2) Synergy effect

Party A, a national state-controlled pharmaceutical industry group headquartered in Shanghai, is one of the few listed pharmaceutical companies in China with leading positions in both the pharmaceutical manufacturing and R&D industry as well as pharmaceutical distribution market, and its main business covers pharmaceutical manufacturing and R&D industry, distribution and retail. Party B is one of the leaders in the field of TCM and health, with rich experience in customer resources, product innovation, brand operation and operation of the Chinese medicine industry chain, and has developed a path of organic combination of TCM and modern life. Party B can match, integrate and develop synergies with Party A in terms of capital, industry, products and management in customer resources, brand management, market channels, R&D innovation, big health products, Chinese herbal medicine cultivation and pharmaceutical business, and carry out strategic cooperation and innovative model expansion to bring new growth momentum for Party A.

4. Cooperation mode

(1) Corporate governance level

In order to further improve the governance level of listed company, the Parties agree that Party B has the right to exercise voting rights, proposal rights, supervision rights and other related shareholders' rights in accordance with the law, reasonably participate in Party A's corporate governance, and nominate one candidate for executive director, one candidate for non-executive director and one candidate for supervisor to Party A in accordance with the laws and regulations and the Articles of Association. The executive director candidate and non-executive director candidate nominated by Party B will participate in the decision-making of Party A's Board if they are elected as executive directors and non-executive directors by Party A in accordance with the necessary consideration procedures; the supervisor candidate nominated by Party B will participate in the work of Party A's supervisory committee if they are elected as supervisors by Party A in accordance with the necessary consideration procedures, and the above-mentioned persons will play an active role in Party A's corporate governance.

(2) Business operation level

The Parties intend to carry out specific strategic cooperation in the following areas of cooperation based on participation in corporate governance through Party B's subscription of Party A's non-public issuance of A Shares.

5. Areas of cooperation

The Parties agree to cooperate in the following areas in the future, and the Parties may further expand the cooperation areas according to specific cooperation needs.

(1) Expansion of customer resources

Through this strategic cooperation, the Parties will cooperate closely in the market and customer network, service value enhancement, and health business expansion. After years of building and accumulating, centering on its main brand, Party B continues to promote diversified brand development, and the brand recognition of Yunnan Baiyao among the general consumers continues to increase, forming a wider range of customer resources. As a leading pharmaceutical industry group in China, Party A continues to serve the health of the public and has a number of pharmaceutical companies and pharmaceutical products with excellent historical heritage and health reputation, as well as a wide range of customer resources in retail services and other areas. Based on this strategic cooperation, the Parities can further explore the potential of their existing businesses by developing specialty products in pharmaceuticals and personal care, synergizing marketing and commercial channels, and sharing health data. The Parties will jointly promote the development and introduction of modern pharmaceutical products and technologies as well as the inheritance and innovation of TCM, and further expand their customer resources and promote the development of their main businesses by strengthening cooperation in technologies, products and services for major and difficult diseases, chronic diseases and health management.

(2) Product innovation interaction

Currently, Party A is accelerating its innovation and transformational development and has gradually formed several major fields such as innovative drugs, chemical drugs, TCM and health care products, rare disease drugs and medical devices, and has strengthened the layout of new products through independent research and development, external cooperation and introduction, and other ways. Party B, with Baiyao (a white medicinal powder for treating hemorrhage, wounds, bruises, etc.) as its core product, has formed a product pattern that radiates natural medicines, Chinese herbal medicines, specialty medicines, medical devices, health care products, personal care products and other fields and is steadily promoting its internationalization. In response to the national "Healthy China 2030" strategy, the Parties will establish a joint research institute or product innovation cooperation platform based on the high-quality resources of the Parties, focus on innovative research on disease prevention and treatment, further explore the value of existing products and resources in pharmaceuticals, biological products, medical devices, health food, medical and recreational services, etc., and jointly develop new products and services. In this way, they can realize product innovation interaction, further promote the combination of traditional medicine and modern technology and promote Chinese pharmaceutical enterprises to the world.

(3) Cooperation in the TCM industry chain

Party A has established a number of standardized Chinese herbal medicine planting bases in various provinces and cities across the country. Party B is steadily promoting the construction of strategic herbal medicine planting and breeding bases by taking advantage of Yunnan's unique climate and geographical conditions. Through the strategic cooperation, the Parties can fully mobilize high-quality resources to promote cooperation in base development, seedling selection and breeding, standard cultivation, processing, product testing, storage and logistics, and distribution and trading of strategic Chinese herbs, including the establishment of analysis and control of active ingredients of Chinese herbs, a data analysis platform for source-tracing information of key Chinese herbs, and joint creation of an ecosphere of Chinese herbal resources industry, so as to better develop Chinese herbs cultivation and decoction business. Meanwhile, with the strategic cooperation, the Parties will promote the intelligent manufacturing of Chinese medicine, carry out exchanges and interactions on the concept, technology and equipment of intelligent production, and jointly improve the level of Chinese medicine business in production automation, leaning, digitalization, green and intelligence.

(4) Market and channel linkage

Through this strategic cooperation, the Parties, based on their respective advantages in product resources, medical resources and management system, deepen cooperation in market development and channel expansion, deepen cooperation in modern pharmaceutical products, health food, daily chemical products, medical devices and other fields based on existing products, focus on key areas and strengthen brand, marketing and channel linkage, and enhance the ability of the Parties to explore product value and refine operation.

(5) Pharmaceutical business cooperation

As the second largest pharmaceutical supply chain service provider and the largest provider of imported drugs in China, Party A is promoting the layout of its nationwide commercial network, while Party B has a good market base for its pharmaceutical distribution business in Yunnan based on the regional market. Through the strategic cooperation, the Parties will accelerate the integration of resources in the pharmaceutical distribution business from the capital and business levels, and better promote the layout of the Company's commercial network.

(6) Cooperation in the field of health

The health sector is a long-term investment and development direction for the Parties. In recent years, Party B has introduced a new retail concept to create a combination of online and offline consumption models and launched a series of new business models such as online "Baiyao Healthcare" and "Baiyao Life+" micro-mall and offline health studio. The Parties will jointly explore cooperation in recreation platforms, health parks, communities and other sectors to promote the enrichment of business ecology, expand the scene of quality products and services, and accelerate the innovation and upgrading of business models.

(7) Brand enhancement

Party A is a comprehensive pharmaceutical industry group with strong overall strength in China, and was shortlisted in the Fortune 500 and ranked 48th among the top 50 global pharmaceutical companies in 2020 and was listed as one of the top 2,000 global public listed companies. Party B is one of the leading companies in China's health industry and has been listed in the China Brand Ranking released by Interbrand, Hurun and BrandZ for many years, with a brand value of over RMB25 billion in 2019. The strong cooperation between the Parties is conducive to the superposition of brand effects, which is expected to significantly enhance the market influence of listed company.

(8) Capital cooperation

Subject to compliance with applicable laws, regulations and regulatory requirements, the Parties will rely on the overall resources available and focus on promoting cooperation between the Parties in the capital market, capital structure optimization and capital utilization.

6. Cooperation objective

Based on the principle of "long-term cooperation and common development", the Parties will rely on Party A's profound background and sufficient experience in pharmaceutical manufacturing and R&D industry, distribution and retail, and Party B's rich resources and experience in the fields of traditional Chinese medicine and health, market channels, brand management and diversified development, and fully integrate the advantages of the Parties according to the business development needs of the Parties, so as to carry out in-depth strategic cooperation in the above-mentioned cooperation areas and further enhance the core competitiveness and intrinsic value of the Parties.

7. Term of cooperation

The term of cooperation between the Parties shall be three years from the effective date of this Agreement.

After the expiration of the cooperation period, it may be extended by mutual consensus.

8. Arrangements of the Non-public Issuance

(1) Number of shares to be subscribed

According to the share subscription contract signed by the Parties, Party A and Party B agree that Party B shall subscribe for part of the shares issued by Party A in accordance with the conditions agreed in the share subscription contract, and the number of shares to be subscribed by Party B in this issuance of Party A shall be 665,626,796 RMB ordinary shares with subscription capital of not more than RMB11,229,124,048.52 (inclusive).

Unless otherwise specified in the documents of the China Securities Regulatory Commission (CSRC) approving this issuance, if the total number of shares in the Non-public Issuance is reduced due to changes in regulatory policies or in accordance with the requirements of the documents approving this issuance or the relevant agreement of this Contract, the final number of shares subscribed by Party B will be reduced in proportion to the number of shares originally subscribed by Party B to the total number of shares in the Non-public Issuance.

If, during the period from the price benchmark date to the issuance date, Party A has any ex-rights events such as stock dividend or capitalization of capital surplus, the number of shares subscribed by Party B will be adjusted accordingly.

(2) Pricing basis

The price benchmark date for the Non-public Issuance of shares shall be the date of announcement of the resolution of the Board of Party A to consider and approve the Non-public Issuance proposal. The issue price of the Non-public Issuance is RMB16.87 per share, which is 80% of the average price of Party A's stock transactions in the 20 Trading Days prior to the pricing benchmark day (average trading price of shares for the 20 Trading Days prior to the base day for pricing = total trading price of shares for the 20 Trading Days prior to the base day for pricing/total trading amount of shares for the 20 Trading Days prior to the base day for pricing).

If the ex-rights and ex-dividend matters such as dividend payment, stock dividend or capitalization of capital surplus, etc. occur for Party A's shares during the period from the price benchmark date to the issuance date, the issue price will be adjusted accordingly. The adjustment formula is as follows:

Dividend payment: $P_1=P_0-D$;

Stock dividend or capitalization of capital surplus:$P_1=P_0/(1+N)$;

Occurrence of both of the above at the same time: $P_1=(P_0-D)/(1+N)$.

Where P_0 is the issue price before adjustment, P_1 is the issue price after adjustment, D is the dividend per share, and N is the number of stock dividend or capitalization of capital surplus per share.

If, prior to this issuance, the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period is higher than the price determined by the above terms, the issue price will be adjusted to the net assets per share of Party A attributable to the shareholders of the parent company for the latest audited period, and the number of shares ultimately subscribed by Party B will be reduced accordingly in accordance with the proportion of the number of shares originally subscribed by Party B to the original total number of shares in the Non-public Issuance.

(3) Arrangements for participation in the operation and management of the listed company

In order to further improve the governance level of the listed company, the Parties agree that Party B has the right to exercise voting rights, proposal rights, supervision rights and other related shareholders' rights in accordance with the law, reasonably participate in Party A's corporate governance, and nominate one candidate for executive director, one candidate for non-executive director and one candidate for supervisor to Party A in accordance with the laws and regulations and the Articles of Association. The executive director candidate and non-executive director candidate nominated by Party B will participate in the decision-making of Party A's Board if they are elected as executive directors and non-executive directors by Party A in accordance with the necessary consideration procedures; the supervisor candidate nominated by Party B will participate in the work of Party A's supervisory committee if they are elected as supervisors by Party A in accordance with the necessary consideration procedures, and the above-mentioned persons will play an active role in Party A's corporate governance.

(4) Shareholding period and future withdrawal arrangement

Party B undertakes that the additional shares of Party A subscribed by Party B shall not be transferred within 36 months from the date of the closing of this issuance, among which the shares acquired by Party B after the completion of the transaction due to stock dividend or capitalization of capital surplus of Party A shall also comply with the above-mentioned restricted period arrangement. If the CSRC and the Shanghai Stock Exchange have other requirements on the lock-up period for the additional shares subscribed by Party B, the parties will adjust the lock-up period accordingly in accordance with the requirements of the CSRC and the Shanghai Stock Exchange.

The cooperation period agreed in this Agreement does not represent the period of Party B's commitment to hold Party A's shares, and Party B may decide on its own whether to reduce its shareholding after the expiry of the lock-up period.

If Party B decides to reduce its shareholding in Party A after the expiry of the above-mentioned restricted sales period, Party B shall, in accordance with its investment strategy and in accordance with the laws and regulations in force at that time and the rules of the Shanghai Stock Exchange, prudently formulate a shareholding reduction plan and fulfill the corresponding information disclosure obligations.

(5) Profit distribution arrangement

Upon completion of the Non-public Issuance, Party A shall distribute cash dividends in a proportion of not less than 40% of the distributable profits of the year when conditions are available.

9. Entry into force, amendment, cancellation and termination of the Agreement

This Agreement shall be established on the date of signing by the Parties and shall take effect from the effective date of the share subscription contract.

This Agreement may be amended or modified by consensus between the parties hereto. Any amendment or change to this Agreement must be made in a written document and become effective after it is signed by the Parties to this Agreement.

The parties agree that this Agreement shall be terminated from the date of any of the following circumstances: (1) the parties agree by consensus to terminate this Agreement; (2) the term of cooperation between the parties expires and is not renewed; (3) other circumstances (if any) that this Agreement should be terminated according to relevant laws and regulations; and (4) the Share Subscription Contract is terminated due to the occurrence of the circumstances agreed in Article 15 (II), (III), (IV), (V), (VI) and (VII) of the Share Subscription Contract.

10. Liability for breach of contract

(1) Except for force majeure factors, if any party's representations or warranties under this Agreement are untrue or materially erroneous, such party shall be deemed to be in breach of this Agreement. The Breaching Party shall indemnify the Non-breaching Party for any loss suffered as a result.

(2) After the effective date of this Agreement, unless by mutual agreement, if Party B fails to subscribe for the Non-public Issuance shares of Party A in accordance with the terms and conditions agreed upon in the Agreement, Party B shall constitute a breach of contract, and Party B shall pay liquidated damages to Party A in accordance with the Share Subscription Contract with Conditional Effect on the Non-public Issuance of A Shares between Shanghai Pharmaceuticals Holding Co, Ltd. and Yunnan Baiyao Group Co., Ltd. in 2021.

(3) The Parties agree that neither party A nor B shall be liable for any breach of contract in the event that the Non-public Issuance is terminated due to the following reasons.:

1) The Non-public Issuance fails to be approved by a resolution of the Board and/or the shareholders' general meeting of Party A;

2) The Non-public Issuance fails to obtain the approval of the resolution of the board and/or the shareholders' general meeting of Party B; the Non-public Issuance fails to obtain the approval of Party A's superior state-owned assets management department or the state-funded enterprise;

3) The Non-public Issuance fails to obtain the approval of the CSRC;

4) The Non-public Issuance cannot be realized due to significant changes in laws and regulations or force majeure events.

(4) If Party A intends to adjust or cancel the Non-public Issuance due to the requirements of relevant regulatory authorities such as the CSRC or Shanghai Stock Exchange, Party A shall adjust or cancel only after consensus with Party B. Otherwise, Party A shall be liable to Party B for breach of contract in the manner set forth in the following Article 10.5.

(5) If Party A takes the initiative to withdraw the application materials to CSRC without the consensus of the Parties, Party B may unilaterally terminate this Contract early, and Party A shall return to Party B the subscription deposit paid by Party B and its corresponding interest yield during the period within ten days after Party B gives notice of early termination of this Contract, and pay Party B a one-time liquidated damages of RMB200 million.

If the above mentioned default liability overlaps with the default liability of the share subscription contract, the Breaching Party shall only perform the default liability of one of the agreements or contracts.

Section IV Feasibility Analysis of the Board on the Use of the Proceeds from this issuance

I. PLAN FOR THE USE OF THE PROCEEDS FROM THIS ISSUANCE

The total proceeds from the Non-public Issuance of A Shares will not exceed RMB14,383.814 million (inclusive), and the net proceeds after deducting the issuance expenses will be used to replenish the working capital and repay the debts of the Company, of which: RMB3,000 million will be used to repay the debts of the Company and the remaining portion will be used to replenish the working capital.

II. NECESSITY AND FEASIBILITY OF THE PROCEEDS

(I) The necessity of the issuance of proceeds

1. Ensure independent research and development and BD two-wheel drive, continue to enhance the competitiveness of the pharmaceutical manufacturing and R&D industry

Since 2015, the State Council, the NMPA and the NHC have introduced a series of policies to encourage drug R&D innovation, which has opened the innovation era of the pharmaceutical industry. Seizing the industry policy dividend, the Company has continued to increase investment in R&D innovation in recent years, introduced market-based mechanisms, promoted an open and diversified innovation model, accelerated external cooperation, built a nationwide and global-oriented innovation platform, and continuously strengthened the core strengths of pharmaceutical manufacturing and R&D industry, which has made significant progress in multiple dimensions.

From 2018 to 2020, the Company's total combined R&D investment reached RMB4.87 billion, with an average compound annual growth rate of 19.15%, of which expensed R&D investment was RMB4.067 billion, accounting for a combined net profit attributable to shareholders of the parent company of up to 32.64% during the period. After years of technology accumulation and research investment, for innovative drugs, the Company's innovative drug pipeline has grown from 11 products in 2018 to 25 in 2020, 15 of which have entered the clinical application or gone to market. For generic drugs, as of the end of March 2021, the total number of generic drugs evaluated by the Company reached 25 varieties (31 specifications), and several other varieties have completed the U.S. ANDA production filing and been approved for marketing. In addition, the Company has developed strategic cooperation with many research institutes and medical institutions, such as Shanghai Institute of Materia Medica, Chinese Academy of Sciences, Center for Excellence in Molecular Cell Science, CAS, Shanghai Jiao Tong University School of Medicine, School of Pharmacy, Fudan University, East China University of Science and Technology, Shanghai University of Traditional Chinese Medicine, Tianjin University of Traditional Chinese Medicine, Ruijin Hospital, Renji Hospital, Shanghai Tenth People's Hospital, Shanghai Children's Medical Center, etc., and is committed to promoting the R&D and transformation of pharmaceutical projects through project incubation, commercialization and targeted R&D.

The Non-public Issuance will enhance the capital strength of the Company and will help the Company further increase the investment in R&D, improve the construction of the three management centers of R&D, manufacturing and marketing in the industrial segment of the Company, promote the consistency evaluation of generic drugs and strengthen international cooperation. Meanwhile, it will help the Company continue to promote cooperation with research institutes, universities and hospitals, build innovation platforms, translational medicine alliances and multiple innovative technology companies or special platforms, continue to expand new indications, improve the existing R&D system and maintain the Company's leading position in pharmaceutical manufacturing and R&D industry.

2. Seize integration opportunities, improve operational efficiency and consolidate the leading position of pharmaceutical distribution in China

The pharmaceutical distribution business is usually characterized by large capital consumption, so sufficient working capital is necessary for the Company to further expand its business scale and improve operational efficiency. With the in-depth implementation of reform policies such as "two-vote system", "zero cost increase" and "volume-based procurement", the pharmaceutical distribution industry continues to transform and upgrade, accelerate industry integration and further improve industry concentration. The pharmaceutical distribution industry has ushered in an important opportunity period for integration.

From 2018 to 2020, the revenue of the pharmaceutical distribution segment of the Company increased from RMB139.622 billion to RMB168.166 billion. With the continuous expansion of business scope and operation scale, the overall demand for working capital of the Company will also increase. The proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, which will provide a strong guarantee for the Company to further expand its business scale, enhance operational efficiency and consolidate its position as a national leader in pharmaceutical distribution and will be conducive to the Company's active response to the divergence of the industry's competitive landscape, strengthen its ability to operate in a sustainable and sound manner and enhance its core competitiveness.

3. Reduce financial costs and enhance debt servicing capacity

In order to support the strategic development of the Company's pharmaceutical manufacturing and R&D industry and distribution business, the Company has increased the scale of capital expenditure in recent years. At the same time, as the size of the Company's assets and the scale of its pharmaceutical industry and commercial business continue to grow, the daily working capital demand also continues to increase. In order to meet the capital demand for business development, the Company not only replenishes working capital through cash generated from operating activities, but also raises funds through external financing such as bank borrowings, uses financial leverage to support the Company's development, resulting in a high asset-liability ratio. In the past five years, the closing balance of short-term borrowings of the Company increased from RMB9.628 billion at the end of 2016 to RMB20.139 billion at the end of 2020, and the closing balance of long-term borrowings increased from RMB838 million at the end of 2016 to RMB1.184 billion at the end of 2020, and the asset-liability ratio increased accordingly from 55.48% at the end of 2016 to 63.31% at the end of 2020.

The proceeds will be used to replenish working capital and repay the Company's debts, which will be conducive to optimizing the Company's capital structure and effectively controlling the increase of financial costs after the proceeds are in place, providing financial security and momentum for the Company's future business development and is in the interest of the Company and its shareholders as a whole.

(II) The feasibility of the proceeds from this issuance

1. The use of the proceeds complies with the laws and regulations

The use of proceeds from this issuance complies with the relevant laws, regulations and policies, and is feasible. After the proceeds are in place, the Company's net assets and working capital will be increased, which will be conducive to enhancing the Company's capital strength, promoting the Company to continue to expand the scale of pharmaceutical distribution business, enhance the R&D strength of pharmaceutical manufacturing and R&D industry, and gradually upgrade and improve the multi-dimensional strategic development direction on the basis of consolidating the competitive advantages of the original business, thereby significantly improving the Company's profitability and market competitiveness, and promoting the sustainable development of the Company's business.

2. The proceeds from this issuance are used by an implementing subject with standardized governance and perfect internal control

The Company has established a modern enterprise system with corporate governance structure as the core in accordance with the governance standards of the listed company, and has formed a more standardized corporate governance system and a perfect internal control environment through continuous improvement and perfection.

With regard to the management of the proceeds, the Company has formulated the Measures for the Management of Proceeds in accordance with the regulatory requirements, which clearly stipulates the storage, use, investment and supervision of the proceeds. After the proceeds are in place, the Company will continuously supervise the storage and use of proceeds to ensure the reasonable and standardized use of proceeds and prevent the risk of using proceeds.

Section V Discussion and Analysis by the Board on the Impact of the Offering on the Company

I. CHANGES IN THE BUSINESS AND ASSETS, ARTICLES OF ASSOCIATION, SHAREHOLDER STRUCTURE, SENIOR MANAGEMENT STRUCTURE AND BUSINESS STRUCTURE OF THE COMPANY AFTER THIS ISSUANCE

(I) Impact on the business and assets of the Company

The Company is a pharmaceutical group company with a full industrial chain layout, whose main business covers pharmaceutical R&D and manufacturing, distribution and retail. It is a leading company in the domestic pharmaceutical product manufacturing and distribution fields. The Non-public Issuance introduces the Strategic Investor and the proceeds, with the issuance expenses deducted, are intended to be used to replenish working capital and repay the Company's debts, which will further enhance the Company's capital strength, optimize its capital structure, improve its profitability, risk resistance and core competitiveness, and provide a strong guarantee for the Company's further business development. This Offering will not have a significant impact on the Company's main business structure and the Company has no plans to integrate its business and assets as a result of this issuance.

(II) Impact on the Articles of Association and shareholder structure

After the completion of the Issue, the share capital of the Company will be increased accordingly, and the shareholder structure of the Company and the shareholding ratio of each shareholder will also be changed accordingly. The Company will adjust the Articles of Association regarding the registered capital of the Company and other relevant changes in accordance with the actual issuance and register the changes for industry and commerce.

As of the date of this Proposal, SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and Shanghai Pharmaceutical (Group) held 1,039,999,537 shares of the Company, accounting for 36.59% of the total share capital of the Company. The target subscribers of the Non-public Issuance are Shanghai Tandong and Yunnan Baiyao. Based on the number of shares to be issued of 852,626,796 shares, of which 187,000,000 shares are subscribed by Shanghai Tandong, after the completion of the Non-public Issuance, SIIC and its wholly-owned subsidiary and Shanghai Shangshi and its wholly-owned subsidiary Shanghai Tandong and Shanghai Pharmaceuticals (Group) will hold 33.21% of the shares of the Company in aggregate, and the actual controller of the Company will still be Shanghai SASAC. Therefore, this issuance will not lead to any change in the actual control of the Company.

(III) Impact on the structure of senior management

After the Offering, Yunnan Baiyao, as a Strategic Investor, intends to nominate one candidate for executive director, one candidate for non-executive director and one candidate for supervisor to the Company in accordance with the Strategic Cooperation Agreement. If the Company intends to adjust the structure of its senior management, it will fulfill the necessary legal procedures and information disclosure obligations in accordance with relevant regulations.

In addition, as of the date of this Proposal, the Company has no other plan to adjust the structure of its senior management.

(IV) Impact on business structure

All the funds raised from the Non-public Issuance will be used to replenish working capital and repay debts, and the business structure of the Company will not be changed. After the completion of this issuance, the Company's capital strength will be enhanced and its core competitiveness will be improved, which will be more conducive to the Company's further expansion of business scale and consolidation of its market position.

II. IMPACT OF THE OFFERING ON THE FINANCIAL POSITION, PROFITABILITY AND CASH FLOW OF THE COMPANY

(I) Impact on financial position

After the proceeds are in place, the total assets and net assets of the Company will be increased accordingly, and the asset-liability ratio and financial risks of the Company will be reduced accordingly, the financial structure will be more robust and reasonable, and the anti-risk capacity will be further enhanced. This issuance will provide a good guarantee for the Company's subsequent business development.

(II) Impact on profitability

After the completion of this issuance, the total share capital of the Company will increase, which may lead to a certain degree of dilution of the Company's return on net assets, earnings per share and other indicators in the short term. However, when the proceeds are in place, it will help to enhance the capital strength of the Company and meet the capital requirements arising from the rapid development of the various businesses of the Company. The Strategic Investors introduced in this issuance will provide the Company with resources matching, integration and development synergy at various levels from capital, industry, products to management in customer resources, brand management, market channels, R&D innovation, general health products, Chinese herbal medicine cultivation and pharmaceutical distribution, etc., and carry out strategic cooperation and innovative model expansion, bringing new growth momentum to the Company. In addition, this issuance is also conducive to reducing the Company's financial expenses and enhancing the Company's profitability.

(III) Impact on cash flow

The cash inflow from financing activities will increase significantly after the proceeds from the Non-public Issuance are available. This Offering will enhance the capital strength of the Company, which is also conducive to enhancing the scale of the Company's business and increasing the cash flow from operating activities. The overall cash flow situation of the Company will be further optimized.

III. IMPACT OF THE OFFERING ON THE BUSINESS RELATIONSHIP, MANAGEMENT RELATIONSHIP, RELATED TRANSACTIONS AND HORIZONTAL COMPETITION BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES

Before this issuance, the Company was operating independently in terms of business, personnel, assets, institutions and finance. After the completion of this issuance, there will be no change in the controlling shareholder and the actual controller of the Company, and there will be no material change in the business relationship and management relationship between the Company and the controlling shareholder and the actual controller; nor will there be any new related transactions and horizontal competition. Moreover, after the completion of this issuance, the Board, the Board of Supervisors and the management of the Company will continue to operate in compliance with the law, and the Company will maintain the integrity and independence of its business, personnel, assets, finances and institutions in all aspects, and this issuance will have no material impact on the governance of the Company.

IV. AFTER THE COMPLETION OF THIS ISSUANCE, WHETHER THERE IS ANY SITUATION IN WHICH THE FUNDS AND ASSETS OF THE COMPANY ARE OCCUPIED BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PERSONS, OR THE COMPANY PROVIDES GUARANTEE FOR THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES

As of the issue date of this Proposal, the Company does not have the situation of funds and assets being occupied by the controlling shareholder and its related parties, nor does it have the situation of providing guarantee for the controlling shareholder and its related parties. After the completion of this issuance, the Company will not have the situation that the funds and assets are occupied by the controlling shareholders and their associates, nor will it have the situation that it provides guarantee for the controlling shareholders and their related parties because of this issuance.

V. IMPACT OF THIS ISSUANCE ON THE COMPANY'S LIABILITIES

After the completion of this issuance, the total assets and net assets of the Company will be further expanded, the asset-liability ratio will be reduced accordingly and the financial structure will be further optimized. This Offering does not lead to a large increase in the Company's liabilities and contingent liabilities, nor does it lead to a low debt ratio and unreasonable financial costs.

VI. DESCRIPTION OF THE RISKS ASSOCIATED WITH THIS ISSUANCE

(I) Market risk

At present, China's pharmaceutical distribution enterprises are numerous and geographically scattered, with national and regional, state-owned and private pharmaceutical distribution enterprises developing together, and the market competition is fierce. The promotion of the "two-vote system" has further unified the drug procurement channels, further intensifying the competition among pharmaceutical distribution enterprises in terms of market areas, varieties, customer competition and hospital cooperation. In addition, the Internet giants are accelerating their entry into the medical industry, and the competitive landscape of the industry is becoming increasingly complex, with both opportunities and challenges. If the Company fails to maintain its market position and effectively control costs in the future, it may affect the Company's development and operation.

(II) Business and operational risks

1. Risk of maintaining relationships with suppliers

The Company provides sales of pharmaceutical and healthcare products in the pharmaceutical distribution business based on the supply of suppliers. The Company generally distributes products under annual agency or distribution agreements with suppliers, who provide products and support. Although after years of development, the Company has maintained good business relationships with most of its suppliers, and upstream suppliers have strong dependence and high loyalty to the Company, with the intensification of competition in the industry, if the distribution rights of important products of the Company are acquired by competitors, or the annual agency or distribution agreements between the Company and its suppliers are terminated, the relationship between the Company and its suppliers may be affected, resulting in lower revenue levels and adversely affect operating results.

2. Risks related to drug bidding

Through its distribution network in most provinces, cities and autonomous regions and its good brand influence, the Company has established profound cooperative relationships with customers in the provinces where it conducts business. However, in the context of intensified market competition, if the Company fails to win the bids in the pharmaceutical tenders for the drugs manufactured or the varieties with sole agency/distribution due to various uncontrollable reasons, it will have an adverse impact on the Company's operating results.

3. Risk of drug R&D and marketing

An important direction for the future development of the Company's business is to focus on the research and development of patented pharmaceutical products. However, the process of drug research and development is quite complex and the results obtained are highly uncertain, as well as time-consuming and costly. There is no assurance that the research and development projects undertaken by the Company will be successful in developing products or new manufacturing technologies that sell well or achieve the desired results. Delays in any part of the development process or failure to obtain regulatory approvals for the relevant products could have a material adverse effect on the Company's business development and results of operations. In addition, even if a new product is successfully developed and launched, the Company cannot be sure that the new product will be fully accepted by the market. Failure of the relevant research and development projects to achieve the expected sales levels may also have a material adverse effect on the Company's business development and results of operations.

4. *Risk of product quality and drug safety*

In the process of operating pharmaceutical distribution and pharmaceutical retail business, the Company may face compensation or product recall liability if drug quality problems occur, which may affect the Company's operating results, and the occurrence of drug safety accidents may also adversely affect the Company's reputation.

For the pharmaceutical manufacturing and R&D industry business, the drug production process is long and there are many factors that may affect the quality of drugs. In order to avoid drug safety problems, the Company has strictly screened suppliers and produced most of the key Chinese herbal medicines on its own, controlled the quality of raw materials and established a product quality internal control system and traceability system covering the entire process of production and operation. The quality of various products has been good since they were put into production, but we cannot rule out the possibility that product quality problems may occur in the future and cause damage to the Company's reputation and adversely affect its business development and operating results.

(III) Policy risk

The pharmaceutical industry is one of the key development and management industries in China in recent years and the development of the industry is regulated and influenced by the relevant national policies. Since 2009, China has promulgated a number of policies to promote a new round of health care system reform, gradually implementing a number of nationwide efforts such as the basic drug system, public hospital reform pilot. As the new health care reform continues to progress, the relevant state departments have introduced a series of policies such as consistency evaluation of generic drugs, "two-vote system" and volume-based procurement. If some of the Company's products are removed from the medical insurance catalog in the future, or if new products launched by the Company are not included in the medical insurance catalog in the future, or if some of the Company's drugs fail to win the bid under the new round of bidding price reduction and volume-based procurement, it may have an adverse impact on the Company's business development. In addition, changes in the pattern of upstream drug suppliers under the volume-based procurement policy may also affect the development of the Company's pharmaceutical distribution business and squeeze the gross profit margin of the Company's pharmaceutical distribution business, which may have an adverse impact on the Company's profitability.

(IV) Financial risks

1. *Risk of decrease in return on net assets and dilution of earnings per share due to this issuance*

Although the proceeds in place will help enhance the Company's capital strength, optimize the Company's capital structure, reduce the Company's financial costs, provide strong protection for the Company's business development, and help improve the Company's subsequent development and profitability and enhance its core competitiveness, it takes a certain time period to use the proceeds and generate benefits. In case that the total share capital and net assets of the Company are increased, if the Company's profit is not increased accordingly, there is a possibility that the earnings per share and return on net assets will be decreased in the short term after this issuance and there is a risk of dilution of shareholders' immediate return.

2. Risk of increase in environmental protection cost

At present, the domestic community is very concerned about environmental issues, and the government authorities are also vigorously promoting environmental protection work. On the one hand, enterprises are increasingly obliged for environmental protection, and on the other hand, the national policies gradually tighten the environmental protection requirements for enterprises. If the Company's costs to meet environmental protection requirements increase in the future, there is a risk that the Company's profitability will be adversely affected by the increase in environmental protection costs.

(V) Management risk

The Company is a large pharmaceutical group with businesses covering the whole industrial chain of the pharmaceutical industry, and its pharmaceutical R&D, manufacturing, distribution and retail businesses are mainly carried out by its subsidiaries. In recent years, the Company has accelerated its business development by way of mergers and acquisitions and restructuring, and its product system has been enriched and the number of subsidiaries has been growing, which has gradually complicated the organizational structure and management system of the Company while enhancing the overall competitiveness of the Company. As of 31 December 2020, the Company's subsidiaries, associates and joint ventures included in the scope of consolidation exceeded one hundred, which are widely distributed geographically, posing high demands on the Company's unified operation and management, financial control and human resources, as well as posing certain challenges to the realization of synergistic benefits between the Company and its subsidiaries. If the Company is unable to maintain and improve its management level and management efficiency, it may have certain negative impact on the overall operating efficiency of the Company.

(VI) Risk that the synergy effect with the Strategic Investor cannot be fully utilized

The Company's main business covers pharmaceutical distribution and pharmaceutical manufacturing and R&D industry and the Strategic Investor Yunnan Baiyao is proposed to be introduced this time. The Strategic Investor and the Company have high synergy effect in business development and other aspects, and intend to seek coordination and complementary long-term common strategic interests. Although the Company has signed the Strategic Cooperation Agreement with the Strategic Investor and agreed on the future cooperation areas, cooperation methods and cooperation objectives of the Parties, there is still a risk that the synergistic effect will not be brought into full play.

(VII) Other risks

1. Risk of stock price fluctuation

The Company's stock price not only depends on the Company's profit level and development prospect, but also is affected by market supply and demand, relevant national policies, investors' psychological expectation and various unpredictable factors, thus posing a certain degree of unpredictability. Therefore, the Company's stock price is subject to uncertainty risk.

2. Risk of approval

This Offering is subject to the fulfillment of a number of conditions, including the approval of the competent state-owned capital approval unit, the approval of the board and shareholders' general meeting of Yunnan Baiyao, the shareholders' general meeting of the Company, the A share class meeting and the H share class meeting and the CSRC. There is uncertainty as to whether the issuance proposal will obtain the relevant approvals and when the Company will obtain the relevant approvals in respect of the above matters, so investors are advised to note the relevant risks.

3. Subscription risk

The Company's non-public issuance has two target subscribers, namely, Yunnan Baiyao and Shanghai Tandong. The Company and the above target subscribers signed the Share Subscription Contract with Conditional Effect, but in the process of contract performance, there may still be the risk of untimely availability of funds, abandoning of subscription of target subscribers.

Section VI The Company's Profit Distribution Policy and Its Implementation

I. PROFIT DISTRIBUTION POLICY IN THE ARTICLES OF ASSOCIATION

According to the Articles of Association currently in effect, the Company's profit distribution policy is as follows.

"Article 238 When distributing the after-tax profits of the year, the Company shall withdraw ten percent (10%) of the profits to be included in the Company's legal reserve. When the accumulated amount of the Company's legal reserve is fifty percent (50%) or more of the Company's registered capital, there is no need to further withdraw.

If the Company's legal reserve is not sufficient to cover the losses of previous years, the Company shall use the current year's profits to cover the losses before withdrawing the legal reserve in accordance with the preceding paragraph.

After withdrawing the legal reserve from the after-tax profit, the Company may also withdraw any reserve from the after-tax profit by resolution of the shareholders' general meeting.

The Company's after-tax profits remaining after making up losses and withdrawing legal reserves shall be distributed in proportion to the shares held by the shareholders, except for those shares that are not distributed in proportion to the shares held as provided in these Articles.

If the shareholders' general meeting violates the preceding paragraph and distributes profits to shareholders before the Company makes up for losses and withdraws legal reserve, the shareholders must return the profits distributed in violation of the provisions to the Company.

The Company's shares held by the Company do not participate in the distribution of profits.

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Article 240 After the resolution on the profit distribution plan is made at the shareholders' general meeting of the Company, the Board of the Company shall complete the distribution of dividends (or shares) within two (2) months after the meeting.

Article 241 The Company shall pay cash dividends and other payments to domestic shareholders in RMB. The payment of cash dividends and other payments by the Company to H-share shareholders shall be denominated and declared in RMB and paid in Hong Kong dollars. Foreign currencies required for the payment of cash dividends and other amounts by the Company to H-share shareholders are handled in accordance with the relevant state regulations on foreign exchange management.

Interest shall accrue on any shares money paid in advance of calls, but no holder of shares shall be entitled to participate in respect of prepaid shares in a dividend subsequently declared.

The Board shall have the power to forfeit unclaimed dividends, which power shall only be exercised after six (6) years from the date of declaration of the dividend or after six (6) years.

Article 242 When distributing dividends to shareholders, the Company shall withhold and pay on behalf of the shareholders the tax payable on the dividend income according to the amount distributed in accordance with the provisions of the tax laws of the PRC.

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Article 244 The profit distribution policy of the Company is as follows:

(I) Principles of profit distribution: The Company shall implement a continuous and stable profit distribution policy, and the Company's profit distribution shall emphasize reasonable investment returns to investors and take into account the sustainable development of the Company.

(II) Form of profit distribution: The Company may distribute dividends in cash, shares or a combination of cash and shares. If the conditions for cash dividends are available, priority shall be given to cash dividends for profit distribution.

In principle, the Company shall distribute profits once a year, and the Board may propose cash dividends in the interim in accordance with the Company's situation.

(III) Specific conditions and ratio of cash dividends: In the event that the Company is profitable for the year and the accumulated undistributed profits are positive, the Company shall distribute dividends in cash if there are no major investment plans or major cash expenditures and other matters occurring; the accumulated profits distributed in cash dividends for the last three (3) years in the Company's profit distribution shall be not less than thirty percent (30%) of the average annual distributable profits achieved in the last three (3) years, and the specific distribution plan will be decided by the Company's shareholders' general meeting in accordance with the actual operating conditions of the Company in the year.

(IV) Specific conditions for the issuance of stock dividends: The Company mainly adopts the profit distribution policy of cash dividends. If the company adopts stock dividends for profit distribution, it shall take into account the actual operation of the Company, future growth and dilution of net assets per share and other factors.

(V) The formulation of profit distribution plan and decision-making procedures: The profit distribution plan of the Company shall be formulated and approved by the Board and submitted to the shareholders' general meeting for consideration, and the independent directors shall express clear opinions. The Board shall take into account the characteristics of the industry in which the company is located, the stage of development, its own business model, profitability level and whether there are significant capital expenditure arrangements, distinguish the circumstances and propose a differentiated cash dividend policy in accordance with the procedures set forth in this chapter; before consideration of the specific cash dividend plan at the general meeting, the Company shall take the initiative to communicate and exchange with shareholders, especially minority shareholders, through various channels (including but not limited to providing online voting, inviting minority shareholders to attend the meeting, etc.), fully listen to the opinions and demands of minority shareholders, and promptly respond to the concerns of minority shareholders. Independent directors may solicit the opinions of minority shareholders, put forward dividend proposals and submit them directly to the Board for consideration.

If the Company has the ability to pay dividends during the reporting period but does not pay dividends, especially if it has not paid dividends for many years in a row or the level of dividends is low, it shall explain the reasons for not paying cash dividends or the low level of cash dividends, whether the relevant reasons are consistent with the actual situation, the exact use of the retained undistributed profits and the income situation, and the independent directors shall express their independent opinions on the reasonableness of not paying cash dividends or the low level of cash dividends.

(VI) Adjustment of profit distribution policy: If the Company needs to adjust its profit distribution policy due to significant changes in the external business environment or its own business conditions, detailed justification shall be made, and the proposal on the adjustment of the cash dividend policy shall be prepared and considered by the Board and submitted to the shareholders' general meeting for consideration, and shall be implemented only after it is approved by at least two-thirds (2/3) of the votes held by the shareholders present at the shareholders' general meeting. Independent directors shall express clear opinions.

(VII) In the event that there is a shareholder's illegal appropriation of the Company's funds, the Company shall deduct the cash dividends distributed by such shareholder to repay the funds appropriated by him/her."

II. DISTRIBUTION OF PROFITS IN THE LAST THREE YEARS

(I) Cash dividends in the last three years

Year of dividend distribution	Amount of cash dividend *(RMB0'000, tax included)*	Net profit attributable to ordinary shareholders of the listed company in the consolidated statement of income for the year of dividend distribution *(RMB0'000)*	Ratio of net profit attributable to ordinary shareholders of the listed company in the consolidated statements of income *(%)*
2020	136,420.29	449,621.70	30.34
2019	125,051.93	408,099.37	30.64
2018	116,525.66	388,106.29	30.02
Average annual distributable profit achieved in the last three years (RMB0'000)			**415,275.78**
Ratio of the amount of accumulated cash dividends in the last three years to the average annual distributable profit achieved in the last three years (%)			**91.02**

Note: The amount of the Company's cash dividend for 2020 is calculated based on the profit distribution proposal approved at the 20th Meeting of the 7th Session of the Board, based on the total share capital of 2,842,089,322 shares as at the date of announcement of the proposal, which is subject to the consideration and approval at the shareholders' general meeting of the Company. In the event of any change in the total share capital of the Company during the period from the announcement of the profit distribution proposal by the Board for the year 2020 to the profit distribution share registration date, the total amount of the Company's final actual cash dividend will be determined based on the total share capital on the share registration date of the implementation of the profit distribution proposal.

In the last three years, the ratio of the accumulated profits distributed by the Company in cash to the average annual distributable profits achieved was 91.02%, which is in line with the requirements of the Articles of Association and relevant laws and regulations.

(II) Use of undistributed profits of the Company in the last three years

In the last three years, the undistributed profits of the Company were mainly used to support the normal production and operation activities of the Company.

III. THE SHAREHOLDERS' RETURN PLAN FOR THE NEXT THREE YEARS (2021-2023)

In order to perfect and improve the mechanism of shareholders' return and fully safeguard the rights and interests of the shareholders of the Company according to the Notice Regarding Further Implementation of Cash Dividend Distribution of Listed Companies (ZJF [2012] No. 37), the Regulatory Guidance No. 3 of Listed Companies – Cash Dividend Distribution of Listed Companies (ZJF [2013] No. 43) and the Guidelines on Cash Dividends for Listed Companies of the Shanghai Stock Exchange and other relevant requirements, and taking into account the Articles of Association as well as factors such as the Company's development strategic plan, industry development trend, shareholders' return, social capital cost and external financing environment, the shareholders' return plan for the next three years (2021-2023) is formulated as follows:

(I) Considerations for the formulation of the shareholders' return plan

The Company establishes a continuous, stable and scientific return mechanism for shareholders and maintains the continuity and stability of its profit distribution policy based on the principle of paying attention to reasonable investment returns to shareholders while taking into account the Company's capital needs and sustainable development. The Company also pays attention to the balance between the requirements and wishes of shareholders and the capital needs and sustainable development of the Company. When formulating specific dividend distribution plans, the Company shall take into account the cost of funds from various external financing sources and the Company's cash flow situation to determine a reasonable cash dividend distribution ratio and reduce the Company's financial risks.

(II) Principles for the formulation of the shareholders' return plan

1. The shareholders' return plan of the Company shall strictly implement the profit distribution policy as stipulated in the Articles of Association.

2. The shareholders' return plan of the Company shall fully consider and listen to the opinions and demands of shareholders (especially minority shareholders), independent directors and supervisors.

3. The Company shall implement a scientific, sustainable and stable profit distribution policy in accordance with the principles of attaching importance to reasonable investment returns for investors and being conducive to the sustainable development of the Company.

(III) The Shareholders' return plan for the next three years (2021-2023)

1. Form of profit distribution

The Company may distribute dividends in the form of cash, shares or a combination of cash and shares. Under the condition, the Company can make interim cash dividends.

2. Conditions and ratio of profit distribution

(1) Conditions and proportion of cash dividends

In the event that the Company is profitable in the current year and the accumulated undistributed profits are positive, the Company shall distribute dividends in cash if there are no major investment plans or major cash expenditures, etc.; the accumulated profits distributed in cash dividends in the last three years in the

Company's profit distribution shall be not less than thirty percent (30%) of the average annual distributable profits achieved in the last three years, and the specific distribution plan will be decided by the shareholders' general meeting in accordance with the actual annual operating conditions of the Company.

The Company may not pay cash dividends in accordance with the provisions of the preceding article if one of the following circumstances exists: (1) the Company's profit available for distribution for the year is small and insufficient for distribution; (2) the auditor issues a audit report with modified opinion on the Company's financial report for the year; (3) the Company's year-end asset-liability ratio exceeds 70%; (4) the Company's profit available for distribution is mainly formed by non-recurring gains or losses or changes in fair value; (5) the Company has significant investment plans or significant capital expenditures (except for the investment projects with proceeds) in the next twelve months.

The above significant investment plan or significant capital expenditure refers to:

① The Company's proposed exterior investment (including equity investment, debt investment, venture capital, etc.), acquisition of equity or purchase of assets (tangible or intangible assets such as machinery and equipment, buildings, land use rights, etc.) within the next twelve months with cumulative expenditures reaching or exceeding 20% of the Company's latest period of audited net assets;

② The Company's proposed exterior investment (including equity investment, debt investment, venture capital, etc.), acquisition of equity or purchase of assets (tangible or intangible assets such as machinery and equipment, buildings, land use rights, etc.) within the next twelve months with cumulative expenditures reaching or exceeding 10% of the Company's latest period of audited total assets;

If the Company adopts a combination of cash and stock to distribute profits, the Board of the Company shall, taking into account the characteristics of the industry in which it operates, its stage of development, its own business model, profitability level and whether it has major investment plans or major capital expenditure arrangements, distinguish the following circumstances and propose a differentiated cash dividend plan when distributing annual profits:

① In case the Company's development stage is mature with no major investment plans or major capital expenditure arrangements, cash dividends in the profit distribution should account for a minimum of 80%;

② In case the Company's development stage is mature with major investment plans or major capital expenditure arrangements, cash dividends in the profit distribution should account for a minimum of 40%;

③ In case the Company's development stage is in growth with major investment plans or major capital expenditure arrangements, cash dividends in the profit distribution should account for a minimum of 20%.

(2) Conditions and proportion of stock dividend distribution

The Company may distribute profits in the form of stock dividends when the Company's operation is in good condition and the Board believes that the Company's equity situation does not match the scale of the Company's growing operation, provided that the minimum cash dividend distribution is met.

3. Interval of profit distribution period

In principle, the Company will pay cash dividends once a year if the above cash dividend conditions are met. Where conditions permit, the Board of the Company may propose an interim cash dividend in accordance with the Company's earnings and capital requirements and submit it to the shareholders' general meeting for consideration.

4. Procedures for consideration of profit distribution

(1) The profit distribution proposal of the Company shall be prepared by the Board. The Board of the Company shall determine a reasonable profit distribution plan based on the Company's operation and future capital demand plan, and properly handle the relationship between the short-term interests and long-term development of the Company on the basis of full consideration of the interests of shareholders.

When the Company formulates specific plans for cash dividends, the Board shall carefully study and discuss matters such as the timing, conditions and minimum ratio of the Company's cash dividends, the conditions for adjustment and the requirements of its decision-making procedures, and the independent directors shall express clear opinions. The independent directors of the Company may solicit the opinions of minority shareholders to put forward dividend proposals and submit them directly to the Board for consideration.

(2) If the Board meeting needs to make a resolution on matters such as profit distribution of the Company, it may first notify the certified public accountant of the proposed distribution to be submitted to the Board for consideration and request it to issue a draft audit report accordingly (except that all other financial information involving matters such as profit distribution have been determined). After the Board has made a resolution on matters such as profit distribution, it shall request the certified public accountant to issue a formal audit report, and the Board shall then make resolutions on other matters related to the regular report based on the formal audit report issued by the certified public accountant.

(3) The profit distribution proposal proposed by the Board shall be approved by a majority of the votes of the Board. The independent directors shall express independent opinions on the profit distribution proposal. The Board of Supervisors shall review the profit distribution proposal prepared by the Board and submit a written review opinion. The profit distribution proposal shall be submitted to the shareholders' general meeting for consideration after it has been approved by the Board and the Board of Supervisors. Before considering the profit distribution proposal at the general meeting, the Company shall take the initiative to communicate and exchange views with shareholders, especially the minority shareholders, through various channels, such as through public mailboxes, telephone calls, public calls for opinions, etc., to fully listen to the opinions and demands of minority shareholders, and promptly respond to the concerns of minority shareholders.

(4) After the resolution on the profit distribution plan is made at the shareholders' general meeting, the Company shall complete the distribution of dividends (or shares) within 2 months after the meeting.

(IV) The preparation cycle and adjustment mechanism for the shareholders' return plan

1. Adjustment of the shareholders' return plan

The Company shall review the shareholders' return plan for the next three years in a cycle of three years. The Company shall determine whether the profit distribution policy and the shareholders' return plan for the next three years should be adjusted based on the summary of the implementation of the shareholders' return plan for the past three years, taking into full consideration the factors listed in the shareholders' return plan and the opinions of shareholders (especially minority shareholders), independent directors and supervisors.

If there is a need to adjust the shareholders' return plan due to significant changes in the external business environment of the Company or if the existing specific shareholder return plan affects the sustainable operation of the Company, the Company may reformulate the shareholders' return plan for the next three years in accordance with the basic principles established in the shareholders' return plan.

2. Decision-making mechanism for the adjustment of the shareholders' return plan

The Company shall adjust the profit distribution policy with the Board formulating the adjustment plan and independent directors expressing their independent opinions, and submit it to the shareholders' general meeting for consideration and adoption by way of special resolution. The independent directors and the Board of Supervisors shall express their opinions on matters such as the adequacy and reasonableness of the reasons for the adjustment or change of the profit distribution policy, the effectiveness of the consideration procedures and whether the conditions stipulated in the Articles of Association are met.

(V) Implementation of the plan in respect of return for shareholders

The plan in respect of return for shareholders shall be interpreted by the Board of the Company and shall be effective and implemented from the date of consideration and approval at the shareholders' general meeting of the Company.

Section VII Dilution of Immediate Returns Resulting from the Non-public Issuance of Shares and Its Remedial Measures

According to the Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110), Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17), and the Guiding Opinions on Matters Relating to the Dilution of Immediate Returns Resulting from Initial Public Offering, Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31), in order to protect the right to information of minority investors and safeguard the interests of minority investors, the Company analyzed the impact of the dilution of the immediate return of the non-public issuance of A Shares on the main financial indicators of the Company and proposed specific remedial measures and the relevant subjects made commitments that the remedial measures to be taken by the Company will be effectively implemented. Details are as follows:

I. IMPACT OF THE DILUTION OF CURRENT RETURN ON THE MAIN FINANCIAL INDICATORS OF THE COMPANY

(I) Main assumptions and explanations

Based on the following assumptions, the Company analyzed the impact of diluted immediate return resulting from the issuance on the main financial indicators. The following assumptions do not constitute any forecast and commitment matters, nor does it represent the Company's judgment of the operating conditions and trends. Investors should not make investment decisions accordingly and the Company does not bear the responsibility for compensation for losses arising from such decisions. The relevant assumptions are as follows:

1. Assuming that no significant adverse changes take place in the Company's business environment such as domestic and international macroeconomic environment, industrial policies and industry development;

2. Calculated on the basis of the total share capital of the Company of 2,842,089,322 shares as of the date of this proposal, assuming that the number of shares to be issued is 852,626,796 shares (the final number of shares to be issued is subject to the number of shares approved by the CSRC), the total share capital of the Company after the completion of the issuance will be 3,694,716,118 shares and the total proceeds will be RMB14,383.814 million, without taking into account of the effect of the issuance costs;

3. Assuming that the issuance is completed on 30 September 2021 (the completion time is estimated by the Company and is only used for estimation, and the actual completion time of the issuance shall be subject to approval by the CSRC);

4. The Company's cash dividend of RMB1,364.2029 million for 2020, assuming that it's implemented in June 2021 and that the Company has no interim dividend plan;

5. According to the Company's 2020 annual report, the net profit attributable to shareholders of the parent company for the year 2020 was RMB4,496.217 million; the net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses was RMB3,821.2118 million. It is assumed that the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after non-recurring gains and losses for the year 2021 are measured under the following three scenarios (the following assumptions do not represent the Company's judgment on the operating conditions and trends for 2021 and do not constitute the Company's earnings forecast).

   Scenario 1: Assuming that the net profit attributable to shareholders of the parent company and the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses recorded by the Company in 2021 will increase by 20% compared with the net profit attributable to shareholders of the parent company and the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020;

   Scenario 2: Assuming that the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses recorded by the Company in 2021 will increase by 10% compared with the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020;

   Scenario 3: Assuming that the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses achieved by the Company in 2021 will be the same compared with the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020;

6. Assuming that the impact on the production and operation and financial position of the Company after the proceeds are in place is not considered;

7. On 19 December 2019, the Company held the seventh Meeting of the seventh session of the Board and the fifth Meeting of the seventh session of the Board of Supervisors, and considered and approved the Proposal on Matters Related to the Initial Grant of Share Options Under the 2019 Share Option Scheme, and agreed to grant 25,680,000 Share Options of A Shares for the first time, with the date of grant on 19 December 2019, while reserving 2,740,900 Share Options of A Shares. On 10 February 2020, the Board considered and approved the adjustment of the initial grant from 25,680,000 Share Options to 25,600,000 Share Options. On 15 December 2020, the Company held the

fifteenth meeting of the seventh session of the Board of Directors and the twelfth meeting of the seventh session of the Board of Supervisors, which considered and approved the Proposal on Granting Reserved Share Options to IncentiveRecipients, and agreed to grant 2,730,000 Reserved Share Options, with the date of grant on 15 December 2020. It is assumed that there are no other potential dilutive ordinary shares in 2021 other than the Share Options initially granted under the Company's 2019 Share Option Scheme and the Reserved Share Options granted under the 2020 Share Option Scheme.

8. Assuming that there are no other matters that have an impact on the number of shares in 2021, such as conversion of capital reverse into share capital and dividend distribution.

9. When measuring the weighted average return on net assets of the Company, it is assumed that the impact of factors other than proceeds, profit distribution and net profit on net assets will not be considered.

(II) Impact on the main financial indicators of the Company

Based on the above assumptions and premises, the impact of the issuance on the main financial indicators of the Company is as follows.

Item	2020/ 31 December 2020	2021/31 December 2021	
		Before issuance	After issuance
Total share capital at the end of the period (0'000 shares)	284,208.93	284,208.93	369,471.61
Total proceeds this time (RMB0'000)			1,438,381.40
Number of A shares under the non-public issuance (10,000 shares)			85,262.68
Assumption 1: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses for the year 2021 increase by 20% compared with those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	539,546.04	539,546.04
Net profit attributable to owners of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	458,545.42	458,545.42
Basic earnings per share (RMB/share)	1.58	1.90	1.77
Basic earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.61	1.50
Diluted earnings per share (RMB/share)	1.58	1.90	1.77
Diluted earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.61	1.50
Weighted average ROE	10.34%	11.39%	10.61%

Item	2020/ 31 December 2020	2021/31 December 2021	
		Before issuance	After issuance
Weighted average ROE assets after deducting non-recurring gains and losses	8.79%	9.68%	9.02%
Assumption 2: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses for the year 2021 increase by 10% compared with those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	494,583.87	494,583.87
Net profit attributable to owners of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	420,333.30	420,333.30
Basic earnings per share (RMB/share)	1.58	1.74	1.62
Basic earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.48	1.38
Diluted earnings per share (RMB/share)	1.58	1.74	1.62
Diluted earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.48	1.38
Weighted average ROE	10.34%	10.49%	9.77%
Weighted average ROE after deducting non-recurring gains and losses	8.79%	8.92%	8.30%
Assumption 3: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses for the year 2021 are the same as those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	449,621.70	449,621.70
Net profit attributable to owners of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	382,121.18	382,121.18
Basic earnings per share (RMB/share)	1.58	1.58	1.47
Basic earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.34	1.25
Diluted earnings per share (RMB/share)	1.58	1.58	1.47
Diluted earnings per share after deducting non-recurring gains and losses (RMB/share)	1.34	1.34	1.25
Weighted average ROE	10.34%	9.58%	8.92%
Weighted average ROE after deducting non-recurring gains and losses	8.79%	8.14%	7.58%

Note: The above key financial indicators are calculated in accordance with the formula set forth in the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 -Calculation and Disclosure of ROE and Earnings per Share (revised in 2010).

II. NOTICE OF RISK OF DILUTION OF IMMEDIATE RETURN RESULTING FROM THIS ISSUANCE

The proceeds is intended to be used to replenish working capital and repay the Company's debts, which will help improve the Company's liquidity indicators and meet the Company's growing working capital needs with the expansion of business scale. However, it will take some time to use the proceeds and generate benefits. With the availability of the proceeds, the total share capital and net asset size of the Company will increase accordingly. In the short term after the proceeds are in place, the earnings per share of the Company may decrease to a certain extent compared with the previous year, and there is a risk of dilution of the earnings per share of the Company.

We specially remind investors to invest rationally and pay attention to the risk of dilution of current return resulting from this issuance.

III. RELATIONSHIP BETWEEN THE INVESTMENT PROJECTS USING PROCEEDS FROM THIS ISSUANCE AND THE EXISTING BUSINESS OF THE COMPANY

The proceeds, after deducting the relevant issuance expenses, will be used to replenish the working capital and repay the Company's debts, which will help meet the Company's working capital needs arising from the expansion of business scale, optimize the Company's capital structure, enhance the research and development capability and anti-risk capability, thus further enhancing the profitability and core competitiveness. The scope of business of the Company will remain unchanged after the issuance.

IV. MEASURES AND COMMITMENTS OF THE COMPANY FOR THE DILUTION OF IMMEDIATE RETURN RESULTING FROM THE OFFERING

In order to reduce the risk of dilution of the immediate return and enhance the return to the interests of shareholders of the Company, the Company intends to take the following measures:

(I) Strictly implement the management system of the proceeds to prevent the risk of using the proceeds

The proceeds, after deducting the issuance expenses, will be used to replenish the working capital and repay the Company's debts. In order to regulate the management and use of the proceeds and protect the interests of investors, the Company has formulated and improved the Measures for the Management of Proceeds in accordance with the requirements of laws, regulations and regulatory documents such as the Company Law, the Securities Law and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, and taking into account the actual situation of the Company. The proceeds will be deposited in the special account designated by the Company after they are available, and the use of the proceeds will be strictly managed and checked regularly to ensure that the proceeds are used reasonably and legally.

The Company will strive to improve the efficiency of capital use, improve and strengthen the investment decision-making procedures, design reasonable capital use plans, standardize and effectively use various financing tools and channels, control capital costs, save the Company's expenses and improve the efficiency of capital use.

(II) Further strengthen the Company's operation management and internal control to improve operational efficiency and profitability

The Company has formulated the internal control management system and corresponding internal control regulations in accordance with the requirements of the Company Law, the Basic Standard for Enterprise Internal Control and other relevant regulations, taking into account its own operating characteristics and risk factors, and has established a relatively sound internal control system, which is in line with the requirements of relevant national laws and regulations. On this basis, the Company will actively optimize and improve the operation and management level of the Company, optimize the management mode of the Company, strengthen the investment decision-making process, continuously improve the corporate governance structure, ensure that shareholders can fully exercise their rights, ensure that the Board can exercise its powers and make scientific and reasonable decisions in accordance with the provisions of the Articles of Association, ensure that independent directors can independently perform their duties, protect the Company and shareholders, especially the legitimate rights and interests of minority investors.

(III) Strictly implement the profit distribution policy and ensure the implementation of the investor return mechanism

In order to further strengthen the awareness of rewarding shareholders, improve the profit distribution system and provide shareholders with sustainable, stable and reasonable investment returns, the Company has formulated a Shareholder Return Plan in accordance with the Notice Regarding Further Implementation of Cash Dividend Distribution of Listed Companies (ZJF [2012] No. 37), the Regulatory Guidance No. 3 of Listed Companies – Cash Dividend Distribution of Listed Companies (CSRC Announcement [2013] No. 43) and other documents issued by the CSRC and the relevant provisions of the Articles of Association of the Company, taking into account the actual situation of the Company.

The Company will strictly implement the relevant regulations, effectively maintain a continuous, stable and scientific return planning and mechanism for investors, and will take into account the actual situation of the Company, policy guidance and market wishes, as well as the overall interests of all shareholders, actively implement profit distribution to shareholders under the conditions, and effectively protect the legitimate rights and interests of public investors.

In summary, after the completion of the issuance, the Company will reasonably regulate the use of the proceeds, improve the efficiency of the use of funds, take various measures to continuously improve its operating efficiency and performance, and actively promote the profit distribution to shareholders subject to conditions, so as to improve the Company's ability to return to investors and effectively reduce the risk of dilution of shareholders' immediate return.

The above measures formulated by the Company to make remedy to the return are not equivalent to guaranteeing the future profit of the Company, and investors should not make investment decisions based on them.

V. COMMITMENT OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY TO TAKE REMEDIAL MEASURES FOR THE DILUTION OF IMMEDIATE RETURN RESULTING FROM THE NON-PUBLIC ISSUANCE OF A SHARES OF THE COMPANY

The directors and senior management of the Company will faithfully and diligently perform their duties to safeguard the legitimate rights and interests of the Company and all shareholders. According to the relevant regulations of CSRC, the commitment of the directors and senior management of the Company to take remedial measures for the dilution of the immediate return resulting from the non-public issuance of A Shares of the Company is as follows.

"1. Undertake not to transfer benefits to other units or individuals without compensation or on unfair terms, or use other means to harm the interests of the Company;

2. Undertake to exercise restraint on my official consumption behavior;

3. Undertake not to use the Company's assets to engage in investment or consumption activities unrelated to the performance of duties;

4. Undertake to link the remuneration system formulated by the Board or the Remuneration and Evaluation Committee of the Board to the implementation of the Company's remedial measures on returns;

5. Undertake that if the Company subsequently launches the equity incentive policy, the exercise conditions of the Company's equity incentive to be announced will be linked to the implementation of the Company's remedial measures on returns;

6. From the issue date of the commitment to the completion of the implementation of the Company's non-public issuance of A Shares, if the CSRC makes other new regulatory provisions on the remedial measures on returns and its commitment, and if the above commitment cannot meet such provisions of the CSRC, I undertake to issue additional commitment in accordance with the latest provisions of the CSRC at that time;

7. Undertake to effectively implement the relevant return remedial measures formulated by the Company and any commitments made by me in relation to return remedial measures, and if I violate such commitments and cause losses to the Company or investors, I am willing to bear the compensation to the Company or investors in accordance with the law;

As one of the responsible subjects in relation to the remedial measures on returns, if I violate the above commitments or refuse to fulfill the above commitments, I agree that the CSRC, the Shanghai Stock Exchange and other securities regulatory authorities shall impose relevant penalties or take relevant regulatory measures against me in accordance with the relevant regulations and rules formulated or issued by them."

VI. COMMITMENT OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY TO TAKE REMEDIAL MEASURES FOR THE DILUTION OF IMMEDIATE RETURN RESULTING FROM THE NON-PUBLIC ISSUANCE OF A SHARES OF THE COMPANY

The commitments of SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group) to take remedial measures for the dilution of the current return resulting from the non-public issuance of A Shares of the Company are as follows:

"1. The Company undertakes not to exceed its authority to interfere with the operation and management activities of the Company and not to encroach on the interests of the Company;

2. If the Company violates such commitments and causes losses to the Company or investors, the Company is willing to bear the responsibility of compensation to the Company or investors in accordance with the law;

3. From the issue date of the commitment to the completion of the implementation of the Company's non-public issuance of A Shares, if the CSRC makes other new regulatory provisions on the remedial measures on returns and its commitment, and if the above commitment cannot meet such provisions of the CSRC, the Company undertakes to issue additional commitment in accordance with the latest provisions of the CSRC at that time;

As one of the responsible subjects in relation to the remedial measures on returns, if the Company violates the above commitments or refuses to fulfill the above commitments, the Company agrees that the CSRC, the Shanghai Stock Exchange and other securities regulatory authorities shall impose relevant penalties or take relevant regulatory measures against the Company in accordance with the relevant regulations and rules formulated or issued by them."

Shanghai Pharmaceuticals Holding Co., Ltd.*
Board of Directors

11 May 2021

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Stock Code: 601607 **Stock Short Name: SH PHARMA**
Bond Code: 155006 **Bond Short Name: 18SY01**

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.* FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE NON-PUBLIC ISSUANCE OF A SHARES IN 2021

SPH 上海医药 SHANGHAI PHARMA

May 2021

In order to accelerate the promotion of the Company's strategic layout, improve the Company's competitiveness and risk tolerance, and constantly promote the layout of the pharmaceutical and health industry, Shanghai Pharmaceuticals Holding Co., Ltd.* proposes to a non-public issuance of A shares in accordance with the provisions of the Measures for the Administration of Securities Issuance by Listed Companies issued by the China Securities Regulatory Commission (the "CSRC"), the Company explains the feasibility of using the proceeds from this issuance as follows:

Unless otherwise specified, the abbreviations in this feasibility report have the same meaning as those defined in the "Definitions" in the Proposed Non-Public Issuance of A Shares of Shanghai Pharmaceuticals Holding Co., Ltd.* in 2021.

I. PLAN FOR THE USE OF PROCEEDS FROM THIS ISSUANCE

The total proceeds from this non-public issuance will not exceed RMB14,383,814,000 (inclusive), and the net proceeds after deducting issuance costs will be used to supplement working capital and repay the Company's debts, of which: RMB3,000,000,000 will be used to repay the Company's debts, and the remaining funds will be used to supplement working capital.

II. NECESSITY AND FEASIBILITY OF RAISING FUNDS BY THIS ISSUANCE

(I) Necessity of raising funds by this issuance

1. Constantly enhancing the competitiveness of the pharmaceutical manufacturing and R&D industry segment through independent R&D and BD dual driving forces

Since 2015, the State Council, the National Medical Products Administration and the National Health Commission have successively issued a series of policies to encourage drug R&D innovation, opening an innovative era in the pharmaceutical industry. Seizing the opportunity of industry policies, the Company has made significant progress in several dimensions by constantly increasing investment in R&D innovation, introducing market-based

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mechanisms, promoting an open and diversified innovation model, accelerating external cooperation, building a nationwide and global-oriented innovation platform, and continuously strengthening the core strengths of the business of pharmaceutical manufacturing and R&D industry.

From 2018 to 2020, the Company's total R&D investment reached RMB4.87 billion, with a compound annual growth rate (CAGR) of 19.15%; the expensed R&D investment was RMB4.067 billion, accounting for a combined net profit attributable to shareholders of the parent company of up to 32.64% during the period. After years of technology accumulation and research investment, for innovative drugs, the Company's innovative drug pipeline has grown from 11 products in 2018 to 25 in 2020, 15 of which have been clinically used or marketed. For generic drugs, as of the end of March 2021, the total number of generic drugs evaluated for consistency by the Company reached 25 varieties (31 specifications), and several other varieties have completed the production application of ANDA in the United States and have been approved for marketing. In addition, the Company has conducted strategic cooperation with many research institutes and medical institutions, such as Shanghai Institute of Materia Medica of Chinese Academy of Sciences, CAS Center for Excellence in Molecular Cell Science, School of Medicine of Shanghai Jiao Tong University, School of Pharmacy of Fudan University, East China University of Science and Technology, Shanghai University of Traditional Chinese Medicine, Tianjin University of Traditional Chinese Medicine, Shanghai Ruijin Hospital, Shanghai Renji Hospital, Shanghai Tenth People's Hospital, and Shanghai Children's Medical Center. We are committed to promoting the R&D and transformation of pharmaceutical projects through project incubation, commercialization and targeted R&D.

As this non-public issuance will enhance the capital strength of the Company, it will be beneficial for the Company to further increase the investment in R&D, improve the construction of the three management centers of R&D, manufacturing and marketing in the industrial segment of the Company, promote the consistency evaluation of generic drugs, while strengthening international cooperation, constantly promoting cooperation with research institutes, universities and hospitals, building innovation platforms, translational medicine alliances and multiple innovative technology companies or featured platforms, constantly expanding the field of new indications, and improving the existing R&D system, thus maintaining the Company's leading position in the pharmaceutical manufacturing and R&D industry.

2. Seizing integration opportunities, improving operational efficiency, and consolidating the leading position of pharmaceutical distribution in China

The pharmaceutical distribution business is usually characterized by large capital consumption, so sufficient working capital is necessary for the Company to further expand its business scale and improve operational efficiency. With the in-depth implementation of reform policies such as "two-ticket system", "zero-plus" and "procurement with volume", the pharmaceutical distribution industry continues to transform and upgrade, industry integration continues to accelerate, the industry concentration is further increased and the pharmaceutical distribution industry has ushered in an important opportunity period for integration.

From 2018 to 2020, the revenue of the pharmaceutical distribution segment of the Company increased from RMB139,622 million to RMB168,166 million. With the continuous expansion of business scope and operation scale, the overall demand for working capital of the Company will also increase accordingly. As proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, they provide a strong guarantee for the Company to further expand its business scale, enhance operational efficiency and consolidate its position as a national leader in pharmaceutical distribution industry. Therefore, it is beneficial for the Company to make active response to the divergence of the industry's competitive landscape, strengthen its ability to sustain sound operations and enhance its core competitiveness.

3. Reducing financial costs and improving solvency

In order to support the strategic development of the Company's pharmaceutical manufacturing and R&D industry as well as distribution business, the Company has increased its capital expenditure in recent years, and at the same time, as the Company's assets and the scale of its pharmaceutical manufacturing and R&D industry as well as distribution business continue to grow, its daily working capital needs also increase. In order to meet the capital needs for business development, the Company not only replenishes working capital through cash from operating activities, but also raises funds through external financing such as bank borrowings, using financial leverage to support the Company's development, thus resulting in a high asset-liability ratio. In the past five years, the closing balance of short-term borrowings of the Company increased from RMB9,628 million at the end of 2016 to RMB20,139 million at the end of 2020; the closing balance of long-term borrowings increased from RMB838 million at the end of 2016 to RMB1,184 million at the end of 2020; the asset-liability ratio increased accordingly from 55.48% at the end of 2016 to 63.31% at the end of 2020.

As proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, the availability of the proceeds will help the Company optimize its capital structure, effectively control the growth of financial costs and provide financial security and driving force for the Company's future business development, which is in line with the interests of the Company and all shareholders.

(II) Feasibility of raising funds by this issuance

1. Using the proceeds from this issuance in accordance with the laws and regulations

As the Company's use of proceeds from this issuance is in compliance with the relevant laws, regulations and policies, this issuance is therefore feasible. As net assets and working capital of the Company will increase after the proceeds from this issuance become available, it is conducive to enhancing the capital strength of the Company, promoting the continued expansion of the scale of the pharmaceutical distribution business, strengthening the R&D strength of the pharmaceutical manufacturing and R&D industry business, gradually upgrading and improving the multi-dimensional strategic development direction on the basis of consolidating the competitive advantages of the original business, thereby significantly improving the profitability and market competitiveness of the Company and promoting the sustainable and sound development of the Company's business.

2. Using the proceeds from this issuance by entities with standardized governance and excellent internal control

The Company has established a modern enterprise system with corporate governance structure as the core in accordance with the governance standards of listed companies, and has formed a standardized corporate governance system and an excellent internal control environment through continuous improvement.

With regard to the management of the proceeds, the Company has formulated the Measures for the Management of Proceeds in accordance with the regulatory requirements, clearly stipulating the deposit, use, investment and supervision of the proceeds. After the proceeds from this issuance become available, the Company will continuously supervise the deposit and use of the proceeds to ensure the reasonable and standardized use of the proceeds and prevent the risk of using the proceeds.

III. IMPACT OF THIS ISSUANCE ON THE COMPANY'S FINANCIAL POSITION, PROFITABILITY AND CASH FLOW

(I) Impact on financial position

After the proceeds from this issuance become available, the total assets and net assets of the Company will increase accordingly, while the Company's asset-liability ratio and financial risks will be reduced accordingly, the financial structure will become more robust and reasonable, and the anti-risk capacity will be further enhanced. This issuance will provide a good guarantee for the Company's subsequent business development.

(II) Impact on profitability

After the completion of this issuance, the total share capital of the Company will increase, which may lead to a certain degree of dilution of the Company's return on equity ("ROE"), earnings per share and other indicators in the short term. However, when the proceeds from this issuance become available, it is conducive to enhancing the capital strength of the Company and meeting the capital needs arising from the rapid development of the various businesses of the Company. The strategic investors introduced by this issuance will match, integrate and coordinate resources for the Company from capital, industry, products to management in customer resources, brand management, market channels, R&D innovation, Comprehensive Health products, traditional Chinese medicine planting, pharmaceutical distribution, etc., and carry out strategic cooperation and innovative model expansion to bring new growth driver to the Company. In addition, this issuance will help reduce the Company's financial expenses and enhance the Company's profitability.

(III) Impact on cash flow

The cash inflow from financing activities will increase significantly after the proceeds from this non-public issuance become available. The issuance will enhance the capital strength of the Company, which is also conducive to enhancing the scale of the Company's business and increasing the cash flow from operating activities. The overall cash flow of the Company will be further optimized.

IV. CONCLUSION ON THE FEASIBILITY ANALYSIS OF THE USE OF PROCEEDS

In summary, the use of proceeds from this issuance is consistent with the future strategic development plan of the Company as a whole, as well as relevant policies and laws and regulations; therefore, it is necessary and feasible. After the completion of this issuance, the total assets and net assets of the Company will be increased accordingly, the capital strength will be further enhanced, the asset-liability ratio will be reduced and the financial structure will become more robust. This issuance is conducive to enhancing the overall competitive strength and sustainable development capability of the Company and laying the foundation for the strategic development of the Company, which is in the interests of the Company and its shareholders as a whole.

Shanghai Pharmaceuticals Holding Co., Ltd.*
Board of Directors

12 May 2021

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REPORT OF SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.* ON THE USE OF THE PREVIOUS PROCEEDS

Pursuant to the Regulations on the Report on the Use of the Previous Proceeds (ZJFXZ [2007] No.500) promulgated by the China Securities Regulatory Commission, the Report of the Shanghai Pharmaceuticals Holding Co., Ltd.* on the Use of the Previous Proceeds for the Year Ended 31 December 2020 (hereinafter referred to as "Report on the Use of the Previous Proceeds") is as follows:

I. INFORMATION ON THE PREVIOUS PROCEEDS

Additional issuance of overseas-listed foreign shares in 2017

Pursuant to the Approval of Additional Issuance of Overseas-Listed Foreign Shares by Shanghai Pharmaceuticals Holding Co., Ltd.* (ZJXK [2017] No. 2424) issued by the China Securities Regulatory Commission in December 2017, Shanghai Pharmaceuticals Holding Co., Ltd.* (hereinafter referred to as the "Company") was approved to issue no more than 153,178,784 foreign shares ("H Shares") to overseas investors at an issue price of HK$20.43 per share, fully paid up in Hong Kong dollars, amounting to HK$3,129,442,557.12 (equivalent to RMB2,539,542,635.10). Net of the issue expenses of HK$12,629,722.60 (equivalent to RMB10,239,148.42), the net proceeds of HK$3,116,812,834.52 (equivalent to RMB2,529,303,846.68) (hereinafter referred to as the "previous proceeds"), which were fully funded on 26 January 2018, were verified by PricewaterhouseCoopers Zhong Tian Certified Public Accountants (Special General Partnership) which issued the Capital Verification Report (PHYDZTYZ (2018) No. 0440).

As of 31 December 2020, the previous proceeds were fully utilized.

II. ACTUAL UTILIZATION OF THE PREVIOUS PROCEEDS

Additional issuance of overseas-listed foreign shares in 2017

Pursuant to the placing agreement of the Company's overseas-listed foreign shares issued in 2018, the net proceeds of HK$3,116,812,834.52 from the placing are planned to be used for industrial manufacturing and distribution business expansion and to supplement working capital. As of 31 December 2020, the Company actually invested HK$3,116,812,834.52 in the projects involving the use of proceeds and the aforesaid previous proceeds were fully utilized.

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The use of the previous proceeds of the Company as of 31 December 2020 was as follows:

Unit: HKD/(0'000)

Total amount of proceeds:					311,681	Total accumulated amount of proceeds used:				311,681
Total amount of proceeds with changed use:					0	Total amount of proceeds used in each year:				
Percentage of total proceeds with changed use:					0	2018:				311,681
						2019:				0
						2020:				0
Investment project			Total investment amount of proceeds			Accumulated investment amount of proceeds as of 31 December 2020				The date on which the project reaches its intended usable state (or the completion progress of the project as of the closing date)
No.	Committed investment project	Actual investment project	Committed investment amount before raising	Committed investment amount after raising	Actual investment amount	Committed investment amount after raising	Committed investment amount before raising	Actual investment amount	The difference between the actual investment amount and the committed investment amount after raising	
1	Industrial manufacturing and distribution business expansion and supplemental working capital	Industrial manufacturing and distribution business expansion and supplemental working capital	311,681	311,681	311,681	311,681	311,681	311,681	0	Completed

Note (I): If the relevant proceeds are not immediately used for the above purposes, the Company may deposit the relevant amounts into short-term interest-bearing accounts (such as deposit accounts or money market funds, etc.) with relevant commercial banks or other authorized financial institutions or use them to supplement the working capital of the Company and its subsidiaries.

Note (II): As of 31 December 2020, there were no projects invested by the Company that have been transferred or replaced to outside parties.

Note (III): Benefits realized from the investment projects with the previous proceeds as of 31 December 2020.

Not applicable.

The Company compared the actual utilization of the above-mentioned proceeds with the relevant contents disclosed in the Company's annual reports, interim reports and other information disclosure documents for the period from 31 December 2018 to 31 December 2020 on an item-by-item basis, and the actual utilization is consistent with the relevant contents disclosed.

Shanghai Pharmaceuticals Holding Co., Ltd.*

(Seal) Shanghai Pharmaceuticals Holding Co., Ltd.*

Legal Representative: Zhou Jun

Person in Charge of Accounting Work: Cho Man

Person in Charge of Accounting Institution: Shen Bo

Date: 11 May 2021

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Stock Code: 601607 **Stock Short Name: SH PHARMA** **Ref.: 2021-035**
Bond Code: 155006 **Bond Short Name: 18SY01**

ANNOUNCEMENT OF SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.* ON RISK WARNING REGARDING DILUTION ON CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE OF A SHARES AND REMEDIAL MEASURES AND UNDERTAKINGS THEREOF BY THE RELEVANT PARTIES

The Board of Directors of the Company and all of its directors warrant that the content contained in this announcement is free from any false information, misleading statements or material omissions, and will assume joint and several liabilities for the truthfulness, accuracy and completeness of the content in this announcement.

Important Note: The total share capital of the Company will increase after the fund raising, the earnings per share and return on equity ("ROE") may decrease to a certain extent, and there is a risk of dilution of shareholders' current returns. The "what-if" analysis on earnings per share and ROE in this announcement does not constitute the profit forecast of the Company, and the Company takes remedial measures on returns is not a guarantee of the Company's future profits, so investors are advised to be aware of investment risks.

The twenty-second meeting of the seventh session of the Board of Directors of Shanghai Pharmaceuticals Holding Co., Ltd.* has considered and approved the Proposal on the Company's Non-public Issuance of A Shares to Certain Investors which is subject to the consideration and approval of the general meeting of the Company and the approval of the China Securities Regulatory Commission (the "CSRC").

In accordance with the Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Minority Investors in Capital Market (Guo Ban Fa [2013] No. 110), Certain Opinions of the State Council on Further Promoting the Sound Development of the Capital Market (Guo Fa [2014] No. 17) and the Guidance Opinions in Relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing and Material Assets Reorganization (CSRC Announcement [2015] No. 31) and other documents, in order to protect the right to information of minority investors and safeguard the interests of minority investors, the Company has analyzed the impact of the dilution of current returns caused by the non-public issuance of A Shares on its key financial indicators and proposed specific remedial measures for returns, and the relevant parties have made undertakings that the remedial measures for returns to be taken by the Company will be effectively implemented. The matters related to the dilution of current returns by the non-public issuance of A Shares are explained as follows:

Unless otherwise specified, the abbreviations in this announcement have the same meaning as those defined in the "Definitions" in the Proposed Non-Public Issuance of A Shares of Shanghai Pharmaceuticals Holding Co., Ltd.* in 2021.

* *For identification purpose only*

I. IMPACT OF THE DILUTION OF CURRENT RETURNS BY THIS ISSUANCE ON THE KEY FINANCIAL INDICATORS OF THE COMPANY

The number of shares issued by the Company will not exceed 852,626,796 shares (including 852,626,796 shares) and will not exceed 30% of the total share capital of the listed company before this issuance, and the total amount of funds to be raised will not exceed RMB14,383,814,000. The impact of the dilution of current returns by this issuance on the key financial indicators of the Company is measured as follows:

(I) Main assumptions and explanations for the calculation of financial indicators

The Company's analysis of the impact of the dilution of current returns by this issuance on the key financial indicators of the Company is based on the following assumptions, which do not constitute any forecasts or commitments and do not represent the Company's judgment on the operating results and trends, and investors should not make investment decisions based on them, and the Company will not be liable for any losses caused by investors' investment decisions based on them. The relevant assumptions are as follows:

1. It is assumed that there are no significant adverse changes in the Company's business environment, such as domestic and international macroeconomic environment, industrial policies and industry development;

2. Calculated on the basis of the total share capital of the Company of 2,842,089,322 shares as of the date of this proposal, It is assumed that the number of shares to be issued is 852,626,796 shares (the final number of shares to be issued is subject to the approval of the CSRC), the total share capital of the Company after the completion of this issuance will be 3,694,716,118 shares and the total amount of funds raised will be RMB14,383,814,000, disregarding the effect of the issuance costs;

3. It is assumed that this issuance will be completed on 30 September 2021 (the completion time is estimated by the Company and is only used for estimation, and the actual completion time of this issuance will be subject to the approval of the CSRC);

4. It is assumed that for the year of 2020, the Company will pay cash dividends of RMB1,364,202,900 in June 2021, and the Company has no interim dividend plan;

5. According to 2020 Annual Report of the Company, the Company's net profit attributable to shareholders of the parent company in 2020 is expected to be RMB4,496,217,000; the Company's net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses is expected to be RMB3,821,211,800. It is assumed that the net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses in 2021 are measured under the following

three scenarios (the following assumptions do not represent the Company's judgment on the operating results and trends for 2021 and do not constitute the Company's earnings forecast):

Scenario 1: It is assumed that the Company's net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses realized in 2021 will increase by 20% compared with the net profit attributable to shareholders of the parent company and the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020, respectively;

Scenario 2: It is assumed that the Company's net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses realized in 2021 will increase by 10% compared with the net profit attributable to shareholders of the parent company and the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020, respectively;

Scenario 3: It is assumed that the Company's net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses realized in 2021 will be the same as the net profit attributable to shareholders of the parent company and the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses in 2020, respectively;

6. It is assumed that the impact on the production and operation and financial position of the Company after the proceeds from this issuance are received will not be considered;

7. On 19 December 2019, the Company held the seventh meeting of the seventh session of the Board of Directors and the fifth meeting of the seventh session of the Board of Supervisors, which considered and approved the Proposal on Matters Related to the Initial Grant of Share Options Under the 2019 Share Option Scheme, and agreed to grant 25,680,000 Share Options of A Shares for the first time, with the date of grant on 19 December 2019, while reserving 2,740,900 Share Options of A Shares. On 10 February 2020, the Board considered and approved the adjustment of the initial grant from 25,680,000 Share Options to 25,600,000 Share Options. On 15 December 2020, the Company held the fifteenth meeting of the seventh session of the Board of Directors and the twelfth meeting of the seventh session of the Board of Supervisors, which considered and approved the Proposal on Granting Reserved Share Options to Incentive Recipients, and agreed to grant 2,730,000 Reserved Share Options, with the date of grant on 15 December 2020. It is assumed that there are no other potential dilutive

ordinary shares in 2021 other than the Share Options initially granted under the Company's 2019 Share Option Scheme and the Reserved Share Options granted under the 2020 Share Option Scheme;

8. It is assumed that there will be no matters affecting the number of shares in 2021, including transfer from capital surplus to share capital and distribution of dividends;

9. It is assumed that the impact of factors other than proceeds, profit distribution and net profit on net assets will not be considered in measuring the weighted average ROE of the Company.

(II) Impact on the key financial indicators of the Company

Based on the above assumptions and premises, the impact of this issuance on the key financial indicators of the Company is as follows:

Item	Year 2020/31 December 2020	Year 2021/31 December 2021	
		Prior to this issuance	After this issuance
Total share capital at the end of the period (0'000 Shares)	284,208.93	284,208.93	369,471.61
Total proceeds (RMB0'000)			1,438,381.40
Number of A Shares under the Non-public Issuance (0'000 Shares)			85,262.68
Assumption 1: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses in 2021 increase by 20% compared with those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	539,546.04	539,546.04
Net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	458,545.42	458,545.42
Basic earnings per share (RMB per Share)	1.58	1.90	1.77
Basic earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.61	1.50
Diluted earnings per share (RMB per Share)	1.58	1.90	1.77
Diluted earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.61	1.50
Weighted average ROE	10.34%	11.39%	10.61%
Weighted average ROE after deducting non-recurring gains and losses	8.79%	9.68%	9.02%

Item	Year 2020/31 December 2020	Year 2021/31 December 2021	
		Prior to this issuance	After this issuance
Assumption 2: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses in 2021 increase by 10% compared with those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	494,583.87	494,583.87
Net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	420,333.30	420,333.30
Basic earnings per share (RMB per Share)	1.58	1.74	1.62
Basic earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.48	1.38
Diluted earnings per share (RMB per Share)	1.58	1.74	1.62
Diluted earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.48	1.38
Weighted average ROE	10.34%	10.49%	9.77%
Weighted average ROE after deducting non-recurring gains and losses	8.79%	8.92%	8.30%
Assumption 3: Net profit attributable to shareholders of the parent company and net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses in 2021 are the same as those in 2020, respectively			
Net profit attributable to shareholders of the parent company (RMB0'000)	449,621.70	449,621.70	449,621.70
Net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses (RMB0'000)	382,121.18	382,121.18	382,121.18
Basic earnings per share (RMB per Share)	1.58	1.58	1.47
Basic earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.34	1.25
Diluted earnings per share (RMB per Share)	1.58	1.58	1.47
Diluted earnings per share after deducting non-recurring gains and losses (RMB per Share)	1.34	1.34	1.25
Weighted average ROE	10.34%	9.58%	8.92%
Weighted average ROE after deducting non-recurring gains and losses	8.79%	8.14%	7.58%

Note: The above key financial indicators are calculated in accordance with the formulas set forth in the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 - Calculation and Disclosure of ROE and Earnings per Share (revised in 2010).

II. RISK WARNING FOR DILUTION OF CURRENT RETURNS BY THIS ISSUANCE

Proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, which will help improve the Company's liquidity indicators and meet the Company's growing working capital needs with the expansion of business scale. However, it will take some time to use the proceeds and generate benefits. With the availability of the proceeds, the total share capital and net assets of the Company will increase accordingly. In the short term after the availability of the proceeds, the earnings per share of the Company may decrease to a certain extent compared with the previous year, and there is a risk of dilution of the earnings per share of the Company.

Special reminder is made to investors to make rational investments and pay attention to the risk of possible dilution of immediate returns in this issuance.

III. NECESSITY AND FEASIBILITY OF THIS ISSUANCE

(I) Necessity of raising funds by this issuance

1. Constantly enhancing the competitiveness of the pharmaceutical manufacturing and R&D segment through independent R&D and BD dual driving forces

Since 2015, the State Council, the National Medical Products Administration and the National Health Commission have successively issued a series of policies to encourage drug R&D innovation, opening an innovative era in the pharmaceutical industry. Seizing the opportunity of industry policies, the Company has made significant progress in several dimensions by constantly increasing investment in R&D innovation, introducing market-based mechanisms, promoting an open and diversified innovation model, accelerating external cooperation, building a nationwide and global-oriented innovation platform, and continuously strengthening the core strengths of the business of pharmaceutical manufacturing and R&D industry.

From 2018 to 2020, the Company's total R&D investment reached RMB4.87 billion, with a compound annual growth rate (CAGR) of 19.15%; among which, the expensed R&D investment was RMB4.067 billion, accounting for a combined net profit attributable to shareholders of the parent company of up to 32.64% during the period. After years of technology accumulation and research investment, for innovative drugs, the Company's innovative drug pipeline has grown from 11 products in 2018 to 25 in 2020, 15 of which have been clinically used or marketed. For generic drugs, as of the end of March 2021, the total number of generic drugs consistency evaluation of the Company reached 25 varieties (31 specifications), and several other varieties have completed the production application of the US ANDA and have been approved for marketing. In addition, the Company has conducted strategic cooperation with many research institutes and medical institutions, such as Shanghai

Institute of Materia Medica of Chinese Academy of Sciences, CAS Center for Excellence in Molecular Cell Science, School of Medicine of Shanghai Jiao Tong University, School of Pharmacy of Fudan University, East China University of Science and Technology, Shanghai University of Traditional Chinese Medicine, Tianjin University of Traditional Chinese Medicine, Shanghai Ruijin Hospital, Shanghai Renji Hospital, Shanghai Tenth People's Hospital, and Shanghai Children's Medical Center. We are committed to promoting the R&D and transformation of pharmaceutical projects through project incubation, commercialization and targeted R&D.

As this non-public issuance will enhance the capital strength of the Company, it will be beneficial for the Company to further increase the investment in R&D, improve the construction of the three management centers of R&D, manufacturing and marketing in the industrial segment of the Company, promote the consistency evaluation of generic drugs, while strengthening international cooperation, constantly promoting cooperation with research institutes, universities and hospitals, building innovation platforms, translational medicine alliances and multiple innovative technology companies or featured platforms, constantly expanding the field of new indications, and improving the existing R&D system, thus maintaining the Company's leading position in the pharmaceutical manufacturing and R&D industry.

2. Seizing integration opportunities, improving operational efficiency, and consolidating the leading position of pharmaceutical distribution in China

The pharmaceutical distribution business is usually characterized by large capital consumption, so sufficient working capital is necessary for the Company to further expand its business scale and improve operational efficiency. With the in-depth implementation of reform policies such as "two-vote system", "zero cost increase" and "procurement with volume", the pharmaceutical distribution industry continues to transform and upgrade, industry integration continues to accelerate, and the industry concentration is further increased. The concentration of the industry has further increased, and the pharmaceutical distribution industry has ushered in an important opportunity period for integration.

From 2018 to 2020, the revenue of the pharmaceutical distribution segment of the Company increased from RMB139,622 million to RMB168,166 million. With the continuous expansion of business scope and operation scale, the overall demand for working capital of the Company will also increase accordingly. As proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, they provide a strong guarantee for the Company to further expand its business scale, enhance operational efficiency and consolidate its position as a national leader in pharmaceutical distribution industry. Therefore, it is beneficial for the Company's to make active response to the divergence of the industry's competitive landscape, strengthen its ability to sustain sound operations and enhance its core competitiveness.

3. *Reducing financial costs and improving solvency*

In order to support the strategic development of the Company's pharmaceutical manufacturing and R&D industry as well as distribution business, the Company has increased its capital expenditure in recent years, and at the same time, as the Company's assets and the scale of its pharmaceutical manufacturing and R&D industry as well as distribution business continue to grow, its daily working capital needs also increase. In order to meet the capital needs for business development, the Company not only replenishes working capital through cash from operating activities, but also raises funds through external financing such as bank borrowings, using financial leverage to support the Company's development, thus resulting in a high asset-liability ratio. In the past five years, the closing balance of short-term borrowings of the Company increased from RMB9,628 million at the end of 2016 to RMB20,139 million at the end of 2020; the closing balance of long-term borrowings increased from RMB838 million at the end of 2016 to RMB1,184 million at the end of 2020; the asset-liability ratio increased accordingly from 55.48% at the end of 2016 to 63.31% at the end of 2020.

As proceeds from this issuance are intended to be used to replenish working capital and repay the Company's debts, the availability of the proceeds will help the Company optimize its capital structure, effectively control the growth of financial costs and provide financial security and driving force for the Company's future business development, which is in line with the interests of the Company and all shareholders.

(II) Feasibility of raising funds by this issuance

1. *Using the proceeds from this issuance in accordance with the laws and regulations*

As the Company's use of proceeds from this issuance is in compliance with the relevant laws, regulations and policies, this issuance is therefore feasible. As net assets and working capital of the Company will increase after the proceeds from this issuance become available, it is conducive to enhancing the capital strength of the Company, promoting the continued expansion of the scale of the pharmaceutical distribution business, strengthening the R&D strength of the pharmaceutical manufacturing and R&D industry business, gradually upgrading and improving the multi-dimensional strategic development direction on the basis of consolidating the competitive advantages of the original business, thereby significantly improving the profitability and market competitiveness of the Company and promoting the sustainable and sound development of the Company's business.

2. *Using the proceeds from this issuance by entities with standardized governance and excellent internal control*

The Company has established a modern enterprise system with corporate governance structure as the core in accordance with the governance standards of listed companies, and has formed a standardized corporate governance system and an excellent internal control environment through continuous improvement.

With regard to the management of the proceeds, the Company has formulated the Measures for the Management of Proceeds in accordance with the regulatory requirements, clearly stipulating the deposit, use, investment and supervision of the proceeds. After the proceeds from this issuance become available, the Company will continuously supervise the deposit and use of the proceeds to ensure the reasonable and standardized use of the proceeds and prevent the risk of using the proceeds.

IV. RELATIONSHIP BETWEEN INVESTMENT PROJECTS USING PROCEEDS FROM THIS ISSUANCE AND THE COMPANY'S EXISTING BUSINESS, AND THE COMPANY'S RESERVES IN TERMS OF PERSONNEL, TECHNOLOGY, MARKETING, ETC. FOR PARTICIPATION IN RAISING AND INVESTMENT PROJECTS

The proceeds from this issuance, after deducting the issuance costs, will be used to replenish working capital and repay the Company's debts, which will help meet the Company's working capital needs arising from the expansion of business scale, optimize the Company's capital structure, enhance the R&D capability and risk tolerance, and thus further enhance the profitability and core competitiveness. The scope of business of the Company will remain unchanged after this issuance.

V. MEASURES AND UNDERTAKINGS OF THE COMPANY TO COPE WITH THE DILUTION OF CURRENT RETURNS BY THIS ISSUANCE

In order to reduce the risk of dilution of current returns by this issuance and enhance the return to the interests of shareholders of the Company, the Company intends to take the following measures:

(I) Strictly implementing the rules for the management of proceeds and preventing the risk of using the proceeds

The proceeds from this issuance, after deducting the issuance costs, will be used to replenish the working capital and repay the Company's debts. In order to standardize the management and use of the proceeds and protect the interests of investors, the Company has formulated and improved the Measures for the Management of Proceeds in accordance with the requirements of laws, regulations and regulatory documents such as the Company Law, the Securities Law and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, and taking into account the actual situation of the Company. As the proceeds will be deposited in a special account designated by the Company after they become available, the use of the proceeds will be strictly managed, and the use of the proceeds will be checked regularly so that the proceeds are used in a reasonable and legal manner.

The Company will make every effort to improve the efficiency of the use of funds, as well as improve and enhance the investment decision-making procedures by designing reasonable plans for the use of funds, using various financing tools and channels in a standardized and effective manner, controlling costs in using the proceeds, saving the Company's expenses and improving the efficiency of the use of funds.

(II) Further strengthening the management and internal control of the Company to improve operational efficiency and profitability

The Company has formulated the Rules for the Management of Internal Control and the corresponding internal control regulations in accordance with the requirements of the Company Law, the Basic Standard for Enterprise Internal Control and other relevant laws and regulations, taking into account its own operating characteristics and risk factors, and has established a relatively sound internal control system in compliance with the requirements of relevant laws and regulations of the state. On this basis, the Company will actively optimize and improve its operation and management level, optimize the management mode of the Company, strengthen the investment decision-making process, and constantly improve the corporate governance structure so that shareholders can fully exercise their rights, the Board can exercise its power and make scientific and reasonable decisions in accordance with the Articles of Association, and independent directors can independently perform their duties, thus protecting the legitimate rights and interests of the Company and shareholders, especially minority investors, and providing a scientific and effective governance structure and institutional guarantee for the sustainable development of the Company.

(III) Strictly implementing the profit distribution policy and ensuring the implementation of the investor return mechanism

In order to further increase the awareness of rewarding shareholders, improve the profit distribution system and provide shareholders with sustainable, stable and reasonable investment returns, the Company has formulated a Shareholder Return Plan in accordance with the Notice Regarding Further Implementation of Cash Dividend Distribution of Listed Companies (ZJF [2012] No. 37), the Regulatory Guidance No. 3 of Listed Companies — Cash Dividend Distribution of Listed Companies (CSRC Announcement [2013] No. 43) and other documents issued by the CSRC and the relevant provisions of the Articles of Association of the Company, taking into account the actual situation of the Company.

The Company will strictly implement the relevant regulations to effectively maintain a continuous, stable and scientific return plan and mechanism for investors, and subject to the conditions, the Company will actively implement the distribution of profits to shareholders so as to effectively protect the legitimate rights and interests of public investors, taking into account the actual situation of the Company, policy guidance and market wishes, as well as the overall interests of all shareholders.

In summary, after the completion of this issuance, the Company will reasonably standardize the use of the proceeds, improve the efficiency of the use of funds, and take multiple measures to continuously improve its operating efficiency and results. Subject to the conditions, the Company will actively promote the distribution of profits to shareholders so as to improve the Company's ability to deliver returns to investors and effectively reduce the risk of dilution of shareholders' immediate returns.

A special reminder is hereby provided that the above measures taken by the Company to remedy the returns do not represent a guarantee of the Company's future profits, and investors should not rely on them to make investment decisions.

VI. UNDERTAKINGS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY TO TAKE REMEDIAL MEASURES FOR THE DILUTION OF IMMEDIATE RETURNS RESULTING FROM THE COMPANY'S NON-PUBLIC ISSUANCE OF A SHARES

The directors and senior management of the Company will faithfully and diligently perform their duties to safeguard the legitimate rights and interests of the Company and all shareholders. According to the relevant regulations of the CSRC, the directors and senior management of the Company made the following undertakings that they will take remedial measures for the dilution of immediate returns resulting from the Company's non-public issuance of A Shares:

"1. I undertake not to transfer benefits to other units or individuals without compensation or on unfair terms, nor to harm the Company's interests by other means;

2. I undertake to restrain my duty consumption behavior;

3. I undertake not to use the Company's assets to engage in investment and consumption activities that are not related to my performance of duties;

4. I undertake that the compensation system established by the Board of Directors or its Remuneration and Appraisal Committee will be linked to the implementation of the Company's remedial measures;

5. I undertake that the exercise conditions of the Company's equity incentive plan to be announced are linked to the implementation of the Company's remedial measures for returns if the Company subsequently launches an equity incentive plan;

6. From the date of the issue of these undertakings to the completion of the implementation of the Company's non-public issuance of A Shares, if the CSRC makes other new regulatory requirements on the remedial measures for returns and its undertakings, and the above undertakings cannot meet the requirements of the CSRC, I undertake that I will then make additional undertakings in accordance with the latest provisions of the CSRC at that time;

7. I undertake to effectively perform the remedial measures for returns formulated by the Company and the undertakings made for such remedial measures for returns. If these undertakings are breached and cause losses to the Company or investors, I am willing to assume compensation responsibilities to the Company or investors by law;

As one of the responsible subjects related to the remedial measures for returns, if I violate the above undertakings or refuse to fulfill the above undertakings, I agree that the CSRC, Shanghai Stock Exchange and other securities regulatory authorities will make relevant penalties or take relevant regulatory measures against me in accordance with the relevant regulations and rules formulated or issued by these regulators."

VII. UNDERTAKINGS OF THE COMPANY'S CONTROLLING SHAREHOLDERS TO TAKE REMEDIAL MEASURES FOR THE DILUTION OF IMMEDIATE RETURNS RESULTING FROM THE COMPANY'S NON-PUBLIC ISSUANCE OF A SHARES

SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group) made the following undertakings that they will take remedial measures for the dilution of current returns caused by the Company's non-public issuance of A Shares:

"1. We undertake not to interfere with the business management activities of the Company beyond our authority and not to encroach on the interests of the Company;

2. If we violate such undertakings and causes losses to the Company or investors, we are willing to assume compensation responsibilities to the Company or investors by law;

3. From the date of the issue of these undertakings to the completion of the implementation of the Company's non-public issuance of A Shares, if the CSRC makes new regulatory requirements on the remedial measures for returns and its undertakings, and the above undertakings cannot meet the requirements of the CSRC, we undertake that we will then make additional undertakings in accordance with the latest provisions of the CSRC at that time;

As one of the responsible subjects related to the remedial measures for returns, if we violate the above undertakings or refuse to fulfill the above undertakings, we agree that the CSRC, Shanghai Stock Exchange and other securities regulatory authorities will make relevant penalties or take relevant regulatory measures against the Company in accordance with the relevant regulations and rules formulated or issued by these regulators."

It is hereby announced.

Shanghai Pharmaceuticals Holding Co., Ltd.*
Board of Directors

12 May 2021

* *For identification purpose only*

Shanghai Pharmaceuticals Holding Co., Ltd.*
Shareholder Return Plan for the Next Three Years (2021-2023)

In order to improve the return mechanism for the shareholders of the Company and fully safeguard the legitimate rights and interests of the shareholders of the Company, Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") has formulated the shareholder return plan for the next three years (2021-2023) (the "Shareholder Return Plan") in accordance with the Notice Regarding Further Implementation of Cash Dividend Distribution of Listed Companies (ZJF [2012] No. 37) and the Regulatory Guidance No. 3 of Listed Companies — Cash Dividend Distribution of Listed Companies (ZJF [2013] No. 43) issued by China Securities Regulatory Commission and the Guidance for Cash Dividend Distribution of Listed Companies issued by the Shanghai Stock Exchange and other relevant regulations, and taking into account the Articles of Association of the Company, as well as the Company's strategic planning for the development, development trend of the industry, return to shareholders, cost of social capital, external financing environment and other factors. Details are as follows:

I. CONSIDERATIONS FOR THE FORMULATION OF THE SHAREHOLDER RETURN PLAN

The Company will establish a sustainable, stable and scientific return mechanism for shareholders and maintain the continuity and stability of the profit distribution policy based on the principle of paying attention to reasonable investment returns to shareholders while taking into account the capital needs and sustainable development of the Company. The Company also pays attention to the balance between the requirements and wishes of shareholders and the capital needs and sustainable development of the Company. When formulating a specific dividend distribution plan, the Company should take into account the cost of funds from various external financing sources and the Company's cash flow to determine a reasonable cash dividend distribution ratio and reduce the Company's financial risk.

II. PRINCIPLES FOR THE FORMULATION OF SHAREHOLDER RETURN PLAN

1. The Company's shareholder return plan should strictly implement the profit distribution policy as stipulated in the Articles of Association.

2. The Company should fully consider and listen to the opinions and demands of shareholders (especially minority shareholders), independent directors and supervisors when formulating the shareholder return plan.

3. The Company should implement a scientific, sustainable and stable profit distribution policy in accordance with the principles of attaching importance to reasonable investment returns for investors and being conducive to the sustainable development of the Company.

III. SHAREHOLDER RETURN PLAN FOR THE NEXT THREE YEARS (2021-2023)

1. Forms of profit distribution

The Company may distribute dividends in the form of cash, stock or a combination of cash and stock. The Company can pay interim cash dividends if available.

2. Conditions and proportion of profit distribution

(1) Conditions and proportion of cash dividends

If the Company is profitable and the accumulated undistributed profits are positive, the Company should pay dividends in cash if there are no major investment plans or major cash expenditures, etc.; the accumulated profits distributed in cash dividends in the last three years should not be less than thirty percent (30%) of the average annual distributable profits in the last three years. The specific distribution plan will be determined at the general meeting of the Company based on the actual operating results of the Company.

The Company may not pay cash dividends in accordance with the provisions of the preceding article if one of the following circumstances exists: (1) The Company's distributable profits for the year are too small to be distributed; (2) an accounting firm issues an auditor's report with modified audit opinion on the Company's financial statements for the year; (3) the Company's year-end asset-liability ratio exceeds 70%; (4) the Company's distributable profits is mainly formed by non-recurring gains and losses or changes in fair value; (5) the Company has significant investment plans or significant capital expenditures (except for investment projects using proceeds from this issuance) in the next twelve months.

The above significant investment plan or significant capital expenditure refers to:

① The Company's proposed exterior investment (including equity investment, debt investment, venture capital, etc.), acquisition of equity or assets (tangible or intangible assets such as machinery and equipment, buildings, land use rights, etc.) within the next twelve months with cumulative expenditures reaching or exceeding 20% of the Company's audited net assets in the latest period;

② The Company's proposed exterior investment (including equity investment, debt investment, venture capital, etc.), acquisition of equity or assets (tangible or intangible assets such as machinery and equipment, buildings, land use rights, etc.) within the next twelve months with cumulative expenditures reaching or exceeding 10% of the Company's audited total assets in the latest period;

If the Company distributes profits in a combination of cash and stock, the Company's Board of Directors should take into account the characteristics of the industry in which it operates, its stage of development, its own business model, profitability level and whether it has significant investment plan or significant capital expenditure arrangements, and distinguish the following circumstances and propose a differentiated cash dividend program when distributing annual profits:

① If the Company is in a mature stage of development and has no significant investment plan or significant capital expenditure arrangements, the cash dividend should account for at least 80% of the profit distribution;

② If the Company is in a mature stage of development and has a significant investment plan or significant capital expenditure arrangements, the cash dividend should account for at least 40% of the profit distribution;

③ If the Company is in a growth stage of development and has a significant investment plan or significant capital expenditure arrangements, the cash dividend should account for at least 20% of the profit distribution.

(2) Conditions and proportion of stock dividend distribution

When the Company is doing well and the Board of Directors believes that the Company's share capital does not match the growing business scale of the Company, the Company may distribute profits in the form of stock dividends, provided that the Company has made the minimum distribution of cash dividends.

3. Interval of profit distribution period

In principle, the Company will pay cash dividends once a year if the above distribution conditions of cash dividends are met. Where conditions permit, the Board of Directors of the Company may propose the distribution of interim cash dividends based on the Company's earnings and capital needs and submit the proposal to the general meeting for consideration.

4. Procedures for consideration of profit distribution

(1) The profit distribution proposal of the Company is prepared by the Board of Directors. The Board of Directors of the Company correctly handles the relationship between the short-term interests and long-term development of the Company on the basis of full consideration of the interests of shareholders and determines a reasonable profit distribution plan based on the Company's operating results and future capital demand plan.

When the Company formulates specific plans for cash dividends, the Board of Directors should carefully study and discuss the timing, conditions and minimum proportion of the Company's cash dividends, conditions for adjustment and requirements of its decision-making procedures, and the independent directors should express clear opinions. The independent directors of the Company may solicit the opinions of minority shareholders, put forward dividend proposals and submit them directly to the Board of Directors for consideration.

(2) If board meetings are required to make a resolution on matters such as profit distribution of the Company, it is possible to first notify the certified public accountant of the distribution proposal to be submitted to the Board of Directors for consideration and request the auditor to issue a draft audit report accordingly (all financial information other than those involving matters such as profit distribution have been determined). After the Board of Directors has made a resolution on matters such as profit

distribution, the accountant is required to issue a formal audit report, and the Board of Directors should then make resolutions on other matters related to the regular report based on the formal audit report issued by the certified public accountant.

(3) The profit distribution proposal proposed by the Board of Directors should be approved by a majority of the votes of the Board of Directors. The independent directors should express independent opinions on the profit distribution proposal. The Board of Supervisors should review the profit distribution proposal prepared by the Board of Directors and submit a written review opinion. The profit distribution proposal should be submitted to the general meeting for consideration upon approved by the Board of Directors and the Board of Supervisors. Before the general meeting deliberates on the profit distribution proposal, the Company should take the initiative to communicate and exchange views with shareholders, especially minority shareholders, through various channels, such as public mailboxes, telephone calls, public solicitation of opinions, etc., to fully listen to the opinions and demands of minority shareholders, and promptly respond to the concerns of minority shareholders.

(4) After the resolution on the profit distribution plan is made at the general meeting, the Company must complete the distribution of dividends (or shares) within 2 months after the general meeting.

IV. FORMULATION CYCLE AND ADJUSTMENT MECHANISM OF THE SHAREHOLDER RETURN PLAN

1. Adjustment of the shareholder return plan

The Company should review its shareholder return plan for the next three years on a three-year cycle. The Company should determine whether the profit distribution policy and the shareholder return plan for the next three years should be adjusted based on the summary of the implementation of the shareholder return plan over the past three years, taking into full consideration the factors listed in the shareholder return plan and the opinions of shareholders (especially minority shareholders), independent directors and supervisors.

If it is necessary to adjust the shareholder return plan due to significant changes in the external business environment of the Company or if the existing specific shareholder return plan affects the sustainable operation of the Company, the Company may reformulate the shareholder return plan for the next three years in accordance with the basic principles established in the shareholder return plan.

2. Decision-making mechanism for the adjustment of the shareholder return plan

If the Company adjusts its profit distribution policy, the Board of Directors should prepare an adjustment plan on which the independent directors express their independent opinions and submit the plan to the general meeting for consideration and approval as a special resolution. The independent directors and the Board of Supervisors should express their opinions on the adequacy and reasonableness of the reasons for the adjustment or change of the profit distribution policy, the effectiveness of the consideration procedures and whether the conditions stipulated in the Articles of Association are met.

V. IMPLEMENTATION OF THE SHAREHOLDER RETURN PLAN

The shareholder return plan will be interpreted by the Board of Directors of the Company and will take effect and be implemented from the date of approval by the general meeting of the Company.

Shanghai Pharmaceuticals Holding Co., Ltd.*
Board of Directors

12 May 2021

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

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

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

Name	Position	Number of Shares held as at the Latest Practicable Date
Cho Man	Executive Director, President	500,009 A Shares [Note 1]
Li Yongzhong	Executive Director, Vice President	390,000 [Note 2]
Shen Bo	Executive Director, Vice President, Chief Financial Officer	461,700 A Shares [Note 3]
Huan Jianchun	Supervisor	3,000 H Shares

Note 1: As at Latest Practicable Date, Mr. Cho Man also had an interest in 480,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Note 2: As at Latest Practicable Date, Mr. Li Yongzhong had an interest in 390,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Note 3: As at Latest Practicable Date, Mr. Shen Bo also had an interest in 390,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

Save for Mr. Zhou Jun and Mr. Ge Dawei concurrently serving as Directors and directors and/or management members of SIIC and/or Shanghai Pharmaceutical (Group) Co., Ltd. and/or their subsidiaries, and Mr. Xu Youli concurrently serving as a Supervisor and/or management member of SIIC and/or its subsidiaries, as at the Latest Practicable Date, none of the Directors or Supervisors was a director, supervisor or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTERESTS

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

5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had any interest, direct or indirect, in any assets which have, since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(c) As at the date of this circular, none of the Directors or Supervisors of the Company was materially interested in any contract or arrangement subsisting at such date and which was significant in relation to the business of the Group.

6. EXPERT AND CONSENT

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

Name	**Qualifications**
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

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

As at the Latest Practicable Date, Maxa Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interest, direct or indirect, in any assets which have, since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from 9:00 a.m. to 5:00 p.m. on any business day (Saturdays and public holidays excepted) from the date of this circular up to and including the date of the EGM:

(a) the Shanghai Tandong Subscription Agreement;

(b) the Yunnan Baiyao Subscription Agreement;

(c) the Strategic Cooperation Agreement;

(d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on pages I-1 to I-2 of this circular;

(f) the letter from Maxa Capital, the text of which is set out on pages II-1 to II-26 of this circular;

(g) the written consent referred to in the section headed "Expert and Consent" in this appendix; and

(h) this circular.

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 EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting (the "**EGM**") 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 Thursday, 12 August 2021 at 2:00 p.m. to consider and approve the following proposals:

SPECIAL RESOLUTIONS

1. To consider and approve the proposal regarding the fulfilment of the criteria for the Proposed Non-public Issuance of A Shares.

2. To consider and approve the proposal regarding the Plan of the Proposed Non-public Issuance of A Shares. The main contents of the resolutions are set out as below (each to be considered and approved by way of separate special resolution):

   (1) class and par value of the shares to be issued;

   (2) method and time of issuance;

   (3) subscription method;

   (4) issue price and pricing principles;

   (5) number of shares to be issued and the subscribers;

   (6) lock-up period;

   (7) place of listing;

   (8) arrangement for the accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

   (9) validity period of the resolution in relation to the Proposed Non-public Issuance of A Shares; and

   (10) amount and use of proceeds.

3. To consider and approve the proposal regarding the Proposal for the Proposed Non-public Issuance of A Shares.

4. To consider and approve the proposal regarding the feasibility report on the use of proceeds from the Proposed Non-public Issuance of A Shares in 2021.

5. To consider and approve the proposal regarding the report on the use of proceeds previously raised by the Company.

6. To consider and approve the proposal regarding the dilution of immediate return resulting from the Proposed Non-public Issuance of A Shares and its remedial measures.

7. To consider and approve the proposal regarding the shareholders' return plan for the next three years (2021–2023).

8. To consider and approve the proposal regarding granting a specific mandate in relation to the Proposed Non-public Issuance of A Shares to the Board and authorizing the Board and its authorized persons to deal with relevant matters in relation to the Proposed Non-public Issuance of A Shares and the strategic cooperation.

9. To consider and approve the proposal regarding the introduction of strategic investors to the Company.

10. To consider and approve the proposal regarding the Strategic Cooperation Agreement between the Company and the strategic investor.

11. To consider and approve the proposal regarding the conditional subscription agreements between the Company and the Subscribers.

12. To consider and approve the proposal regarding the connected transaction relating to the Proposed Non-public Issuance of A Shares of the Company.

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

Shanghai, the PRC, 26 July 2021

As at the date of this notice, the executive directors of the Company are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive directors are Mr. ZHOU Jun, Mr. GE Dawei and Ms. LI An; and the independent non-executive directors are Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK.

* *For identification purpose only*

Notes:

1. Eligibility for attending the EGM 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 4:30 p.m. on 3 August 2021 are entitled to attend this EGM.

In order to attend this EGM, 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 4:30 p.m. on 3 August 2021.

2. Proxy

(1) Each shareholder entitled to attend and vote at the EGM may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

(2) The instrument appointing a proxy must be in writing by the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or signed by a director or a duly authorised attorney. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised.

To be valid, for holders of H Shares, the form of proxy, and notarised power of attorney or other document of authorisation 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 EGM.

(3) Any voting at the EGM shall be taken by poll.

3. Registration procedures for attending the EGM

(1) A shareholder or his proxy should produce proof of identity when attending the EGM. If a shareholder is a legal person, its legal representative or other person authorised by the board of directors or other governing body of such shareholder may attend the EGM 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 EGM in person or by their proxies should complete and return the reply slip for attending the EGM 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 2 August 2021.

4. 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 EGM will demand a poll in relation to all the proposed resolutions at the EGM in accordance with Article 104 of the Articles of Association.

5. Miscellaneous

(1) The EGM 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 People's Republic of China.

(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

(5) Please refer to the circular of the Company dated 26 July 2021 for the details of the resolutions to be proposed at the EGM for consideration and approval.

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 THE H SHARE CLASS MEETING

NOTICE IS HEREBY GIVEN that the H Share Class Meeting (the "**H Share Class 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, PRC on Thursday, 12 August 2021 at 2:00 p.m., to consider and approve the following proposals:

SPECIAL RESOLUTIONS

1. To consider and approve the proposal regarding the Plan of the Proposed Non-public Issuance of A Shares. The main contents of the resolutions are set out as below (each to be considered and approved by way of separate special resolution):

   (1) class and par value of the shares to be issued;

   (2) method and time of issuance;

   (3) subscription method;

   (4) issue price and pricing principles;

   (5) number of shares to be issued and the subscribers;

   (6) lock-up period;

   (7) place of listing;

   (8) arrangement for the accumulated undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

   (9) validity period of the resolution in relation to the Proposed Non-public Issuance of A Shares; and

   (10) amount and use of proceeds.

2. To consider and approve the proposal regarding the Proposed Non-public Issuance of A Shares.

3. To consider and approve the proposal regarding granting a specific mandate in relation to the Proposed Non-public Issuance of A Shares to the Board and authorizing the Board and its authorized persons to deal with relevant matters in relation to the Proposed Non-public Issuance of A Shares and the strategic cooperation.

4. To consider and approve the proposal regarding the conditional subscription agreements between the Company and the Subscribers.

5. To consider and approve the proposal regarding the connected transaction relating to the Proposed Non-public Issuance of A Shares of the Company.

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

Shanghai, the PRC, 26 July 2021

As at the date of this notice, the executive Directors are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive Directors are Mr. ZHOU Jun, Mr. GE Dawei and Ms. LI An; and the independent non-executive Directors are Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK.

* *For identification purpose only*

Notes:

1. Eligibility for attending the H Share Class 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 4:30pm on 3 August 2021 are entitled to attend this H Share Class Meeting.

In order to attend this H Share Class 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 4:30pm on 3 August 2021.

2. Proxy

(1) Each shareholder entitled to attend and vote at the H Share Class 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 appointor or his attorney duly authorized in writing, or if the appointor 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 appointor, the power of attorney authorizing that attorney to sign or other document 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 H Share Class Meeting.

(3) Any voting at the H Share Class Meeting shall be taken by poll.

3. Registration procedures for attending the H Share Class Meeting

(1) A shareholder or his proxy should produce proof of identity when attending the H Share Class Meeting. If a shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body of such shareholder may attend the H Share Class 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 H Share Class Meeting.

(2) Shareholders of the Company intending to attend the H Share Class Meeting in person or by their proxies should complete and return the reply slip for attending the H Share Class 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 2 August 2021.

4. Voting by poll

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

5. Miscellaneous

(1) The H Share Class 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:

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

(5) Please refer to the circular of the Company dated 26 July 2021 for the details of the resolutions to be proposed at the H Share Class Meeting for consideration and approval.