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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**上海醫藥集團股份有限公司**

**Shanghai Pharmaceuticals Holding Co., Ltd.\***

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

**(Stock Code: 02607)**

**ANNUAL REPORT FOR 2021  
REPORT OF THE BOARD OF DIRECTORS FOR 2021  
REPORT OF THE BOARD OF SUPERVISORS FOR 2021  
FINAL ACCOUNTS REPORT FOR 2021 AND FINANCIAL BUDGET FOR 2022  
PROFIT DISTRIBUTION PLAN FOR 2021  
RE-APPOINTMENT OF AUDITOR  
RENEWAL OF FINANCIAL SERVICES AGREEMENT AND  
DAILY RELATED/CONTINUING CONNECTED TRANSACTIONS AND  
DISCLOSEABLE TRANSACTIONS  
EXTERNAL GUARANTEES FOR 2022  
AMENDMENTS TO THE ADMINISTRATIVE MEASURES FOR FUNDS  
RAISED BY THE COMPANY  
ISSUANCE OF DEBT FINANCING PRODUCTS  
SATISFACTION OF CONDITIONS FOR ISSUING CORPORATE BONDS  
ISSUANCE OF CORPORATE BONDS  
GENERAL MANDATE OF THE COMPANY  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

**Independent Financial Adviser**

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



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

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

9 June 2022

\* For identification purpose only

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## DEFINITIONS

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

“2021 Annual General Meeting” or “Annual General Meeting” or “AGM”	the general meeting or any adjourned meeting thereof to be held by the Company on 30 June 2022 at 13:00 at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, PRC
“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
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“Company”, “Group” 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, the A shares of which are listed on the Shanghai Stock Exchange with stock code 601607.SH and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange with stock code 02607.HK); save that reference to the “Group” in Appendix II of this circular refers to Shanghai Pharmaceuticals Holding Co., Ltd.* and its subsidiaries
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“controlling shareholder(s)”	unless otherwise specified, has the meaning ascribed thereto under the Hong Kong Listing Rules, including Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司), Shanghai Shangshi and Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
“CSRC”	China Securities Regulatory Commission
“Directors”	the directors of the Company

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## DEFINITIONS

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“Existing Financial Services Agreement”	the Financial Services Agreement entered into between the Company and Shanghai Shangshi dated 28 March 2019 in respect of the Finance Company’s provision of deposit, loan and other financial services as the CBIRC may approve, to the Group
“Finance Company”	Shanghai Shangshi Group Finance Co., Ltd. (上海上實集團財務有限公司), a company incorporated in the PRC with limited liability
“Financial Services Agreement”	the Financial Services Agreement entered into between the Company and Shanghai Shangshi dated 29 March 2022 in respect of the Finance Company’s provision of deposit, loan and other financial services as the CBIRC may approve, to the Group
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), will be appointed as the independent financial adviser to the Independent Board Committee and independent shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement
“Guidelines on Connected Transactions”	Guidelines of the Shanghai Stock Exchange on Connected Transactions of Listed Companies (《上海證券交易所上市公司關聯交易實施指引》)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share(s)”	overseas listed foreign shares in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“Independent Board Committee”	the independent board committee of the Company, 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 connection with the terms of the deposit services under the Financial Services Agreement and the annual cap in respect thereof
“Independent Shareholder(s)”	Shareholder(s) other than Shanghai Shangshi Group and its associates

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## DEFINITIONS

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“Latest Practicable Date”	1 June 2022, 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, but for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Reporting Period”	the 12-month period from 1 January 2021 to 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC. Unless otherwise specified, all financial figures in this circular are denominated in RMB
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司), a company incorporated in the PRC with limited liability
“Shanghai Shangshi Group”	Shanghai Shangshi and its subsidiaries
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the shares of the Company
“SI Capital”	Shanghai Industrial Capital Co., Ltd. (上海上實資產經營有限公司), a company incorporated in the PRC with limited liability
“SIIC Dongtan”	SIIC Dongtan Investment & Development (Holdings) Co., Ltd. (上海實業東灘投資開發(集團)有限公司), a company incorporated in the PRC with limited liability
“SSE”	Shanghai Stock Exchange
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (《上海證券交易所股票上市規則》)
“Supervisor(s)”	the supervisor(s) of the Company
“%”	per cent

\* For identification purpose only

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LETTER FROM THE BOARD

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上海醫藥集團股份有限公司

**Shanghai Pharmaceuticals Holding Co., Ltd.\***

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

**(Stock Code: 02607)**

*Executive Directors:*

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

*Registered Address:*

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

*Non-executive Directors:*

Mr. ZHOU Jun  
Mr. GE Dawei  
Ms. LI An

*Principal Place of Business*

*in Hong Kong:*  
31/F, Tower Two, Times Square  
1 Matheson Street  
Causeway Bay, Hong Kong

*Independent Non-executive Directors:*

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

*To the Shareholders*

Dear Sir or Madam,

**ANNUAL REPORT FOR 2021  
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GENERAL MANDATE OF THE COMPANY  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

\* For identification purpose only

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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

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

Resolutions to be proposed at the AGM for the Shareholders to approve by way of ordinary resolutions include: (1) Annual Report for 2021; (2) Report of the Board of Directors for 2021; (3) Report of the Board of Supervisors for 2021; (4) Final Accounts Report for 2021 and Financial Budget for 2022; (5) Profit Distribution Plan for 2021; (6) Proposal regarding Re-appointment of Auditor; (7) Proposal regarding Renewal of Financial Services Agreement with Shanghai Shangshi Finance Co., Ltd. (上海上實財務有限公司) and Daily Related/Continuing Connected Transactions and Discloseable Transactions; (8) Proposal regarding External Guarantees for 2022; and (9) Proposal regarding Amendments to the Administrative Measures for Funds Raised by the Company.

Resolutions to be proposed at the AGM for the Shareholders to approve by way of special resolutions include: (10) Proposal regarding Issuance of Debt Financing Products; (11) Proposal regarding the Satisfaction of Conditions for Issuing Corporate Bonds; (12) Proposal regarding Issuance of Corporate Bonds; and (13) Proposal regarding the General Mandate of the Company.

### 2. ANNUAL REPORT FOR 2021

The Annual Report for 2021 of the Company has been dispatched, and published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.sphchina.com](http://www.sphchina.com)) on 25 April 2022.

### 3. REPORT OF THE BOARD OF DIRECTORS FOR 2021

#### (1) Overview of the Company's operation in 2021

The year 2021 is another year of recurring global pandemic and frequent issuance of pharmaceutical policies. Encouraging innovation and volume-based procurement of generic drugs are still hot spots; meanwhile, promoting the development of Chinese medicine industry and rare disease drug innovation are also quite concerned by the industry. Faced with great challenges and opportunities, the Company overcame multiple unfavorable situations, seized opportunities and strove for innovation, and achieved better development in all businesses. In 2021, the Company was once again listed among the Fortune Global 500, ranking the 437th, up 36 places from the previous year, and was once again selected as one of the Top 50 Global Pharmaceuticals, advancing its ranking up to 42nd.

In 2021, the operating income of the Company amounted to RMB215.824 billion (a year-on-year increase of 12.46%). Among them, the revenue of pharmaceutical manufacturing amounted to RMB25.098 billion (a year-on-year increase of 5.71%); the gross profit margin amounted to 57.80% (including sales revenue of RMB14.724 billion for 60 key varieties, a year-on-year increase of 9.31%, with average gross profit margin of 71.38%); the revenue of pharmaceutical service amounted to RMB190.726 billion (a year-on-year increase of 13.42%).

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## LETTER FROM THE BOARD

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The Company recorded RMB5.093 billion of net profit attributable to shareholders of the listed company, representing a year-on-year increase of 13.28%; RMB7.081 billion of net profit attributable to shareholders of the listed company plus R&D expenses, representing a year-on-year increase of 15.08%; RMB4.001 billion of net profit attributable to shareholders of the listed company, net of non-recurring profit and loss, representing a year-on-year increase of 4.70%; RMB5.988 billion of net profit attributable to shareholders of the listed company plus R&D expenses, net of non-recurring profit and loss, representing a year-on-year increase of 9.32%. The operating net cash inflow of the Company amounted to RMB5.061 billion, maintaining its high-quality development.

In 2021, the R&D investment of the Company reached RMB2.503 billion, representing a year-on-year increase of 26.94%, including RMB1.987 billion of R&D expenditure, representing a year-on-year increase of 19.96%.

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

In 2021, the 7th session of the Board of Directors of the Company and its special committees, carried out all work legally and efficiently with great diligence in accordance with the Articles of Association and relevant terms of references of each special committee:

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

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

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

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

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

- During the Reporting Period, the audit committee of the 7th session of the Board of Directors held nine meetings in total, during which, the audit committee discussed and reviewed the regular reports, audit plans, implementation of



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## LETTER FROM THE BOARD

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internal control, major and daily related/connected transactions, provided advice for the Group to strengthen its internal control mechanism and conscientiously performed its duties as the audit committee.

- During the Reporting Period, the nomination committee of the 7th session of the Board of Directors held one meeting in total, during which, the nomination committee discussed and reviewed the Proposal on Reviewing the Structure, Number, Composition and Diversity of Members of the Board of Directors, and conscientiously performed its duties as the nomination committee.
- During the Reporting Period, the remuneration and assessment committee of the 7th session of the Board of Directors held two meetings in total, during which, the remuneration and assessment committee discussed and reviewed the performance appraisal and compensation plan of senior management of the Company and the implementation of the last year, and conscientiously performed its duties as the remuneration and assessment committee.
- During the Reporting Period, the strategy committee of the 7th session of the Board of Directors held one meeting in total, during which, the strategy committee discussed and reviewed the “14th Five-Year” Development Plan of the Group, and conscientiously performed its duties as the strategy committee.

### ③ *Convening the Shareholders’ general meeting*

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

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

In 2021, in accordance with provisions and requirements of the Company Law, Securities Law, Standards on Corporate Governance of Listed Companies issued by the CSRC, the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant laws and regulations, the Company continuously improved the corporate governance structure and internal control of the Group. The Board of Directors has set up four special committees including audit committee, strategy committee, remuneration and assessment committee and nomination committee, which strengthened the organization construction and professionalism in decision-making of the Board of Directors.

Over the past year, thanks to the joint efforts of the Board of Directors, the management and all the staff, the Group has made achievements in improving the business performance and the governance structure. In 2022, the Board of Directors will, in strict accordance with the provisions and requirements of laws, regulations and Articles of Association as always, continue to standardize their operation and perform their duties conscientiously to constantly improve the enterprise competitiveness and hereby reward the investors with better business performance.

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## LETTER FROM THE BOARD

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### 4. REPORT OF THE BOARD OF SUPERVISORS FOR 2021

#### (1) Work of the board of supervisors in 2021

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

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

- The 13th meeting of the seventh session of the Board of Supervisors considered and approved the Proposal regarding the Provision of Goodwill Impairment;
- The 14th meeting of the seventh session of the Board of Supervisors considered and approved the Report of the Board of Supervisors for 2020, Final Accounts Report for 2020 and Financial Budget for 2021, Annual Report and its Summary for 2020, Profit Distribution Plan for 2020, and Proposal regarding the Payment of Auditors' Fees for 2020 and Re-appointment of Accounting Firm;
- The 15th meeting of the seventh session of the Board of Supervisors considered and approved the First Quarterly Report of 2021;
- The 16th meeting of the seventh session of the Board of Supervisors considered and approved: the Proposal regarding Compliance of the Company with Conditions of Non-Public Issuance of A Shares, the Proposal regarding the Plan of Non-Public Issuance of A Shares to Specific Target Subscribers by the Company, the Proposal regarding the Plan for Non-Public Issuance of A Shares of the Company, the Proposal regarding the Feasibility Report on the Use of Proceeds from the Non-Public Issuance of A Shares of the Company for 2021, the Proposal regarding the Special Report on the Use of Proceeds from Previous Fundraising Activities of the Company, the Proposal regarding the Dilution of Current Returns as a result of the Non-Public Issuance of A Shares of the Company and the Remedial Measures, the Proposal regarding the Shareholders' Return Plan of Shanghai Pharmaceuticals Holding Co., Ltd.\* for the Three Years from 2021 to 2023, the Proposal regarding the Introduction of Strategic Investors by the Company, the Proposal regarding the Conditional Strategic Cooperation Agreement entered into between the Company and Strategic Investors, the Proposal regarding the Conditional Share Subscription Contract entered into between the Company and Subscribers, and the Proposal regarding the Related Transactions involved in Non-Public Issuance of A Shares of the Company;
- The 17th meeting of the seventh session of the Board of Supervisors considered and approved the Interim Report of 2021 and its Summary;

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## LETTER FROM THE BOARD

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- The 18th meeting of the seventh session of the Board of Supervisors considered and approved the Third Quarterly Report of 2021.

Independent opinions of the Board of Supervisors:

- Independent opinions of the Board of Supervisors on the lawful operation of the Company: according to the Company Law of the PRC and the Articles of Association and other relevant laws and regulations, the Board of Supervisors supervised the convening procedures and resolutions of the Shareholders' general meetings and Board meetings, and implementation of resolutions of the Shareholders' general meetings by the Board of Directors. The Board of Supervisors considers that resolutions of the Shareholders' general meetings had been implemented effectively; the governance system of the Company had been further improved, and the modern enterprise system had been enhanced; and the Board of Directors was well operated with decision made rigorously. Directors and senior management were diligent, responsible, pragmatic and enterprising in performing their duties, and played an important role in improving the Company's governance, promoting decision effectiveness and maintaining Shareholders' interest.
- Independent opinions of the Board of Supervisors on the financial position of the Company: during the Reporting Period, the Annual Financial Report of 2021 of the Group thoroughly and truthfully reported the financial position and operation results of the Group. The standard unqualified auditor's reports, and the analysis and evaluation of the relevant matters issued by PricewaterhouseCoopers Zhong Tian LLP was objective and fair.
- Independent opinions of the Board of Supervisors on related/connected transactions of the Company: during the Reporting Period, the related/connected transactions of the Group were conducted in the principles of fairness, impartiality and openness, priced according to market prices and operated with standardized procedures with fully disclosed information, and did not harm the interests of the Company and minority Shareholders.
- Independent opinions of the Board of Supervisors on the modified opinion of the accounting firms: PricewaterhouseCoopers Zhong Tian LLP has issued standard unqualified auditor's report.
- Review and opinions of the Board of Supervisors on evaluation report of internal control: the Board of Supervisors has reviewed the Evaluation Report on Internal Control of Shanghai Pharmaceuticals Holding Co., Ltd. for 2021 and had no objection to the report.

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## LETTER FROM THE BOARD

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### **(2) Work plan for 2022**

In 2022, the Board of Supervisors will, with diligence and in strict compliance with the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies and other laws and regulations, perform its duty of supervising the operation and financial position of the Company, and the legality and compliance of the Directors and senior management of the Company in performing their duties to protect the legitimate rights and interests of the Company and the Shareholders.

### **5. FINAL ACCOUNTS REPORT FOR 2021 AND FINANCIAL BUDGET FOR 2022**

The Final Accounts Report for 2021 and Financial Budget for 2022 are set out in the Annual Report for 2021 of the Company.

### **6. PROFIT DISTRIBUTION PLAN FOR 2021**

As audited, in 2021, the Company's net profit attributable to shareholders of the listed company was RMB5,093,467,260.97. The balance of the Company's consolidated undistributed profit as of 31 December 2021 amounted to RMB28,598,598,034.67 after the addition of RMB25,054,352,978.09 of consolidated undistributed profit at the beginning of the year, the deduction of RMB1,364,202,874.56 of cash dividend in 2020, the withdrawal of RMB166,405,435.51 of statutory surplus reserve for 2021, and the decrease of other changes of RMB18,613,894.32.

The profit distribution plan for 2021 is as follows: it is proposed that, based on the total share capital of 3,695,507,249 Shares as at 18 April 2022 (the announcement date), cash dividend of RMB4.20 (tax inclusive) for every ten shares will be paid to all Shareholders, totaling RMB1,552,113,044.58 (tax inclusive), accounting for 30.47% of the consolidated net profit attributable to shareholders of the listed company for the current year. After distribution, the Company's remaining consolidated undistributed profit will be RMB27,046,484,990.09. There was no conversion of capital reserve into share capital during the Reporting Period. If the total share capital of the Company changes during the period up to the record date regarding the execution of the profit distribution, the Company intends to maintain the distribution amount per Share unchanged based on the total share capital on the record date regarding the execution of the profit distribution and the total profit distribution amount will be adjusted accordingly.

The announcements regarding the Company's profit distribution plan for 2021 and the adjustment to the total cash dividend under the 2021 profit distribution plan of the Company have been published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.sphchina.com](http://www.sphchina.com)).

### **7. PROPOSAL REGARDING RE-APPOINTMENT OF AUDITOR**

Since PricewaterhouseCoopers Zhong Tian LLP is an internationally reputable accounting firm qualified for securities related business that has extensive audit experience in A Shares and H Shares and in-depth understanding in respect of domestic and international accounting standards, it is capable of satisfying the requirements of the regulatory authorities and investors in both Mainland China and Hong Kong. Upon

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## LETTER FROM THE BOARD

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discussion with PricewaterhouseCoopers Zhong Tian LLP, the Company proposes to re-appoint PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for 2022 and authorize the Board of Directors to determine its remuneration.

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

Please refer to Appendix I to this circular.

**9. PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2022**

Please refer to Appendix II to this circular.

**10. PROPOSAL REGARDING AMENDMENTS TO THE ADMINISTRATIVE MEASURES FOR FUNDS RAISED BY THE COMPANY**

Shanghai Pharmaceuticals has completed the share registration at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited on 8 April 2022 for the newly added 852,626,796 A Shares through non-public issuance in 2021. The total proceeds amounted to RMB13,974,553,186.44. After deducting the underwriting and sponsor fees (excluding value-added tax), the actual proceeds received by the Company were RMB13,935,002,564.21. The actual proceeds received have been deposited into the special account for raising funds according to the Tripartite Supervision Agreement on the Proceeds entered into between the Company and the sponsors, including Essence Securities Co., Ltd., Industrial Bank Co., Ltd. Shanghai Huangpu Sub-branch, China Merchants Bank Co., Ltd. Shanghai Branch, and Bank of Communications Co., Ltd. Shanghai Hongkou Sub-branch.

In order to standardize the use and management of proceeds and protect the rights and interests of investors, in accordance with Shanghai Stock Exchange Self-Regulatory Supervision Guidelines for Listed Companies No. 1 – Standardised Operation (2022 Revision)《上海證券交易所上市公司自律監管指引第1號－規範運作(2022年修訂)》, and Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for Management and Use of Raised Funds of Listed Companies (2022 Revision)《上市公司監管指引第2號－上市公司募集資金管理和使用的監管要求(2022年修訂)》, the Company intends to amend the Administrative Measures for Funds Raised by the Company in light of its own actual conditions as follows:

## LETTER FROM THE BOARD

Original text	Amended to
<p><b>Article 2</b> These Measures are formulated based on laws, administrative regulations and regulatory documents, including the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Securities Law of the People’s Republic of China (hereinafter referred to as the “Securities Law”), the Administrative Measures for the Initial Public Offering and Listing of Stocks, the Administrative Measures for the Issuance of Securities by Listed Companies, the Listing Rules of the Shanghai Stock Exchange (hereinafter referred to as the “Listing Rules”), and the Notice on Further Standardising the Use of Raised Proceeds of Listed Companies (hereinafter referred to as the “Notice”) as well as the Articles of Association.</p>	<p><b>Article 2</b> These Measures are formulated based on laws, administrative regulations and regulatory documents, including the Company Law of the People’s Republic of China (<del>hereinafter referred to as the “Company Law”</del>), the Securities Law of the People’s Republic of China (<del>hereinafter referred to as the “Securities Law”</del>), the Administrative Measures for the Initial Public Offering and Listing of Stocks, the Administrative Measures for the Issuance of Securities by Listed Companies, the Listing Rules of the Shanghai Stock Exchange (<del>hereinafter referred to as the “Listing Rules”</del>), <del>and the Notice on Further Standardising the Use of Raised Proceeds of Listed Companies (hereinafter referred to as the “Notice”)</del>, <u>Shanghai Stock Exchange Self-Regulatory Supervision Guidelines for Listed Companies No. 1 – Standardised Operation, and Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for Management and Use of Raised Funds of Listed Companies</u> as well as the Articles of Association.</p>
<p><b>Article 6</b> The Directors, Supervisors and senior management of the Company should perform due diligence, supervise the compliant use of the funds raised by the Company, ensure the security of assets, and timely disclose the use of proceeds in accordance with the relevant laws, administrative rules, regulatory documents and the Articles of Associations.</p>	<p><b>Article 6</b> The Directors, Supervisors and senior management of the Company should perform due diligence, supervise the compliant use of the funds raised by the Company, <del>ensure the security of assets, and timely disclose the use of proceeds</del> <u>and take the initiative to maintain the safety of proceeds of the Company</u> in accordance with the relevant laws, administrative rules, regulatory documents and the Articles of Associations, <u>and may not engage in, assist in or allow any change to the use of the funds raised in an unauthorized or disguised manner.</u></p>
<p><b>Article 7</b> The Board of Directors of the Company shall establish an internal control system regarding the deposit, utilisation and management of proceeds, while specific regulations shall be established for aspects such as the deposit, utilisation, changes, supervision and accountability of proceeds.</p> <p>The Company shall file the internal control system regarding the deposit, utilisation and management of proceeds with the Shanghai Stock Exchange in a timely manner and disclose such information on its website.</p>	<p><b>Article 7</b> The Board of Directors of the Company shall establish an internal control system regarding the deposit, utilisation and management of proceeds, while specific regulations shall be established for aspects such as the deposit, utilisation, changes, supervision and accountability of proceeds, <u>as well as the application, approval authority at different levels, decision procedures, risks control measures and information disclosure procedures in respect of the use of proceeds.</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
	The Company shall <del>disclose</del> <u>file</u> the internal control system regarding the deposit, utilisation and management of proceeds <del>on</del> <u>with the website of the</u> Shanghai Stock Exchange in a timely manner <del>and disclose such information on its website.</del>
<p><b>Article 9</b> To facilitate the use of funds raised and the supervision thereof, the Company shall establish a special deposit account system of the proceeds. The proceeds shall be deposited in the special account for the proceeds (hereinafter referred to as “special account for the proceeds”), which is established with the approval of the Board of Directors or the board of the executive Directors authorized by the Board of Directors. The special account for the proceeds shall not be deposited with other capitals or for other uses.</p> <p>The sponsor(s) shall pay attention to the use of proceeds of the Company and progress of projects financed thereby during the period of continuous monitoring. The Company shall offer support and assistance to the sponsor(s) for its/their performance of duties.</p>	<p><b>Article 9</b> To facilitate the use of funds raised and the supervision thereof, the Company shall establish a special deposit account system of the proceeds. The proceeds shall be deposited in the special account for the proceeds (hereinafter referred to as “special account for the proceeds”), which is established with the approval of the Board of Directors or the board of the executive Directors authorized by the Board of Directors. The special account for the proceeds shall not be deposited with other capitals or for other uses.</p> <p>The sponsor(<del>s</del>) <u>agency(ies)</u> shall pay attention to the use of proceeds of the Company and progress of projects financed thereby during the period of continuous monitoring. The Company shall offer support and assistance to the sponsor(<del>s</del>) <u>agency(ies)</u> for its/their performance of duties.</p>
<p><b>Article 11</b> The Company shall, within two weeks upon receipt of the proceeds, sign a tripartite supervision agreement for the deposits in the special account for the proceeds (hereinafter referred to as the “Agreement”) with the sponsor and the commercial bank designated for the deposit of proceeds (hereinafter referred to as the “Commercial Bank”). The content of the Agreement shall at least include the followings:</p> <p>(1) The Company shall deposit the proceeds in the special account for the proceeds in a centralized manner;</p> <p>(2) Where the amount drawn by the Company once at a time or aggregately from the special account for the proceeds within twelve (12) months exceeds RMB fifty (50) million and accounts for twenty percent (20%) of the total amount of proceeds net of the issuance cost (hereinafter referred to as “Net Proceeds”), the Company shall timely notify the sponsor;</p>	<p><b>Article 11</b> The Company shall, within <del>two weeks</del> <u>one (1) month</u> upon receipt of the proceeds, sign a tripartite supervision agreement for the deposits in the special account for the proceeds (hereinafter referred to as the “Agreement”) with the sponsor <u>or the independent financial adviser</u> and the commercial bank designated for the deposit of proceeds (hereinafter referred to as the “Commercial Bank”). The content of the Agreement shall at least include the followings:</p> <p>(1) The Company shall deposit the proceeds in the special account for the proceeds in a centralized manner;</p> <p>(2) <u>Account numbers of the special account for the proceeds, the relevant fund raising projects and the amount;</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
<p>(3) The commercial bank shall present reconciliation statements to the Company on a monthly basis and make a copy to the sponsor;</p> <p>(4) The sponsor may at any time inquire the information on the special account for the proceeds from the commercial bank;</p> <p>(5) The liability for breaching the agreement of the Company, the commercial bank and the sponsor.</p> <p>The Company shall, within two (2) trading days upon the signing of the above agreement, file with the Shanghai Stock Exchange and make announcement thereon.</p> <p>In the event of early termination of the above agreement before expiry of the period of validity due to reasons such as change of sponsors or the commercial bank, the Company shall enter into new agreement with related parties within two weeks from the date of termination and shall, within two (2) trading days upon the signing of the new agreement, file with the Shanghai Stock Exchange and make announcement thereon.</p>	<p><del>(23)</del> Where the amount drawn by the Company once at a time or aggregately from the special account for the proceeds within twelve (12) months exceeds RMB fifty (50) million and accounts for twenty percent (20%) of the total amount of proceeds net of the issuance cost (hereinafter referred to as “Net Proceeds”), the Company shall timely notify the sponsor <u>or the independent financial adviser</u>;</p> <p><del>(34)</del> The commercial bank shall present reconciliation statements to the Company on a monthly basis and make a copy to the sponsor <u>or the independent financial adviser</u>;</p> <p><del>(45)</del> The sponsor <u>or the independent financial adviser</u> may at any time inquire the information on the special account for the proceeds from the commercial bank;</p> <p><del>(6)</del> <u>The supervisory duties of the sponsor or the independent financial adviser, the notification and cooperation duties of the commercial bank, and the supervisory methods of the sponsor or the independent financial adviser and the commercial bank on the use of proceeds of the Company;</u></p> <p><del>(7)</del> The liability for breaching the agreement of the Company, the commercial bank, the sponsor <u>or the independent financial adviser</u>;</p> <p><del>(8)</del> <u>If the commercial bank fails to duly issue a reconciliation statement to the sponsor or the independent financial adviser for three (3) times, and does not facilitate the sponsor or the independent financial adviser in inquiring about and investigating the special accounts, the Company may terminate the agreement and cancel the special account for the proceeds.</u></p> <p>The Company shall, within two (2) trading days upon the signing of the above agreement, <del>file with the Shanghai Stock Exchange and</del> make announcement thereon.</p>



## LETTER FROM THE BOARD

Original text	Amended to
	<p>In the event of early termination of the above agreement expiry of before the period of validity <del>due to reasons such as change of sponsor or the commercial bank</del>, the Company shall enter into new agreement with related parties within two weeks from the date of termination and shall, within two (2) trading days upon the signing of the new agreement, <del>file with the Shanghai Stock Exchange and</del> make announcement thereon.</p>
<p><b>Article 14</b> The investment projects shall be carried out according to the schedule as confirmed by the Board. The project department of the Company shall establish the project management system, to carry out inspection and supervision on the use of the proceeds, progress of projects and quality of projects and shall also establish projects files.</p> <p>The finance department of the Company shall establish and optimize relevant accounting records and original ledgers for the activities involving the use of the proceeds, and shall regularly inspect and supervise the use conditions and effects of the use of proceeds.</p> <p>The Company shall fully examine the progress of the investment projects financed by proceeds subsequent to the end of each accounting year.</p>	<p><b>Article 14</b> The investment projects shall be carried out according to the schedule as confirmed by the Board. The project department of the Company shall establish the project management system, to carry out inspection and supervision on the use of the proceeds, progress of projects and quality of projects and shall also establish projects files.</p> <p>The finance department of the Company shall establish and optimize relevant accounting records and original ledgers for <del>the activities involving</del> the use of the proceeds, <u>record in detail the expense of proceeds and the input into projects financed by proceeds</u>, and shall regularly inspect and supervise the use conditions and effects of the use of proceeds.</p> <p>The Company shall fully examine the progress of the investment projects financed by proceeds subsequent to the end of each accounting year.</p>
<p><b>Article 15</b> Where the Company has disclosed in relevant documents issued in connection with the application for issue that it proposed to replace previously invested self-raised funds with the proceeds and that the previously invested amount has been ascertained, such replacement shall be implemented only after the accounting firm has performed relevant special audit, the sponsor has issued its opinion on such replacement and the Board of Directors of the Company has reviewed and approved such replacement. The Board of Directors of the Company shall report to the Shanghai Stock Exchange within two trading days upon the completion of the replacement and make an announcement accordingly.</p>	<p><b>Article 15</b> <del>Where</del> <u>The proceeds of the Company has disclosed in relevant documents issued in connection with the application for issue that it proposed to replace previously invested self-raised funds with the proceeds and that the previously invested amount has been ascertained, such replacement shall, in principle, be applied to the principal businesses.</u> <del>The Company shall not use the proceeds in any of the following ways:</del> <u>be implemented only after the accounting firm has performed relevant special audit, the Sponsor has issued its opinion on such replacement and the Board of Directors of the Company has reviewed and approved such replacement. The Board of Directors of the Company shall report to the Shanghai Stock Exchange within two trading days upon the completion of the replacement and make an announcement accordingly.</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
<p>Save for the above, the Company shall perform corresponding procedures and disclosure obligations in accordance with the change of the investment projects funded by the proceeds for any replacement of previously invested internal funds with proceeds.</p>	<p><del>Save for the above, the Company shall perform corresponding procedures and disclosure obligations in accordance with the change of the Proceeds Investment Projects for any replacement of previously invested internal funds with proceeds.</del></p> <p><u>(1) The investment projects financed by proceeds are financial investments such as financial assets held for trading and other equity instruments investment, lending to others and entrusted financial management, and being invested, either directly or indirectly, in any company which is principally engaged in securities trading;</u></p> <p><u>(2) Change the use of proceeds in disguise through pledge, entrusted loans or other ways;</u></p> <p><u>(3) Provide proceeds, directly or indirectly, to the controlling shareholder(s), de facto controller(s) and other related parties for use, or provide benefits to related parties for inappropriate gains from the investment projects financed by proceeds;</u></p> <p><u>(4) Other acts in violation of the provisions on the administration of raised proceeds.</u></p>
<p><b>Article 16</b> The Company shall use the proceeds in accordance with the investment plan for the proceeds as committed in the issuance application documents. If any of the following events occurs to an investment project financed by proceeds, the Company shall assess the feasibility and estimated profitability of such project to decide if it should proceed with its implementation, and disclose the progress of the project, reasons for the abnormalities and the adjusted project financed by proceeds (if any) in its latest periodic report:</p> <p>(1) Any material change in the market environment in which the investment project financed by proceeds is involved;</p> <p>(2) Suspension of the investment project financed by proceeds for over one (1) year;</p>	<p><b>Article 16</b> The Company shall use the proceeds in accordance with the investment plan for the proceeds as committed in the issuance application documents. If any of the following events occurs to an investment project financed by proceeds, the Company shall assess the feasibility and estimated profitability of such project to decide if it should proceed with its implementation, <del>and disclose the progress of the project, reasons for the abnormalities and the adjusted project financed by</del> proceeds (if any) in its latest periodic report:</p> <p>(1) Any material change in the market environment in which the investment project financed by proceeds is involved;</p> <p>(2) Suspension of the investment project financed by proceeds for over one (1) year;</p>

## LETTER FROM THE BOARD

Original text	Amended to
<p>(3) Failure to meet the deadline specified in the investment plan of the proceeds and the actual invested amount is less than fifty percent (50%) of the proposed investment amount;</p> <p>(4) Other abnormalities of the investment project financed by proceeds.</p> <p>In the event that the use of proceeds has to be changed due to market changes, this shall be considered by the Board and submitted to the general meeting for approval in accordance with legal procedures. The Company shall in principle invest the proceeds after its use has been changed in main businesses.</p>	<p>(3) Failure to meet the deadline specified in the investment plan of the proceeds and the actual invested amount is less than fifty percent (50%) of the proposed investment amount has been actually contributed;</p> <p>(4) Other abnormalities of the investment project financed by proceeds.</p> <p><u>The Company shall disclose the progress of the project and reasons for the abnormalities in its latest periodic report. In the event that the use of proceeds investment plan has to be adjusted</u><del>changed</del> due to market changes, the Company shall disclose <del>this shall be considered by the Board and submitted to the general meeting for approval in accordance with legal procedures. The Company shall in principle invest</del> the proceeds <u>investment plan after being adjusted</u><del>its use has been changed in main businesses.</del></p>
-	<p><u>Article 18</u> The use of the proceeds by the Company for the following purposes shall be subject to consideration and approval by the Board, with express consents given by independent Directors, the Board of Supervisors and the sponsor or the independent financial adviser:</p> <p><u>(1) Replacement of the self-raised funds previously injected in the investment projects with the proceeds raised;</u></p> <p><u>(2) Use of temporarily idle proceeds for cash management;</u></p> <p><u>(3) Use of temporarily idle proceeds for temporary replenishment of working capital;</u></p> <p><u>(4) Change of the use of the proceeds;</u></p> <p><u>(5) Use of surplus raised proceeds for projects under construction and new projects.</u></p> <p><u>Changes in the use of proceeds shall also be considered and approved by the general meeting.</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
	<p><u>Where any connected transaction, asset acquisition or external investment is involved, the review procedure and disclosure obligation shall be performed in accordance with the relevant regulations of the Shanghai Stock Exchange.</u></p>
-	<p><u><b>Article 19</b> When the Company invested with self-raised funds in the investment project financed with the proceeds in advance, it may replace its self-raised funds with the proceeds within six (6) months after the proceeds are received, with a verification report to be issued by an accounting firm.</u></p>
-	<p><u><b>Article 20</b> The Company may carry out cash management of temporarily idle proceeds, in respect of which the term of the investment product shall not be longer than the term authorized by internal resolutions and shall not exceed twelve (12) months. After the expired proceeds for the above investment products are returned to the special account for proceeds on schedule and a public announcement is made, the Company can carry out cash management again within the authorized period and quota.</u></p> <p><u>The invested products must meet the following conditions:</u></p> <p><u>(1) High-safety and principal-guaranteed products such as structured deposits and certificate of deposits;</u></p> <p><u>(2) Good liquidity without affecting the normal progress of the investment plans of the proceeds. The investment products shall not be pledged, and the special product settlement account (if applicable) shall not be used for the deposition of the funds other than raised funds or for any other purposes, and in case of opening or cancelling a special product settlement account, the Company shall file with the Shanghai Stock Exchange and make an announcement thereon within two (2) trading days.</u></p>
-	<p><u><b>Article 21</b> Where the Company invests in products with the idle proceeds, upon consideration and approval from the Board of Directors, the Company shall within two (2) trading days make an announcement containing the followings:</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
	<p><u>(1) The basic information on the proceeds, including the time of raising, the amount and net amount of the proceeds and, investment plans, etc.;</u></p> <p><u>(2) The information on the use of the proceeds;</u></p> <p><u>(3) The quota and duration of the idle proceeds for investing in products, whether there are any disguised changes in the usage of the proceeds and the measures for ensuring the normal progress of projects funded by the proceeds;</u></p> <p><u>(4) The income distribution method, investment scope and safety of the investment products;</u></p> <p><u>(5) Opinions issued by the independent Directors, the Board of Supervisors, the sponsor or independent financial adviser.</u></p> <p><u>The Company shall in a timely manner make an announcement of risk reminder and indicate the risk control measures adopted by the Company to guarantee the safety of the funds in the event of any deterioration in the financial conditions of the issuer of the products, loss suffered from the invested products and other material risks.</u></p>
<p><b>Article 18</b> The Company shall ensure the safety of the proceeds which have not been put into use and shall not divert the proceeds for other projects. The Company may temporarily use the idle proceeds to replenish working capital under the following conditions:</p> <p>(1) Usage of raised proceeds shall not be changed covertly, and normal progress of the investment plan of the proceeds shall not be affected;</p> <p>(2) The amounts used to replenish working capital on an individual basis shall not be more than fifty percent (50%) of the net proceeds raised;</p> <p>(3) Duration for replenishing working capital on an individual basis shall not exceed six (6) months; and</p>	<p><b>Article <del>18</del>22</b> The Company shall ensure the safety of the proceeds which have not been put into use and shall not divert the proceeds for other projects. The Company may temporarily use the idle proceeds to replenish working capital under the following conditions:</p> <p>(1) Usage of raised proceeds shall not be changed covertly, and normal progress of the investment plan of the proceeds shall not be affected;</p> <p>(2) <del>The amounts used to replenish working capital on an individual basis shall not be more than fifty percent (50%) of the net proceeds raised;</del> <u>It shall be only used for production and operation related to the principal businesses, and shall not be directly or indirectly used for placement or subscription for new shares, or trading in stocks and any derivative instruments or convertible bonds, etc.;</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
<p>(4) Any proceeds previously used for temporary replenishment of working capital, if applicable and falling due, have been returned.</p> <p>The temporary use of idle proceeds to replenish working capital by the Company shall be subject to the consideration and approval by the Board of Directors of the Company, with opinions given by independent Directors, sponsor(s) and the Board of Supervisors. The Company shall report to the Shanghai Stock Exchange and make an announcement thereon within two (2) trading days. Any use of idle proceeds in excess of ten percent (10%) of the proceeds to replenish working capital is subject to the consideration and approval by the general meeting and on-line voting shall be provided for the general meeting.</p> <p>Before the expiration date of replenishing the working capital, the Company shall return certain proceeds to the special account for proceeds, and report to the Shanghai Stock Exchange and make an announcement thereon within two (2) trading days after the full payback of the proceeds.</p>	<p>(3) Duration for replenishing working capital on an individual basis shall not exceed <del>six (6)</del> <u>twelve (12)</u> months; <del>and</del></p> <p>(4) Any proceeds previously used for temporary replenishment of working capital, if applicable and falling due, have been returned.</p> <p><del>The temporary use of idle proceeds to replenish working capital by the Company shall be subject to the consideration and approval by the Board of Directors of the Company, with opinions given by independent directors, sponsor(s) and the Board of Supervisors. The Company shall report to the Shanghai Stock Exchange and make an announcement thereon within two (2) trading days. Any use of idle proceeds in excess of ten percent (10%) of the proceeds to replenish working capital is subject to the consideration and approval by the shareholders in a general meeting and on-line voting shall be provided for the general meeting.</del></p> <p>Before the expiration date of replenishing the working capital, the Company shall return certain proceeds to the special account for proceeds, and <del>report to the Shanghai Stock Exchange and</del> make an announcement thereon within two (2) trading days after the full payback of the proceeds.</p>
-	<p><u>Article 23 Any occurrence of the following events in the Company is deemed to be a change of the use of proceeds, and such change shall be submitted to the Board of Directors for consideration and approval. In respect of such change, the Company shall make an announcement in a timely manner, and comply with the approval procedures of the general meeting:</u></p> <p><u>(1) Cancellation or termination of the original project financed by the proceeds and implementation of a new project;</u></p> <p><u>(2) Change of the subject of implementation of a project financed by the proceeds;</u></p> <p><u>(3) Change of the implementation methods of a project financed by the proceeds;</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
	<p><u>(4) Any other situation deemed by the Shanghai Stock Exchange as a change of the use of proceeds.</u></p> <p><u>Changes in the implementation subject of the investment projects financed by the proceeds between the Company and the wholly-owned subsidiary, or only the change of the implementation location of the investment projects financed by the proceeds, shall not be deemed as a change of the use of the proceeds, and may be exempted from the shareholders' general meeting procedure, but shall be subject to the consideration and approval by the Board of Directors. An announcement shall be made timely on the reasons for the change of the implementation subject or implementation location, as well as the opinions of the sponsor.</u></p>
<p><b>Article 19</b> After completion of individual investment projects financed by the proceeds, if the Company will use the remaining proceeds (including interest income) for other investment projects, such use of proceeds shall be considered and approved by the Board, and may be used after consents have been expressed by the independent Directors, sponsor(s) and the Board of Supervisors.</p> <p>If the amount of remaining proceeds (including interest income) is less than RMB one (1) million or less than five percent (5%) of the committed investment amount of proceeds for the project, the procedures stipulated in the preceding clause may be waived and the use of such proceeds shall be disclosed in the annual report.</p> <p>If the remaining proceeds (including interest income) from individual investment projects financed by the proceeds of the Company will be used for other non-proceeds financed investment projects (including supplementing working capital), the relevant procedures and disclosure obligations for a change in investment projects shall be performed accordingly.</p>	<p><b>Article 1924</b> After completion of individual investment projects financed by the proceeds, if the Company will use the remaining proceeds (including interest income) for other investment projects, such use of proceeds shall be considered and approved by the Board, and may be used after <u>explicit</u> consents have been expressed by the independent Directors, sponsor(<del>s</del>) <u>agencies</u> and the Board of Supervisors. <u>The Company shall make a timely announcement after consideration by the Board of Directors.</u></p> <p>If the amount of remaining proceeds (including interest income) is less than RMB one (1) million or less than five percent (5%) of the committed investment amount of proceeds for the project, the procedures stipulated in the preceding clause may be waived and the use of such proceeds shall be disclosed in the annual report.</p> <p>If the remaining proceeds (including interest income) from individual investment projects financed by the proceeds of the Company will be used for other non-proceeds financed investment projects (including supplementing working capital), the relevant procedures and disclosure obligations for a change in investment projects shall be performed accordingly.</p>

## LETTER FROM THE BOARD

Original text	Amended to
<p><b>Article 20</b> After the completion of all investment projects financed by the proceeds, if the remaining proceeds (including interest income) represent more than ten percent (10%) of the net proceeds, such proceeds may be used after consideration and approval by the Board and the general meeting and after consents have been expressed by independent Directors, sponsor(s) and the Board of Supervisors.</p> <p>If the amount of remaining proceeds (including interest income) is less than ten percent (10%) of the net proceeds raised, such proceeds may be used after consideration and approval by the Board and after explicit consents have been expressed by independent Directors, sponsor(s) and the Board of Supervisors.</p> <p>If the amount of remaining proceeds (including interest income) is less than RMB five (5) million or less than five percent (5%) of the net proceeds, performance of the procedures stipulated in the preceding clause may be waived, but the use of such proceeds shall be disclosed in the latest periodic report.</p>	<p><b>Article 20<del>5</del></b> After the completion of all investment projects financed by the proceeds, <u>the remaining proceeds (including interest income) may be used after consideration and approval by the Board and after explicit consents have been expressed by independent Directors, sponsor(s) and the Board of Supervisors. The Company shall make a timely announcement after consideration and approval by the Board of Directors.</u> <del>¶If the remaining proceeds (including interest income) represent more than ten percent (10%) of the net proceeds, such proceeds may also be considered and approved at</del> <del>be used after consideration and approval by the Board and the general meeting and after explicit consents have been expressed by independent Directors, sponsor(s) and the Board of Supervisors.</del></p> <p><del>If the amount of remaining proceeds (including interest income) is less than ten percent (10%) of the net proceeds raised, such proceeds may be used after consideration and approval by the Board and after explicit consents have been expressed by independent Directors, sponsor(s) and the Board of Supervisors.</del></p> <p>If the amount of remaining proceeds (including interest income) is less than RMB five (5) million or less than five percent (5%) of the net proceeds, performance of the procedures stipulated in the preceding clause may be waived, but the use of such proceeds shall be disclosed in the latest periodic report.</p>
-	<p><b>Article 26</b> <u>When the Company invested the portion of the actual net proceeds of the Company that exceeds the amount of the planned proceeds (hereinafter referred to as “Surplus Raised Proceeds”) in projects under construction and new projects (including acquisition of assets), the investment will be limited to its principal activities. The Company shall apply the applicable regulations for change of proceeds to conduct the feasibility analysis of the investment projects in a scientific and diligent manner, and carry out the obligation of disclosure in a timely manner.</u></p>



## LETTER FROM THE BOARD

Original text	Amended to
-	<p><u>Article 27</u> The Surplus Raised Proceeds may be used to permanently replenish the working capital and repay bank loans, but the cumulative amount in every twelve (12) months shall not exceed 30% of the total amount of the Surplus Raised Proceeds and the Company shall undertake that it will not make any high risk investments or provide financial assistance to others other than its holding subsidiaries of the Company within twelve (12) months after replenishing its working capital.</p> <p>Use of the Surplus Raised Proceeds for the purpose of permanently replenishing the working capital or repayment of bank loans is subject to the consideration and approval by a board meeting and a general meeting of the Company, with the manner of online voting provided for shareholders and explicit consent given by independent Directors, the Board of Supervisors, the sponsor(s) or independent financial advisers. The Company shall make relevant announcement on the following upon consideration and approval by the Board:</p> <p>(1) <u>The basic information on the proceeds, including the time of raising, the total amount and net amount of the proceeds raised, the amount of the Surplus Raised Proceeds and investment plan, etc.;</u></p> <p>(2) <u>The information on the use of the proceeds;</u></p> <p>(3) <u>The necessity of and detailed plan for the Surplus Raised Proceeds used for permanently replenishing the working capital or repaying bank loans;</u></p> <p>(4) <u>The undertaking of not making any high risk investments or providing financial assistance for others within twelve (12) months after replenishing the working capital;</u></p> <p>(5) <u>The impact of the use of the Surplus Raised Proceeds for permanently replenishing the working capital or repaying bank loans on the Company;</u></p> <p>(6) <u>Opinions issued by independent Directors, the Board of Supervisors, the sponsor(s) or the independent financial adviser.</u></p>

## LETTER FROM THE BOARD

Original text	Amended to
-	<p><b>Article 28</b> <u>Where the investment projects funded by the proceeds have not been completed within the original deadline and are to be postponed for further implementation, the Company shall disclose in time the specific reasons for the failure to complete on schedule, explanation on the deposit and accounting status of the proceeds, whether there is any situation affecting the normal progress of the utilisation plan of the proceeds, the estimated completion time, and relevant measures for guaranteeing the completion on schedule after the extension. It shall also implement the corresponding decision-making procedure for the delayed investment projects.</u></p>
<p><b>Article 21</b> Alteration of usage of raised proceeds is subject to consideration by the Board of Directors of the Company and approval by way of resolutions of the shareholders' general meeting.</p> <p>Where the Company merely changes the implementing site of the fundraising project, it may be exempted from the preceding procedures, but shall be subject to the consideration and approval of the Board of the Company. The Company shall report to the Shanghai Stock Exchange and announce the reasons for the change and the sponsor's opinion within two (2) trading days.</p>	<p><b>Article 219</b> Alteration of usage of raised proceeds is subject to consideration by the Board of Directors of the Company and approval by way of resolutions of the shareholders' general meeting.</p> <p><del>Where the Company merely changes the implementing site of the fundraising project, it may be exempted from the preceding procedures, but shall be subject to the consideration and approval of the Board of the Company. The Company shall report to the Shanghai Stock Exchange and announce the reasons for the change and the sponsor's opinion within two (2) trading days.</del></p>
<p><b>Article 22</b> The use of proceeds after change shall be invested in its principal business. After the proposed change, the Board of the Company shall conduct feasibility analysis of the new proceeds-financed investment project prudently to ensure that the investment project will have better market prospect and profitability, can prevent investment risk effectively and enhance the efficiency of the use of proceeds.</p> <p>Proposed change in the use of proceeds by the Company shall be reported to the Shanghai Stock Exchange and an announcement shall be made with the following contents:</p> <p>(1) Basic information of the original projects and specific reasons for the change;</p>	<p><b>Article 2230</b> The use of proceeds after change shall be invested in its principal business. After the proposed change, the Board of the Company shall conduct feasibility analysis of the new proceeds-financed investment project prudently to ensure that the investment project will have better market prospect and profitability, can prevent investment risk effectively and enhance the efficiency of the use of proceeds.</p> <p>Proposed change in the use of proceeds by the Company shall be <del>reported to the Shanghai Stock Exchange and an announcement shall be made</del> announced timely with the following contents <u>after being submitted to the Board for consideration:</u></p> <p>(1) Basic information of the original projects and specific reasons for the change;</p>

## LETTER FROM THE BOARD

Original text	Amended to
<p>(2) Basic information, market prospect and warning of risks of the new projects;</p> <p>(3) Investment plan of the new projects;</p> <p>(4) Explanation on the approval of the relevant authority which have been obtained or to be obtained for the new projects (if applicable);</p> <p>(5) Opinions of independent Directors, the Board of Supervisors and the sponsor(s) on the change in use of proceeds;</p> <p>(6) Explanation on the change of investment projects for use of proceeds pending for submission to the general meeting for consideration;</p> <p>(7) Other information as required by the China Securities Regulatory Commission and/or the Shanghai Stock Exchange.</p> <p>New investment projects financed by the proceeds involving related party transactions, acquisition of assets and external investments shall also be disclosed in accordance with the requirements of the relevant rules.</p>	<p>(2) Basic information, market prospect and warning of risks of the new projects;</p> <p>(3) Investment plan of the new projects;</p> <p>(4) Explanation on the approval of the relevant authority which have been obtained or to be obtained for the new projects (if applicable);</p> <p>(5) Opinions of independent Directors, the Board of Supervisors, the sponsor(s) <u>or the independent financial adviser</u> on the change in use of proceeds;</p> <p>(6) Explanation on the change of investment projects for use of proceeds pending for submission to the general meeting for consideration;</p> <p>(7) Other information as required by the China Securities Regulatory Commission and/or the Shanghai Stock Exchange.</p> <p>New investment projects financed by the proceeds involving related party transactions, acquisition of assets and external investments shall also be disclosed in accordance with the requirements of the relevant rules.</p>
<p><b>Article 23</b> If the Company changes in the use of proceeds to acquire asset (including equity) of the controlling shareholder or de facto controller, it shall ensure that peer competition can be avoided effectively and connected transactions can be reduced after the acquisition.</p> <p>The Company shall disclose the reasons for conducting transaction with the controlling shareholder or de facto controller, the pricing policy and the pricing basis for connected transactions, the effect of connected transaction on the Company and the measures for resolving relevant problems.</p>	<p><b>Article 231</b> If the Company changes the use of proceeds to acquire asset (including equity) of the controlling shareholder or de facto controller, it shall ensure that peer competition can be avoided effectively and connected transactions can be reduced after the acquisition.</p> <p><del>The Company shall disclose the reasons for conducting transaction with the controlling shareholder or de facto controller, the pricing policy and the pricing basis for connected transactions, the effect of connected transaction on the Company and the measures for resolving relevant problems.</del></p>

## LETTER FROM THE BOARD

Original text	Amended to
<p><b>Article 24</b> If the Company proposes to transfer or replace the investment project financed by the proceeds to a third party (excluding those transfers or replacements of the investment project financed by the proceeds to a third party which are completed during the reorganization of the Company's material assets), the Company shall report to the Shanghai Stock Exchange and make an announcement containing the following information within two (2) trading days after such proposal is submitted to the Board for consideration:</p> <p>(1) The specific reasons for the transfer or replacement of the investment project financed by the proceeds;</p> <p>(2) The amount of the proceeds already used in the project;</p> <p>(3) The stage of completion and the realized benefits of the project;</p> <p>(4) An overview, a feasibility analysis and risk warnings (if applicable) regarding the substitute project;</p> <p>(5) The basis for determination of the price of the transfer or replacement and relevant gains;</p> <p>(6) The opinions of the independent Directors, the Board of Supervisors, and sponsor in respect of the transfer or replacement of the investment project financed by the proceeds;</p> <p>(7) A statement specifying that the transfer or replacement of the investment project financed by the proceeds is to be submitted to the general meeting for consideration;</p> <p>(8) Such other information as required by the Shanghai Stock Exchange.</p> <p>The Company shall pay close attention to the collection and use of the consideration for the transfer, the change of ownership for the replacement assets, and the ongoing operation of the replacement assets, and perform the requisite obligation of information disclosure.</p>	<p><b>Article 24<del>32</del></b> If the Company proposes to transfer or replace the investment project financed by the proceeds to a third party (excluding those transfers or replacements of the investment project financed by the proceeds to a third party which are completed during the reorganization of the Company's material assets), the Company shall <del>report to the Shanghai Stock Exchange</del> and make an announcement containing the following information within two (2) trading days after such proposal is submitted to the Board for consideration:</p> <p>(1) The specific reasons for the transfer or replacement of the investment project financed by the proceeds;</p> <p>(2) The amount of the proceeds already used in the project;</p> <p>(3) The stage of completion and the realized benefits of the project;</p> <p>(4) An overview, a feasibility analysis and risk warnings (if applicable) regarding the substitute project;</p> <p>(5) The basis for determination of the price of the transfer or replacement and relevant gains;</p> <p>(6) The opinions of the independent Directors, the Board of Supervisors, and sponsor <u>agencies or the independent financial adviser</u> in respect of the transfer or replacement of the investment project financed by the proceeds;</p> <p>(7) A statement specifying that the transfer or replacement of the investment project financed by the proceeds is to be submitted to the general meeting for consideration;</p> <p>(8) Such other information as required by the Shanghai Stock Exchange.</p> <p><del>The Company shall pay close attention to the collection and use of the consideration for the transfer, the change of ownership for the replacement assets, and the ongoing operation of the replacement assets, and perform the requisite obligation of information disclosure.</del></p>

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## LETTER FROM THE BOARD

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Original text	Amended to
<p><b>Article 25</b> The President and the internal audit department of the Company shall held an office meeting, and inspect the deposit and use of the proceeds at least on a quarterly basis and timely report the inspection result to the Audit Committee. If the Audit Committee is of the opinions that there is material non-compliance in the management of proceeds of the Company, it shall report timely to the Board. The Board shall report to the Shanghai Exchange after receipt of the report and make an announcement in a timely manner. The contents of the announcement include existing non-compliance in the management of proceeds, the consequences that have been or may be caused, and the measures that have been or intended to be adopted.</p>	<p><b>Article 2533</b> The <del>President and the</del> internal audit department of the Company shall held an <del>office</del> meeting, and inspect the deposit and use of the proceeds at least on a <del>quarterly</del> <u>biannual</u> basis and timely report the inspection result to the Audit Committee. If the Audit Committee is of the opinions that there is material non-compliance <u>or significant risk</u> in the management of proceeds of the Company, <u>or internal audit department fails to submit the inspection result in accordance with the preceding provision</u>, it shall report timely to the Board. The Board shall report to the Shanghai <u>Stock Exchange</u> after receipt of the report and make an announcement in a timely manner. <del>The contents of the announcement include existing non-compliance in the management of proceeds, the consequences that have been or may be caused, and the measures that have been or intended to be adopted.</del></p>

## LETTER FROM THE BOARD

Original text	Amended to
-	<p><b>Article 34</b> <u>The Board of the Company should conduct a comprehensive inspection of the progress of the investment projects financed by the proceeds every half year and issue a Special Report of the Deposit and Actual Utilisation of the Proceeds of the Company (hereinafter referred to as the “Special Report of Proceeds”) regarding the deposit and utilisation of proceeds.</u></p> <p><u>If the actual progress of the investment project financed by the proceeds deviates from the investment plan, the Company should provide the specific reasons in the Special Report of Proceeds. If there are current investment products using idle proceeds, the Company should disclose the revenue during the reporting period and investment share, parties, product name, term and other information as at the end of period in the Special Report of Proceeds.</u></p> <p><u>The Special Report of Proceeds is subject to the consideration and approval by the Board and the Board of Supervisors, then a announcement shall be made in a timely manner upon the submission to the Board for consideration</u></p> <p><u>During the annual audit, the Company should engage an accounting firm to issue a verification report for the deposit and utilisation of proceeds and disclose on the website of the Shanghai Stock Exchange when disclosing the annual report.</u></p>
<p><b>Article 26</b> Independent Directors shall pay attention to whether any material difference exists between the actual utilisation of proceeds and the information disclosed by the Company. With consent from more than half of the independent Directors, the independent Directors may engage an accounting firm to conduct a special audit on the utilisation of proceeds. The Company shall fully cooperate with the special audit work and bear the necessary audit costs.</p>	<p><b>Article 2635</b> <u>Independent Directors, the Audit Committee of the Board of Directors and Board of Supervisors shall continuously pay attention to whether any material difference exists between the actual management and utilisation of proceeds and the information disclosed by the Company.</u> With consent from more than half of the independent Directors, the independent Directors may engage an accounting firm to <del>conduct a special audit on</del> <u>issue a verification report for the deposit and utilisation of proceeds.</u> The Company shall fully cooperate <del>with the special audit work</del> and bear the necessary audit costs.</p>

## LETTER FROM THE BOARD

Original text	Amended to
<p><b>Article 27</b> The Board shall report to the Shanghai Stock Exchange and make an announcement accordingly, within two (2) trading days upon the receipt of the special audit report issued by the certified public accountant. Should there be any non-compliance of the management of proceeds as set out in the special audit report by the certified public accountant, the Board shall also make an announcement in respect of the non-compliance of the deposit and use of proceeds, any incurred or potential consequences thereof and measures already adopted or proposed to be adopted.</p>	<p><b>Article <del>27</del>36</b> The Board shall <del>report to the Shanghai Stock Exchange and</del> make an announcement accordingly, within two (2) trading days upon the receipt of the <u>verification report as specified in Article 35</u> <del>special audit report issued by the certified public accountant</del>. Should there be any non-compliance of the management <u>and use</u> of proceeds as set out in the <u>verification</u> <del>special audit</del> report <del>by the certified public accountant</del>, the Board shall also make an announcement in respect of the non-compliance of the deposit and use of proceeds, any incurred or potential consequences thereof and measures already adopted or proposed to be adopted.</p>
<p><b>Article 28</b> The sponsor shall agree with the Company in sponsorship agreement that the sponsor shall conduct at least one on-site investigation into the deposit and utilisation of the proceeds of the Company every six months.</p> <p>Upon conclusion of each accounting year, the sponsor shall issue a special inspection report on the deposit and utilisation of the proceeds of the Company for the year, and submit the report to the Shanghai Stock Exchange when disclosing its annual report.</p> <p>If the sponsor discovers non-compliance in the management of the Company's proceeds during the inspection, it shall promptly report to the stock exchange.</p>	<p><b>Article <del>28</del>37</b> The sponsor <u>or the independent financial adviser</u> shall <del>agree with the Company in sponsorship agreement that the sponsor shall</del> conduct at least one on-site investigation into the deposit and utilisation of the proceeds of the Company every six months.</p> <p>Upon conclusion of each accounting year, the sponsor <u>or the independent financial adviser</u> shall issue a special inspection report on the deposit and utilisation of the proceeds of the Company for the year, and submit the report to the Shanghai Stock Exchange when disclosing its annual report, <u>and shall also disclose the report on the website of the Shanghai Stock Exchange.</u></p> <p><u>The inspection report shall contain the following details:</u></p> <p>(1) <u>Information relating to the deposit, use of proceeds and the balance of the special account for raised proceeds;</u></p> <p>(2) <u>Progress of investment projects, including the difference from the planned investment progress of proceeds;</u></p> <p>(3) <u>Information of using the Company's proceeds to replace its self-raised funds previously invested in investment projects (if applicable);</u></p> <p>(4) <u>The use of idle proceeds to replenish working capital and its effect (if applicable);</u></p>

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## LETTER FROM THE BOARD

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Original text	Amended to
	<p><u>(5) Any use of the Surplus Raised Proceeds (if applicable);</u></p> <p><u>(6) Any change to use of proceeds (if applicable);</u></p> <p><u>(7) Conclusive opinion relating to whether the deposit and use of proceeds by the Company are compliant with laws and regulations;</u></p> <p><u>(8) Other contents required by the Shanghai Stock Exchange.</u></p> <p><u>Upon conclusion of each accounting year, the Board of Directors shall disclose the conclusions of the sponsor or the independent financial adviser's special inspection report and the accounting firm's verification report in the Special Report on Raised Proceeds.</u></p> <p><u>If the sponsor or the independent financial adviser finds that the Company and the commercial bank have not performed the tripartite supervision agreement for deposit of proceeds in the special account in accordance with the agreement, or discovers significant non-compliance or major risks in the management of the Company's proceeds during the on-site inspection, it shall urge the Company to promptly rectify and report to the Shanghai Stock Exchange.</u></p>

### 11. PROPOSAL REGARDING ISSUANCE OF DEBT FINANCING PRODUCTS

In order to further expand the financing channel of the Company, optimize the debt structure and reasonably control the financial cost of the Company, and to provide the Company with flexible choices on financial instruments to meet its needs for funds, the Company proposes, according to related regulations, to issue various equivalent short-term debt financing products and medium-term and long-term debt financing products in the total amount of not more than RMB15 billion or equivalent, including but not limited to short-term financing bills, extra short-term financing bills, short-term corporate bonds, medium-term notes, medium to long-term corporate bonds, perpetual bonds, quasi perpetual bonds, asset-backed bills, green debt financing instruments and other short-term and medium to long-term debt financing products.



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## LETTER FROM THE BOARD

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### (1) Issuance Plan

#### ① *Scale of issuance*

The Company proposes to apply for the issuance of various equivalent short-term debt financing products and medium to long-term debt financing products in the total amount of not more than RMB15 billion or equivalent, including but not limited to short-term financing bills, extra short-term financing bills, short-term corporate bonds, medium-term notes, medium to long-term corporate bonds, perpetual bonds, quasi perpetual bonds, asset-backed bills, green debt financing instruments and other short-term and medium to long-term debt financing products.

#### ② *Time of issuance*

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

#### ③ *Use of proceeds*

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

#### ④ *Term of issuance*

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

#### ⑤ *Term of validity of the resolution*

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

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## LETTER FROM THE BOARD

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### (2) Authorizations related to the Issuance

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

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

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## LETTER FROM THE BOARD

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Company may convene another Shareholders' general meeting in relation to the issuance of debt financing products to decide whether to terminate or extend the validity of this resolution.

### **(3) Approval Procedures for the Issuance**

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

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

### **12. PROPOSAL REGARDING THE SATISFACTION OF CONDITIONS FOR ISSUING CORPORATE BONDS**

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

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

### **13. PROPOSAL REGARDING ISSUANCE OF CORPORATE BONDS**

Please refer to Appendix III to this circular.

### **14. PROPOSAL REGARDING THE GENERAL MANDATE OF THE COMPANY**

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

Subject to the terms and conditions set out in the following provisions ①②③, and in compliance with the regulations stipulated in the Hong Kong Listing Rules and the Articles of Association, it is proposed that the Shareholders' general meeting shall grant an unconditional general mandate to the Board to allot, issue

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## LETTER FROM THE BOARD

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and/or deal with A Shares and/or H Shares separately or concurrently, and to enter into the relevant agreements, make offers for Shares, or grant options or conversion rights to purchase or convert Shares (including convertible corporate bonds):

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

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

- ② The total par value of the A Shares and/or H Shares which the Board proposes to allot, issue and/or deal with, or conditionally or unconditionally agrees to allot, issue and/or deal with (by exercising its rights to purchase or otherwise) should not exceed 20% of the respective total par value of the A Shares and/or H Shares of the Company in issue as at the date of passing of this resolution at the Shareholders' general meeting (excluding Shares otherwise issued under rights issue or any share option schemes or similar arrangements);
- ③ The Board shall exercise the mandate pursuant to the Company Law of the PRC, the Hong Kong Listing Rules or all applicable laws, regulations and requirements of any other government or regulatory authorities and with the approval by the CSRC and/or other relevant governmental authorities in the PRC. According to the relevant laws and regulations in the PRC, even if a general mandate is granted to the Board, an issue of new A Shares by the Company is still subject to approval by the Shareholders' general meeting.

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

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

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## LETTER FROM THE BOARD

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### 15. PROXY

The proxy form and reply slip for the Annual General Meeting are enclosed with this circular.

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

### 16. VOTING BY POLL

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

### 17. RECOMMENDATION FROM THE BOARD OF DIRECTORS

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

### 18. RESPONSIBILITY STATEMENT

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

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

Shanghai, the PRC, 9 June 2022

\* For identification purpose only

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

We refer to the announcement of the Company dated 30 March 2022. In order to optimise the financial management of the Group, improve the Group's efficiency on use of funds, and reduce financing costs and financing risks of the Company, the Company intends to renew the Financial Services Agreement with the Finance Company, pursuant to which, the Finance Company will provide the Group with deposit, loan and other financial services, including, among other things, underwriting and financial consultation services, as the CBIRC may approve. The Financial Services Agreement will expire on 31 December 2024. During the term of the Financial Services Agreement, the maximum daily balance of deposits of the Group with the Finance Company shall not exceed RMB5,000 million, and the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB6,000 million.

**I. BACKGROUND AND SUMMARY OF THE CONTINUING CONNECTED TRANSACTIONS  
AND DISCLOSEABLE TRANSACTIONS**

On 29 March 2022, the Board entered into the Financial Services Agreement with the Finance Company, pursuant to which, the Finance Company will continue to provide the Group with deposit, loan and other financial services as the CBIRC may approve. The Existing Financial Services Agreement became effective on the date of the 2018 annual general meeting of the Company and will expire on the date on which the Company convenes the 2021 Annual General Meeting. As the Existing Financial Services Agreement will soon expire, the Company renewed the Financial Services Agreement with the Finance Company on 29 March 2022, pursuant to which: during the term of the Financial Services Agreement, the maximum daily balance of deposits of the Group with the Finance Company shall not exceed RMB5,000 million, and the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB6,000 million. The Financial Services Agreement will be effective from the date on which the Company convenes the 2021 Annual General Meeting to 31 December 2024.

Shanghai Shangshi, the Company, SI Capital and SIIC Dongtan hold 40%, 30%, 20% and 10% of equity interest in the Finance Company, respectively. Shanghai Shangshi is one of the controlling shareholders of the Company and is primarily engaged in industrial investment, domestic trade (except for special regulations), and authorized operation and management of state-owned assets. The ultimate beneficial owner of Shanghai Shangshi is the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government. Each of SI Capital and SIIC Dongtan is a subsidiary of Shanghai Shangshi, respectively. SI Capital is primarily engaged in equity investment management, assets management, investment management and investment consultancy, and SIIC Dongtan is primarily engaged in land development, industrial investment, assets management, real estate development and property management. As such, the Finance Company is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. The deposit services contemplated under the Financial Services Agreement

constitute continuing connected transactions of the Company as defined in Chapter 14A of the Hong Kong Listing Rules, and daily related transactions as defined under the SSE Listing Rules and the Guidelines on Connected Transactions.

In respect of the provision of deposit services under the Financial Services Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be more than 5% but are less than 25%. Such deposit services constitute continuing connected transactions and discloseable transactions of the Company and are subject to the relevant reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules (as the case maybe).

## **II. GENERAL INFORMATION OF PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS**

### **1. General information of the Company**

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

### **2. General information of the Finance Company**

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

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

### III. ANNUAL CAPS AND BASIS OF DETERMINATION

For the period from the date on which the Company convenes the 2021 Annual General Meeting to 31 December 2024, the annual caps for the deposits and loans (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) of the Group with the Finance Company are as follows:

	<b>For the period from the date of the 2021 Annual General Meeting to 31 December 2022</b>	<b>For the year ending 31 December 2023</b>	<b>For the year ending 31 December 2024</b>
<b>Maximum daily balance of deposits of the Group with the Finance Company</b>	RMB4,000 million	RMB4,500 million	RMB5,000 million
<b>Maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group</b>	RMB6,000 million	RMB6,000 million	RMB6,000 million



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

1. for the three years ended 31 December 2019, 2020 and 2021, the historical amounts for the maximum daily balance of deposits of the Group with the Finance Company were approximately RMB2,219 million, RMB2,938 million and RMB2,899 million, representing a utilization rate of previous annual caps amounting to approximately 74.0 %, 97.9% and 96.6%, respectively; and the historical amount for the maximum daily balance of deposits of the Group with the Finance Company was approximately RMB2,898 million from 1 January 2022 up to the Latest Practicable Date;
2. the expected utilization rate to the annual cap for the deposit services for the year ending on the date of the AGM is approximately 96.6%;
3. for the three years ended 31 December 2019, 2020 and 2021, (a) the total amount of Group's cash and cash equivalents was RMB15,716 million, RMB19,576 million and RMB20,138 million, respectively, representing a substantial increase and (b) the trade and other receivables<sup>Note</sup> was RMB49,543 million, RMB54,755 million and RMB60,527 million, respectively, indicating the Group's potential strong demand on deposit services;
4. the Group's financial performance for the year ended 31 December 2021 and in particular, there is a substantial increase in the revenue of the Group for the year ended 31 December 2021 (RMB215,824 million), being the latest available public full-year financial information as at the date of the Financial Services Agreement, as compared to that for the year ended 31 December 2018 (RMB159,084 million), being the latest available public full-year financial information as at the date of the Existing Financial Services Agreement, indicating the Group's continuing business expansion; and
5. the Finance Company, as a member of Shanghai Shangshi Group, has a more thorough understanding of the business development and capital needs of the Group at a lower cost and in a more timely manner, and is able to provide customized financial services solutions for the Group based on the Group's possible increased demand in business development capital in the future.

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

Taking into account the factors as disclosed above and in particular, (i) the Group's cash and cash equivalents as of 31 December 2021 substantially increased as compared to that as of 31 December 2018 and (ii) the historical utilization rates of the annual caps with respect to the deposit service in the past two financial years were almost 100%, the Directors are of the view that the increase in the proposed annual caps for the deposit services as compared to the historical amounts is fair and reasonable.

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

1. for the three years ended 31 December 2019, 2020 and 2021, the historical amounts for the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group were approximately RMB2,401 million, RMB2,066 million and RMB2,314 million, respectively; and the historical amount for the maximum outstanding balance of comprehensive credit facilities provided by the Finance Group to the Group from 1 January 2022 up to the Latest Practicable Date was approximately RMB2,762 million;
2. the expected utilization rate to the annual caps for the loan services for the year ending on the date of the AGM is approximately 71.3%;
3. the Group's financial performance for the year ended 31 December 2021 and in particular, there is a substantial increase in the revenue of the Group for the year ended 31 December 2021 (RMB215,824 million), being the latest available public full-year financial information as at the date of the Financial Services Agreement, as compared to that for the year ended 31 December 2018 (RMB159,084 million), being the latest available public full-year financial information as at the date of the Existing Financial Services Agreement, indicating the Group's continuing business expansion; and
4. the Company has set up its strategic goal of transforming from an ordinary pharmaceutical company to a R&D oriented pharmaceutical company driven by technological innovation as well as transforming from a traditional pharmaceutical supply chain service company to a modern health services provided driven by services, technologies and innovation, both of which require sufficient daily working capital investment and indicating the Group's potential increased demand in working capital.

Taking into account the factors as disclosed above and in particular, the Group's continuing business expansion and the business prospects, the Directors are of the view that the increase in the proposed annual caps for the loan services as compared to the historical amounts is fair and reasonable. In addition, as the loan services under the Financial Services agreement are provided the Finance Company to the Group on normal commercial terms and no security over the assets of the Group is granted to the Finance Company in respect of such loan services, such loan services are therefore exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

For completeness purpose, the proposed annual caps for the other financial services as the CBIRC may approve contemplated under the Financial Services Agreement will be *de minimis* and the relevant percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules is expected to be less than 0.1% and are therefore exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

**IV. KEY TERMS OF THE FINANCIAL SERVICES AGREEMENT****1. Pricing Policies**

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

**2. Conditions of the Financial Services Agreement and subsequent arrangements**

- (1) The Financial Services Agreement shall be effective upon the affixation of the official stamps of the Company and the Finance Company along with the signature of their respective legal representatives or authorised representatives, commencing from the date on which it was considered and passed at the 2021 Annual General Meeting.
- (2) The Financial Services Agreement will take effect on the date on which it is considered and passed at the 2021 Annual General Meeting and terminate on 31 December 2024. Should each party agree, and it be approved or exempted by the Hong Kong Stock Exchange or the SSE and/or approved by the general meeting of the Company (if applicable) and/or in compliance with the other relevant provisions of the Hong Kong Listing Rules and the SSE Listing Rules, the Financial Services Agreement may be renewed. The period for each renewal of the Financial Services Agreement shall not exceed three years.

Save for the condition as set out in (1) above, none of the other condition is waivable or has been fulfilled or waived as of the Latest Practicable Date.

*Note: The "third parties" herein means members of Shanghai Shangshi (excluding the Group).*

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

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

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

**For Deposit Services:**

1. confirming the current accumulated deposits balance with the Finance Company and making a deposit estimate prior to each deposit to ensure that the deposit amount does not exceed the annual cap for deposit services under the Financial Services Agreement;
2. reviewing the interest rate provided by the Finance Company to the Group prior to each deposit to ensure that under the same conditions, the interest rate provided by the Finance Company for deposit services under the Financial Services Agreement is not lower than those published by the People's Bank of China, nor that offered by other major commercial banks in China in the same period for the same type of deposits. In particular, the finance department of the Company will select at least two commercial banks that have maintained business relations with the Company for the interest rates comparison purpose;
3. making inquiries to the Finance Company by email or telephone prior to each deposit to ensure that the interest rate provided by the Finance Company for deposit services under the Financial Services Agreement is not lower than that offered to third parties by the Finance Company for the same type of deposits; and
4. regularly reviewing the finance information feedback forms provided by the Finance Company (including the business development and activities between the Group and the Finance Company, accounting opening situation, deposit situation, etc.) on a monthly basis.

The Company has also adopted certain internal control measure to protect its deposits in the Finance Company, including, among other things, (i) obtaining information monthly return from the Finance Company which will include the detailed breakdown of the amount of deposits of each subsidiaries of the Group in the Finance Company, (ii) regularly reviewing the financial statements and finance record of the Finance Company so as to understand the general financial and operational

status of the Finance Company and (iii) that the Finance Company is a non-banking institution regulated by the CBIRC and PBOC and is subject to various laws and regulations including relevant provisions of depositing sufficient capital reserve.

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

Taking into account all the internal measures disclosed above, the Directors are of the view that depositing cash with the Finance Company is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**For loan services:**

1. ensuring that the loan services (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) carried out by the Group and the Finance Company do not exceed the annual cap for loan services under the Financial Services Agreement, and the interest rates for the loans provided are not higher than (a) those published by the People's Bank of China; (b) those offered by other major commercial banks in China in the same period, or (c) those offered by the Finance Company to third parties for the same type of loans; and
2. the Group has adopted and implemented comprehensive internal policies on monitoring the loan services provided by the Finance Company to make sure the actual transaction amount does not exceed the annual cap for the loan services under the Financial Services Agreement and the audit committee of the Board and various internal departments of the Company, including but not limited to the finance and legal departments, are jointly responsible for evaluating the terms under the Financial Services Agreement and in particular, the annual caps and the transaction amount; and
3. to ensure that the interest rates for the loans provided by the Finance Company are not higher than (a) those published by the People's Bank of China; (b) those offered by other major commercial banks in China in the same period, or (c) those offered by the Finance Company to third parties for the same type of loans, the financial department of the Company will pre-consult the Finance Company and ask for a written confirmation about the interest rates to be provided by the Finance Company and will compare with the interest rates published by other major commercial banks and the People's Bank of China through public channel.

The Board considers the above methods and procedures constitute necessary components of an internal control system, in which the head of the financial department is in charge of the abovementioned measures, which can form a clear confirmation process and reviewing system and ensure that the transactions will be executed in compliance with the pricing policies stipulated in the Financial Services Agreement, and explore the best price of such services available to the Company.

Therefore, the Board is of the view that the Group has put appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the Financial Services Agreement, and safeguard the interests of the Company and the Shareholders as a whole.

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

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

#### **VI. REASONS FOR AND BENEFITS FROM CONDUCTING THE TRANSACTIONS**

1. the Company can further expand its financing channels through business cooperation with the Finance Company;
2. the favourable interest rates for deposits and loans provided by the Finance Company are conducive to improving the Company's deposit income and lowering financing costs;
3. services provided by the Finance Company to the Company, including the provision of financing sources, involve more efficient processing procedures, and enable the Company to make economical arrangements in respect of the financing term;
4. through its business cooperation with the Finance Company, the Company can further strengthen its bargaining power against external banks; and
5. the continuing connected transactions under the Financial Services Agreement help optimise the financial management of the Group, improve the Group's efficiency on use of funds, and reduce financing costs and financing risks. The transactions contemplated under the Financial Services Agreement are on normal commercial terms and in the ordinary and usual course of business, are fair and reasonable, and will not harm the interests of the Company and its minority Shareholders or affect the independence of the Company.

#### **VII. EFFECTS OF THE CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS ON THE COMPANY**

1. Regulated by the CBIRC and the People's Bank of China, the Finance Company provides services only to members of Shanghai Shangshi Group based on operational requirements within its permitted scope of business. Therefore, the risk exposure of the Finance Company is relatively controllable.

2. When providing deposit, loan (including but not limited to, loans, promissory and discounted notes, letter of guarantee, and factoring of receivables) and other financial services to Group Members, the level of fees charged by the Finance Company are equal to or more favorable than those of comparable financial services provided to Group Members by domestic commercial banks, and no less favorable than those of comparable services provided by the Finance Company to other members of the Shanghai Shangshi Group.
3. The continuing connected transactions under the Financial Services Agreement will help optimize the financial management of Group Members, improve their capital use efficiency and reduce its financing costs and risks. The transactions were entered into on normal commercial terms and in the ordinary and usual course of business, are fair and reasonable, and do not prejudice the interests of the Company and its minority shareholders as well as the independence of the Company.

### **VIII. THE APPROVAL PROCEDURES OF THE TRANSACTIONS**

The continuing connected/daily connected transactions were considered and approved at the meeting of the Board of the Company held on 29 March 2022. All ten Directors attended the meeting, which comply with the quorum requirements for board meetings under the Company Law of the People's Republic of China and the articles of association of the Company. The interested directors, namely Mr. ZHOU Jun and Mr. GE Dawei, who hold positions in Shanghai Shangshi and/or its subsidiaries, voluntarily abstained from voting, and all other disinterested directors voted in favour of the above continuing connected transactions.

The Directors (excluding the independent non-executive Directors who will, after taking into account the advice from Gram Capital, provide their recommendation to the Independent Shareholders) are of the view that the above continuing connected/daily connected transactions will help optimise the Group financial management, improve their capital utilization efficiency and reduce its financing costs and risks, and that such transactions were entered into on normal commercial terms and in the ordinary and usual course of business, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

The deposit services under the Financial Services Agreement will be submitted to the general meeting of the Company for shareholders' approval in accordance with the Hong Kong Listing Rules, the SSE Listing Rules and the Guidelines on Connected Transactions. Interested Shareholders will abstain from voting at the general meeting. The Company proposes that Shareholders authorise the Board, who will in turn authorise the management of the Company, to execute the Finance Services Agreement and other relevant documents and to subsequently carry out the relevant steps for their implementation.

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, has been established by the Board to consider and advise the Independent Shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement and their annual caps, and its advice is set out in Appendix IB to this circular. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of renewal of annual caps for Deposit Services under the Financial Services Agreement and their annual cap, and its

recommendation is set out in Appendix IC to this circular. The Independent Board Committee is of view that the deposit services under the Financial Services Agreement are in the ordinary and usual cause of business of the Company.

In light of the interests held by Shanghai Shangshi and its associates in the Financial Services Agreement (as mentioned above), Shanghai Shangshi and its associates (holding 1,284,565,337 Shares representing approximately 34.76% of the entire issued share capital of the Company in aggregate as at the Latest Practicable Date) as connected Shareholders will abstain from voting on the resolution for approving the transactions contemplated under the Financial Services Agreement at the Annual General Meeting. Save for Shanghai Shangshi and its associates, there is no shareholder with a material interest in the transaction and is required to abstain from voting at the AGM.

#### **IX. DELIBERATIONS AND RECOMMENDATIONS**

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

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

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





上海醫藥集團股份有限公司  
**Shanghai Pharmaceuticals Holding Co., Ltd.\***

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

**(Stock Code: 02607)**

9 June 2022

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to the circular dated 9 June 2022 issued by Shanghai Pharmaceuticals Holding Co., Ltd.\* (the “**Circular**”) of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

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

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

\* *For identification purpose only*

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**APPENDIX IB LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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We draw the attention of the Independent Shareholders to (1) Appendix IA to this Circular set out on pages 36 to 46 of the Circular and (2) the letter from Gram Capital set out on pages 49 to 60 of the Appendix IC to the Circular, which set out the factors and reasons which have been taken into account in arriving at its advice to the Independent Board Committee and the Independent Shareholders.

Yours faithfully,

For and on behalf of

**The Independent Board Committee**

**Mr. CAI Jiangnan**  
*Independent Non-  
executive Director*

**Mr. HONG Liang**  
*Independent Non-  
executive Director*

**Mr. GU Zhaoyang**  
*Independent Non-  
executive Director*

**Mr. Manson FOK**  
*Independent Non-  
executive Director*

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



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

9 June 2022

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

Dear Sir/Madam,

## **CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the deposit services (the “**Deposit Services**”) under the Financial Services Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 9 June 2022 (the “**Circular**”) issued by the Company to the holders of shares of the Company (the “**Shareholders**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 29 March 2022, the Board considered and passed a resolution approving the renewal of the Financial Services Agreement with the Finance Company, pursuant to which, the Finance Company will continue to provide the Group with deposit, loan and other financial services as the CBIRC may approve.

With reference to the Board Letter, the deposit services under the Financial Services Agreement constitute discloseable and continuing connected transactions of the Company and are subject to the reporting and announcement, annual review and the independent shareholders’ approval requirement under the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Deposit Services are on normal commercial terms and are fair and reasonable; (ii) whether the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve

the Deposit Services at the AGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **INDEPENDENCE**

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Financial Services Agreement. We consider that we have taken sufficient and necessary steps (including review of the Group's financial information, the Financial Services Agreement, the Existing Financial Services Agreement, documents/deposit records showing deposit interests offered by an commercial bank/Finance Company, discussion with the Company regarding the Deposit Caps (as defined below)) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Finance Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into the Financial Services Agreement. Our opinion is necessarily based on the

financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### Business overview of the Group

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

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the annual report of the Company for the year ended 31 December 2021 (the "2021 Annual Report"):

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2020</b>	<b>Change from 2020 to 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Operating income	215,824,259	191,909,156	12.46
Profit attributable to owners of the Company	5,093,467	4,496,217	13.28
	<b>As at 31 December 2021</b>	<b>As at 31 December 2020</b>	<b>Change from 2020 to 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Cash and cash equivalents	20,137,500	19,576,445	2.87
Total owners' equity	59,066,210	54,740,730	7.90

As illustrated by the above table, the Group recorded an increase of approximately 12.46% in revenue for the year ended 31 December 2021 (“FY2021”) as compared to that for the year ended 31 December 2020 (“FY2020”). With reference to the 2021 Annual Report, the increase in revenue was mainly due to the increase in sales income during the FY2021. The Group also recorded an increase in profit attributable to owners of the Company for FY2021 as compared to that for FY2020.

As at 31 December 2021, the Group recorded cash and cash equivalents and total owners’ equity of approximately RMB20.14 billion and RMB59.07 billion respectively.

### Information on the Finance Company

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

As further advised by the Directors, the Finance Company is required to operate in compliance with the 《企業集團財務公司管理辦法》<sup>(Note)</sup> (Administrative Measures for the Group Finance Companies\*, the “**Administrative Measures**”) promulgated by China Banking Regulatory Commission (now known as CBIRC) to regulate the operation of group finance companies and reduce the possible financial risk, and other regulations promulgated by the PBOC and CBIRC (e.g. 《企業集團財務公司風險監管指標考核暫行辦法》 (Assessment Measures for Risk Control Indicators for the Group Finance Company\*, the “**Assessment Measures**”). We noted that the Administrative Measures and the Assessment Measures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times.

The table below sets out the key financial ratio requirements of the Administrative Measures and Assessment Measures and the respective financial ratios of Finance Company for the two years ended 31 December 2021 as provided by the Company.

Note: <http://www.cbirc.gov.cn/cn/view/pages/governmentDetail.html?docId=268576&itemId=861&generalType=1>

Financial ratio	Requirements	Financial ratios of Finance Company	
		For the year ended 31 December 2021 (approximate %)	For the year ended 31 December 2020 (approximate %)
		<i>Lowest during the respective period</i>	
Capital adequacy ratio	Not less than 10%	22.74	19.42
		<i>Highest during the respective period</i>	
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	Nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	6.60	25.34
Long-term and short-term investment to total capital ratio	Not more than 70%	68.57	65.47
Self-owned fixed assets to total capital ratio	Not more than 20%	0.15	0.11
Non-performing loan ratio	Not more than 5%	Nil	Nil

As shown in the table above, the Finance Company complied with the relevant financial ratio requirements as set out in the Administrative Measures and the Assessment Measures during 2020 and 2021. The highest non-performing loan ratios of the Finance Company during the two years ended 31 December 2021 were nil.

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

As mentioned above, the Finance Company is a non-banking financial institution authorised and regulated by the PBOC and CBIRC, and provides financial services in compliance with the rules and other operational requirements of these regulatory authorities. Pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need. We noted from Finance Company's articles of association that Shanghai Shangshi, being the controlling shareholder of the

Finance Company, undertook to adopt remedies measures such as increasing Finance Company's capital for solving any urgent payment difficulties in the event that the Finance Company experiences any urgent payment difficulties.

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

We also noted from Finance Company's articles of association that as a shareholder of the Finance Company, the Company has the right to access the financial records of the Finance Company, so as to understand the general financial and operational conditions of the Finance Company. We understood from the Directors that a report showing the Group's deposit and borrowing status will be prepared and provided to the Company by the Finance Company on a monthly basis.

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

#### **Reasons for and benefit of the Deposit Services**

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

- (i) the Company can further expand its financing channels through business corporation with the Finance Company;
- (ii) the favourable interest rates<sup>(Note)</sup> for deposits provided by the Finance Company are conducive to improving the Company's deposit income and lowering financing costs;

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

*The "third parties" herein means members of Shanghai Shangshi (excluding the Group).*



- (iii) services provided by the Finance Company to the Group, including the provision of financing sources, involve more efficient processing procedures, and enable the Group to make economical arrangements in respect of the financing term;
- (iv) through its business cooperation with the Finance Company, the Company can further strengthen its bargaining power against external banks; and
- (v) the continuing connected transactions under the Financial Services Agreement help optimise the financial management of the Group, improve the Group's efficiency on use of funds, and reduce financing costs and financing risks. The transactions contemplated under the Financial Services Agreement are on normal commercial terms and in the ordinary and usual course of business, are fair and reasonable, and will not harm the interests of the Company and its minority shareholders or affect the independence of the Company.

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

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

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

#### **Principal terms of the Deposit Services**

Set out below are the key terms of the Deposit Services, details of which are set out under the section headed "Financial Services Agreement" of the Board Letter.

- |                        |   |
|------------------------|---|
| <b>Date:</b>           | 29 March 2022   |
| <b>Parties:</b>        | (i) The Finance Company (as provider of services); and<br>(ii) The Company (as recipient of services)             |
| <b>Subject matter:</b> | The Finance Company shall provide the Group with deposit, loan and other financial services as CBIRC may approve. |

**Term:** The Financial Services Agreement shall be effective upon the affixation of the official stamps of the Company and the Finance Company along with the signature of their respective legal representatives or authorised representatives, commencing from the date on which it is considered and passed at the 2021 Annual General Meeting of the Company and expire on 31 December 2024.

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

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

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

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

To assess the effectiveness of the measures in relation to the fair pricing of the Deposit Services, we requested and obtained documents as follows:

- (i) the Group's 10 deposits records with the Finance Company for the period from June 2019 to December 2021;
- (ii) three copies of internal documents of a commercial bank regarding the approval of deposit rates of agreement deposits (協議存款) for the Company, covering almost the whole period from June 2019 to March 2022; and

*Note: The "third parties" herein means members of Shanghai Shangshi (excluding the Group).*

- (iii) Shanghai Shangshi's members' 10 deposits records with Finance Company for the period from June 2019 to December 2021.

As the above documents showing the deposit rates offered by Finance Company (to both the Company and Shanghai Shangshi's members) and the independent commercial bank (to the Company) covered the period from June 2019 (i.e. the effective date of the Existing Financial Services Agreement) to December 2021, we consider the samples are representative.

We also noted from the above documents and the deposit rates as published by the PBOC that the deposit rates as shown in the above documents for same period and type of deposits are in line with the pricing policies of the deposit services under the Existing Financial Agreement.

Having considered that our findings on deposit rates as mentioned above, we do not doubt the effectiveness of the implementation of the internal procedures for fair pricing of the Deposit Services.

In addition, we also noted that the Group will confirm the current accumulated deposits balance with the Finance Company and making a deposit estimate prior to each deposit to ensure that the deposit amount does not exceed the annual cap for deposit services under the Financial Services Agreement. According to the Company's annual reports for each of 2020 and 2021, auditors of the Company had submitted a comment letter on continuing connected transactions to the board of directors for connected transactions pursuant to Rule 14A.56 of the Hong Kong Listing Rules, and confirmed that the connected transactions (including deposit services under the Existing Financial Services Agreement), among other things, no transactions exceeded caps. Having also considered that the maximum daily deposit balance for the three years ended 31 December 2021 were approximately RMB2,219 million, RMB2,938 million and RMB2,899 million respectively, we do not doubt the effectiveness of the implementation of the internal procedures for avoiding the exceeding the annual caps under Deposit Services.

**The historical amounts and the proposed annual caps**

Set out below are (i) the historical maximum daily deposit balance of (including any interest accrued thereon) for the three years ended 31 December 2021 with existing annual caps; and (ii) the proposed annual caps for provision of Deposit Services under the Financial Services Agreement (the “**Deposit Cap(s)**”) for the period commencing from the date on which it is considered and passed at the 2021 Annual General Meeting of the Company and expire on 31 December 2024:

<b>Historical transaction amounts</b>	<b>For the year ended 31 December 2019</b> <i>(in RMB'million)</i>	<b>For the year ended 31 December 2020</b> <i>(in RMB'million)</i>	<b>For the year ended 31 December 2021</b> <i>(in RMB'million)</i>
Maximum daily deposit balance	2,219	2,938	2,899
Existing annual caps <i>(Note)</i>	3,000	3,000	3,000
Utilisation rate (%)	74.0	97.9	96.6
	<b>For the period from the date of the AGM to 31 December 2022</b> <i>(in RMB'million)</i>	<b>For the year ending 31 December 2023</b> <i>(in RMB'million)</i>	<b>For the year ending 31 December 2024</b> <i>(in RMB'million)</i>
The Deposit Caps	4,000 (the “ <b>2022 Deposit Cap</b> ”)	4,500 (the “ <b>2023 Deposit Cap</b> ”)	5,000 (the “ <b>2024 Deposit Cap</b> ”)

*Note: the existing annual caps were RMB3,000 million for the period commencing from the date on which it is considered and passed at the 2018 Annual General Meeting of the Company and expire on the date of the 2021 annual general meeting of the Company*

Details of the bases for determining the 2022 Deposit Cap, 2023 Deposit Cap and 2024 Deposit Cap are set out under the section headed “Historical amounts, annual Caps and basis of determination” of the Board Letter.

According to the above table, we noted that the relevant utilisation rate of the existing annual caps were approximately 74.0%, 97.9% and 96.6% for each of the three years ended 31 December 2021. The existing annual caps for the two years ended 31 December 2021 were almost fully utilised. The 2022 Deposit Cap, 2023 Deposit Cap and 2024 Deposit Cap were increased to RMB4,000 million, RMB4,500 million and RMB5,000 million respectively.

We noted from the 2021 Annual Report that as at 31 December 2021, the Group’s (i) cash and cash equivalents amounted to approximately RMB20,137.50 million; and (ii) accounts receivables and notes receivables amounted to approximately RMB59,386.65 million. The sum of the aforesaid two items (the “**Sum**”) amounted to approximately RMB79,524.15 million. The Sum (which is much larger than the Deposit Caps) indicates the Group’s possible demand of deposit services to be provided by commercial banks and the Finance Company.

The 2022 Deposit Cap of RMB4,000 million represented an increase of RMB1,000 million (the “**2022 Increase**”) as compared to the existing annual caps of RMB3,000 million. To further assess the fairness and reasonableness of the Increase, we summarised the relevant financial information (i) for the year ended 31 December 2021, being the latest available public full-year financial information as at the date of Financial Services Agreement; and (ii) for the year ended 31 December 2018, being the latest available public full-year financial information as at the date of the Existing Financial Services Agreement, as follows:

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2018</b>	<b>Increase amounts</b>	<b>Increase rate</b>
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>%</i>
Operating income	215,824.26	159,084.40	56,739.86	35.67
	<b>As at 31 December 2021</b>	<b>As at 31 December 2018</b>	<b>Increase amounts</b>	<b>Increase rate</b>
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>%</i>
Cash and cash equivalents	20,137.50	16,605.56	3,531.94	21.27

Based on the above table, we noted that there was substantial increase in the Group’s operating income for FY2021 (being the latest available public full-year financial information as at the date of Financial Services Agreement) as compared to that for 2018 (being the latest available public full-year financial information as at the date of Existing Financial Services Agreement). The Group’s cash and cash equivalents as at 31 December 2021 also substantially increased as compared to that as at 31 December 2018 (being the latest available public financial information before entering the Existing Financial Service Framework Agreement). As such, we consider that the 2022 Increase to be acceptable.

Having considered that (i) the existing annual caps of RMB3,000 million for the two years ended 31 December 2021 were almost fully utilised; (ii) the Sum (which is much larger than the Deposit Caps) indicates the Group’s possible demand of deposit services to be provided by commercial banks and the Finance Company; and (iii) the 2022 Increase is acceptable as analysed above, we are of the view that the 2022 Deposit Cap to be fair and reasonable.

Furthermore, we noted from the 2021 Annual Report that the Group’s cash and cash equivalents as at 31 December 2021 represented an increase of approximately RMB561.06 million as compared to that as at 31 December 2020. The increases in the 2023 Deposit Cap and 2024 Deposit Cap were in line with the aforesaid increases in the Group’s cash and cash equivalents. Accordingly, we are also of the view that the 2023 Deposit Cap and 2024 Deposit Cap are fair and reasonable.

As further advised by the Directors, should there be any substantial increase in total cash of the Group, the Group may deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction to revise the Deposit Caps.

In light of the above, we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.

### **Hong Kong Listing Rules implication**

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

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

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

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

### **RECOMMENDATION**

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

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

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.*

\* *For identification purpose only*

## PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2022

In order to accommodate the needs of the business development and reduce financing costs, Shanghai Pharmaceuticals has negotiated with related parties according to applicable laws and regulations, and proposes to provide external guarantees in 2022 as follows on the premise of standard operation and controllable risks:

### I. SUMMARY OF GUARANTEE PROFILE

In order to accommodate the needs of the business development of Shanghai Pharmaceuticals and meet the security and financing requirements of Shanghai Pharmaceuticals and its subsidiaries, the external guarantee for 2022 to be provided by Shanghai Pharmaceuticals and its subsidiaries amounted to RMB29,052.2450 million (including RMB25,324.70 million, US\$530 million and NZ\$80 million, based on the average price as published by the People's Bank of China (PBOC) on 31 December 2021), including: (I) the external guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2022 amounted to RMB2,000 million, US\$530 million and NZ\$80 million; (II) the external guarantee to be provided by the controlled subsidiaries of Shanghai Pharmaceuticals in 2022 amounted to RMB8,324.70 million; (III) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2022 amounted to RMB3,000 million; (IV) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to the international business expansion with newly planned financing guarantees in 2022 amounted to RMB10,000 million; and (V) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected bill pool in 2022 amounted to RMB2,000 million. Details are as follows:

#### (I) External guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2022 amounted to RMB2,000 million, US\$530 million and NZ\$80 million.

Details of the above guarantee of 6 parties are as follows:

*Unit: RMB0'000*

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
1	Shanghai Pharmaceuticals Holding Co., Ltd.	China International Pharmaceutical (Holding) Corporation Limited	Yes	US\$3,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
2	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Pharmaceuticals (HK) Investment Limited	Yes	US\$50,000	Joint guarantee	Provision of guarantee according to percentage of shareholding
3	Shanghai Pharmaceuticals Holding Co., Ltd.	SPH CARDINAL HEALTH (H.K.) CO. LIMITED	Yes	150,000	Joint guarantee	Provision of guarantee according to percentage of shareholding

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
4	Shanghai Pharmaceuticals Holding Co., Ltd.	Vitaco Health Limited	Yes	NZ\$8,000	Joint guarantee	With counter guarantee and charge on credit of other shareholders
5	Shanghai Pharmaceuticals Holding Co., Ltd.	Beijing Keyuan Xinhai Pharmaceutical Co., Ltd. or Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Yes	50,000	Joint guarantee	Provision of guarantee according to percentage of shareholding

**(II) External guarantee to be provided by controlled subsidiaries of Shanghai Pharmaceuticals in 2022 amounted to RMB8,324.70 million.**

Details of the above guarantee of the 82 parties are as follows:

*Unit: RMB0'000*

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
1	Shanghai Huashi Pharmacy Co., Ltd. (上海華氏大藥房有限公司)	Shanghai Huashi Pharmacy Nantong Chain Co., Ltd. (上海華氏大藥房南通連鎖有限公司)	Yes	700.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
2	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	No	5,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
3	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Hangzhou Kanglun Herbal Co., Ltd. (杭州康倫中藥飲片有限公司)	Yes	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
4	SPH Cardinal (Hong Kong) Pharma Co., Ltd. (上藥康德藥股份(香港)有限公司)	Oval Technologies (H.K.) Pty Limited (寰通商務科技股份(香港)有限公司)	Yes	5,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
5	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Hengyang Pharmaceutical Co., Ltd. (上藥控股(衡陽)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
6	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Huaihua Pharmaceutical Co., Ltd. (上藥控股(懷化)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
7	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Xiangxi Pharmaceutical Co., Ltd. (上藥控股(湘西)有限公司)	Yes	1,500.00	Joint guarantee	Provision of guarantee according to percentage of shareholding



No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
8	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Yiyang Pharmaceutical Co., Ltd. (上藥控股(益陽)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
9	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Yueyang Pharmaceutical Co., Ltd. (上藥控股(岳陽)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
10	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Lianzong (Shanghai) Medical Device Co., Ltd. (上藥聯縱(上海)醫療器械有限公司)	Yes	3,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
11	Shanghai Pharma (Hunan) Co., Ltd. (上藥控股(湖南)有限公司)	SPH Medical Device (Changsha) Co., Ltd. (上藥醫療器械(長沙)有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
12	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Anshun Pharmaceutical Co., Ltd. (上藥控股安順有限公司)	Yes	1,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
13	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Bijie Pharmaceutical Co., Ltd. (上藥控股畢節有限公司)	Yes	3,600.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
14	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Liupanshui Pharmaceutical Co., Ltd. (上藥控股六盤水有限公司)	Yes	1,200.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
15	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Qiangongnan Pharmaceutical Co., Ltd. (上藥控股黔東南有限公司)	Yes	4,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
16	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	SPH Qiannan Pharmaceutical Co., Ltd. (上藥控股黔南有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
17	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	SPH Yancheng Co., Ltd. (上藥控股鹽城有限公司)	Yes	20,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
18	SPH Jiangsu Holding Co., Ltd. (上藥控股江蘇股份有限公司)	Xuzhou Huaihai Pharmaceutical Co., Ltd. (徐州淮海藥業有限公司)	Yes	3,900.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
	SPH Xuzhou Pharmaceutical Co., Ltd. (上藥控股徐州股份有限公司)		Yes	3,600.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
19	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	SPH Linyi Pharmaceutical Co., Ltd. (上藥控股(臨沂)有限公司)	Yes	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
20	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	SPH Weifang Pharmaceutical Co., Ltd. (上藥控股(濰坊)有限公司)	Yes	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
21	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	SPH Heze Pharmaceutical Co., Ltd. (上藥控股荷澤有限公司)	Yes	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
22	SPH Sichuan Pharmaceutical Co., Ltd. (上藥控股四川有限公司)	SPH Luzhou Pharmaceutical Co., Ltd. (上藥控股瀘州有限公司)	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
23	Shanghai Pharmaceutical Co., Ltd.	Jiangsu Runtian Biochemical Medicine Co., Ltd.	Yes	80,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
24	Shanghai Pharmaceutical Co., Ltd.	Jiangxi Nanhua (Shanghai Pharma) Medicines Co., Ltd.	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
25	Shanghai Pharmaceutical Co., Ltd.	SPH International Supply Chain Co., Ltd.	Yes	5,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
26	Shanghai Pharmaceutical Co., Ltd.	SPH International Logistics (Shanghai) Co., Ltd. (上藥國際物流(上海)有限公司)	Yes	8,500.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
27	Shanghai Pharmaceutical Co., Ltd.	SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. (上藥華西(四川)醫藥有限公司)	Yes	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
28	Shanghai Pharmaceutical Co., Ltd.	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
29	Shanghai Pharmaceutical Co., Ltd. or Cardinal (China) Investment Co., Ltd.	SPH Cardinal (Liaoning) Pharma Co., Ltd. (上藥康得樂(遼寧)醫藥有限公司)	Yes	7,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
30	Shanghai Pharmaceutical Co., Ltd. or SPH Cardinal (Hong Kong) Pharma Co., Ltd. (上藥康得樂股份(香港)有限公司)	SPH Cardinal (Sichuan) Pharma Co., Ltd. (上藥康得樂(四川)醫藥有限公司)	Yes	300.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
31	Shanghai Pharmaceutical Co., Ltd. or SPH Cardinal (Hong Kong) Pharma Co., Ltd. (上藥康得樂股份(香港)有限公司)	SPH Cardinal (Chongqing) Pharma Co., Ltd. (上藥康得樂(重慶)醫藥有限公司)	Yes	10,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
32	Shanghai Pharmaceutical Co., Ltd. or Cardinal (China) Investment Co., Ltd.	SPH Cardinal Luoda (Shanghai) Pharma Co., Ltd. (上藥康得樂羅達(上海)醫藥有限公司)	Yes	6,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
33	Shanghai Pharmaceutical Co., Ltd.	SPH Keze (Shanghai) Pharmaceutical Co., Ltd. (上藥科澤(上海)醫藥有限公司)	Yes	8,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
34	Shanghai Pharmaceutical Co., Ltd.	SPH Holding (Anhui) Biologicals Co., Ltd. (上藥控股安徽生物製品有限公司)	Yes	12,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
35	Shanghai Pharmaceutical Co., Ltd.	SPH Anhui Pharmaceutical Co., Ltd. (上藥控股安徽有限公司)	Yes	27,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
36	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Anqing Co., Ltd.	Yes	32,650.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
37	Shanghai Pharmaceutical Co., Ltd.	SPH Dongying Pharmaceutical Co., Ltd. (上藥控股東營有限公司)	Yes	3,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
38	Shanghai Pharmaceutical Co., Ltd.	SPH Guizhou Pharmaceutical Co., Ltd. (上藥控股貴州有限公司)	Yes	11,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
39	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Ji'nan Co., Ltd. (上藥控股濟南有限公司)	Yes	12,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
40	Shanghai Pharmaceutical Co., Ltd.	SPH Jiangxi Shangrao Pharmaceutical Co., Ltd.	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
41	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Nantong Co., Ltd. (上藥控股南通有限公司)	Yes	15,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
42	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd. (上藥控股寧波醫藥股份有限公司)	Yes	2,210.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
43	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Qingdao Co., Ltd. (上藥控股青島有限公司)	Yes	11,825.20	Joint guarantee	Provision of guarantee according to percentage of shareholding
	Shanghai Suzuken Chinese Medicine Co., Ltd. (上藥鈴謙滬中(上海)醫藥有限公司)		Yes	22,174.80	Joint guarantee	Provision of guarantee according to percentage of shareholding
44	Shanghai Pharmaceutical Co., Ltd.	SPH Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	Yes	6,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
45	Shanghai Pharmaceutical Co., Ltd.	SPH Sichuan Biological Products Co., Ltd.	Yes	31,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
46	Shanghai Pharmaceutical Co., Ltd.	SPH Sichuan Pharmaceutical Co., Ltd. (上藥控股四川有限公司)	Yes	83,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
47	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Wenzhou Co., Ltd. (上藥控股溫州有限公司)	Yes	23,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
48	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	Yes	34,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
49	Shanghai Pharmaceutical Co., Ltd.	SPH Zunyi Pharmaceutical Co., Ltd. (上藥控股遵義有限公司)	Yes	10,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
50	Shanghai Pharmaceutical Co., Ltd.	Shanghai Suzuken Chinese Medicine Co., Ltd. (上藥鈴謙滬中(上海)醫藥有限公司)	Yes	3,050.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
51	Shanghai Pharmaceutical Co., Ltd.	Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	No	1,960.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
52	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Qujing Pharmaceutical Co., Ltd. (上藥控股(曲靖)有限公司)	Yes	4,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
53	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Chuxiong Pharmaceutical Co., Ltd. (上藥控股楚雄有限公司)	Yes	500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
54	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Xishuangbanna Pharmaceutical Co., Ltd. (上藥控股西雙版納有限公司)	Yes	1,400.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
55	Shanghai Pharmaceutical Yunnan Co., Ltd. (上藥控股雲南有限公司)	SPH Yunnan Medical Instruments Co., Ltd. (上藥控股雲南醫療器械有限公司)	Yes	9,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
56	Zhejiang SPH Xinxin Pharmaceutical Co., Ltd.	Zhejiang SPH Xinxin Logistics Co., Ltd. (浙江上藥新欣物流有限公司)	Yes	3,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
57	Beijing Keyuan Xinhai Pharmaceutical Operation Co., Ltd.	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Yes	100,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd. (科園信海(北京)國際供應鏈管理有限公司)		Yes	1,000.00	Joint guarantee	
58	SPH Keyuan Xinhai Heilongjiang Co., Ltd.	SPH Keyuan Xinhai (Qiqihar) Pharmaceutical Co., Ltd. (上藥科園信海齊哈爾醫藥有限公司)	Yes	2,100.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
59	SPH Keyuan Xinhai Heilongjiang Co., Ltd.	SPH Keyuan Xinhai (Suihua) Pharmaceutical Co., Ltd. (上藥科園信海綏化醫藥有限公司)	Yes	1,200.00	Joint guarantee	Provision of guarantee according to percentage of shareholding

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
60	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司) or Liaoning Medical Foreign Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	SPH Keyuan Xinhai Pharmaceutical Dalian Co., Ltd. (上藥科園信海醫藥大連有限公司)	Yes	2,500.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
61	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd. (上藥科園信海醫藥吉林有限公司)	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd. (上藥科園信海醫藥吉林有限公司)	Yes	2,600.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
62	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical Hebei Co., Ltd.	Yes	5,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
63	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Inner Mongolia Co., Ltd.	Yes	4,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding or with counter guarantee and charge on equity of other shareholders
64	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Medical Device (Beijing) Co., Ltd.	Yes	10,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
65	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	Yes	7,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
66	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd. (上藥科園信海醫藥湖北有限公司)	SPH Keyuan Xinhai Huanggang Pharmaceutical Company Limited	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
67	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Beifang Commercial Factoring Co., Ltd. (上藥北方商業保理有限公司)	Yes	5,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
68	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai (Hohhot) Pharmaceutical Co., Ltd. (上藥科園信海呼和浩特醫藥有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
69	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Keyuan Xinhai Pharmaceutical (Hainan) Co., Ltd. (上藥科園信海醫藥海南有限公司)	Yes	4,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
70	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	SPH Health Science Co., Ltd. (上藥健康科學有限公司)	Yes	3,000.00	Joint guarantee	Both wholly-owned subsidiaries of Shanghai Pharmaceuticals
71	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd. (科園信海(北京)國際供應鏈管理有限公司)	Yes	6,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding

No.	Guarantor	Guaranteed party	Whether the guaranteed party within the scope consolidated statements of the Company	Planned amount of guarantee	Guarantee method	Whether provision of guarantee according to percentage of shareholding or with counter guarantee
72	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司) or Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd. Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd. (科園信海(北京)國際供應鏈管理有限公司) SPH Health Science Co., Ltd. (上藥健康科學有限公司)	Honour Drug House Joint (H.K.) Limited	Yes	10,000.00	Joint guarantee	All wholly-owned subsidiaries of Shanghai Pharmaceuticals
			Yes	1,000.00	Joint guarantee	
			Yes	1,000.00	Joint guarantee	
73	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai Leiyunshang Pharmaceutical Co., Ltd.	Yes	8,500.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
74	Shanghai Traditional Chinese Medicine Co., Ltd.	SPH (Liaoning) Traditional Chinese Medicine Resources Co., Ltd. (上藥(遼寧)中藥資源有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on properties
75	Shanghai Traditional Chinese Medicine Co., Ltd.	Sichuan SPH Shendu Chinese Medicine Co., Ltd. (四川上藥申都中藥有限公司)	Yes	4,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
76	Shanghai Traditional Chinese Medicine Co., Ltd.	SPH (Ningxia) Chinese Medicine Co., Ltd. (上藥(寧夏)中藥資源有限公司)	Yes	2,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
77	Shanghai Traditional Chinese Medicine Co., Ltd.	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Yes	5,000.00	Joint guarantee	With counter guarantee and charge on properties
78	Shanghai SPH HuaYu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on inventory
79	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Chongqing Tianbao Pharmaceutical Co., Ltd.	Yes	1,000.00	Joint guarantee	With counter guarantee and charge on equity of other shareholders
80	SPH New Asia Pharmaceutical Co., Ltd.	Liaoning Meiya Pharmaceutical Co., Ltd. (遼寧美亞製藥有限公司)	Yes	24,000.00	Joint guarantee	Provision of guarantee according to percentage of shareholding
81	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	SPH (Dali) Chinese Yew Biology Co., Ltd.	Yes	500.00	Joint guarantee	With counter guarantee and charge on inventory
82	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Shanghai SPH Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	Yes	14,000.00	Joint guarantee	With counter guarantee and charge on inventory

In respect of the above (I) and (II), the external guarantee provided by Shanghai Pharmaceuticals and its controlled subsidiaries amounted to approximately RMB14,052.2450 million (including RMB10,324.70 million, US\$530 million and NZ\$80 million, based on the mean price as published by the PBOC on 31 December 2021) for 2022. Guarantees among members in the

consolidated statements of the Company amounted to RMB13,982.6450 million, representing 99.5% of the total guarantees. Total guarantees provided by the controlled subsidiaries of the Company to companies out of the consolidated statements (including associates, etc.) amounted to RMB69.60 million, representing 0.5% of the total guarantees.

**(III) The guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2022 amounted to RMB3,000 million.**

In view of new projects and mergers and acquisitions to be possibly proceeded by Shanghai Pharmaceuticals and its controlled subsidiaries in 2022 and with reference to the business volume to be possibly generated, Shanghai Pharmaceuticals and its controlled subsidiaries shall provide those newly-founded and acquired business in 2022 with planned guarantees up to RMB3,000 million, so as to ensure its business development.

**(IV) The guarantee to be provided by the Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to the international business expansion of wholly-owned subsidiaries with newly planned financing guarantees in 2022 amounted to RMB10,000 million. During the year, based on the actual demand of international business expansion, the Company can establish new wholly-owned subsidiaries to provide guarantees, or use the planned guarantee amount among new wholly-owned subsidiaries and the following wholly-owned subsidiaries under the premise of not exceeding the total amount. The specific details are as follow:**

*Unit: RMB0'000*

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

**(V) The guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected bill pool in 2022 amounted to RMB2,000 million.**

Given that Shanghai Pharmaceuticals headquarter and its controlled subsidiaries are expected to commence group bill pool operation in 2022, Shanghai Pharmaceuticals headquarter and its controlled subsidiaries proposed to provide no more than RMB2,000 million guarantees for the bill pool in 2022. The amount shall be shared among Shanghai Pharmaceuticals headquarter and its controlled subsidiaries.

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

**II. BRIEF DESCRIPTION OF GUARANTEED PARTIES**

The guarantees proposal has involved 90 entities as guaranteed parties in total specifically, including 2 associates and the rest being entities included in the consolidated statements.

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

As of the disclosure date of the announcement of the Board of the Company on 30 March 2022, the total amount of the external guarantees provided by the Company and its subsidiaries is RMB29,922.6770 million, representing 60.62% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2021, the total amount of guarantee to the subsidiaries provided by the Company is RMB5,834.5970 million, representing 11.82% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2021.

As of the disclosure date of the announcement of the Board of the Company on 30 March 2022, the actual balance of the external guarantees provided by the Company and its subsidiaries is RMB9,368.4117 million, representing 18.98% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2021.

As of the disclosure date of the announcement of the Board of the Company on 30 March 2022, the Company and its controlled subsidiaries have no overdue guarantee matter.

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

Meanwhile, in order to facilitate operation, it is submitted to the Shareholders' general meeting to authorize the Board of the Directors, which shall then authorize the management of the Company, to implement, in accordance with the guarantee management system of the Company, the specific guarantee proposals within the aforementioned guarantee amount.



**PROPOSAL REGARDING PUBLIC ISSUANCE OF CORPORATE BONDS**

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

**I. OVERVIEW OF THE ISSUANCE****(I) Face value of bonds to be issued and scale of issuance**

The unit face value of corporate bonds to be issued this time shall be RMB100, the total face value of corporate bonds shall not be more than RMB5 billion (inclusive). The issuance will be made in one or more tranches. The shareholders' general meeting is requested to authorize the executive committee of the Board to determine the specific scale of issuance within the above scope in accordance with the PRC laws and regulations as well as the relevant requirements of the securities regulatory authorities and according to the Company's need for funds and the market conditions at the time of issuance.

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

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

**(III) Variety and term of bonds**

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

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

**(IV) Method of principal and interest repayment**

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

**(V) Method of issuance**

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

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

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

**(VII) Use of proceeds**

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

**(VIII) Guarantees**

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

**(IX) Measures to guarantee bonds repayment**

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

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

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

**(X) Way of underwriting**

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

**(XI) Listing arrangements**

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

**(XII) Period of validity of the resolution**

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

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

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

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

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

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

## II. BRIEF FINANCIAL AND ACCOUNTING INFORMATION OF THE ISSUER

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

## 1. Consolidated financial statements for the last three years

## (1) Consolidated balance sheet

Unit: RMB0'000

Item	31 December 2021	31 December 2020	31 December 2019
<b>Current asset</b>			
Monetary funds	2,239,038.57	2,229,623.27	1,815,281.77
Derivative financial assets	328.45	50.13	302.70
Notes and accounts receivable	5,938,665.09	5,303,644.52	4,761,392.30
Notes receivable	127,888.07	29,053.93	27,411.95
Accounts receivable	5,810,777.02	5,274,590.59	4,733,980.35
Receivables financing	161,900.98	248,537.37	218,705.95
Prepayments	245,776.11	238,993.07	193,745.61
Other receivables	241,910.80	200,945.65	220,296.08
Inventories	2,710,403.53	2,408,825.77	2,487,735.68
Assets classified as held-for-sale	-	-	-
Non-current assets due within one year	12,650.56	10,532.51	2,325.77
Other current assets	98,769.14	115,140.34	109,372.26
<b>Total current assets</b>	<b>11,649,443.23</b>	<b>10,756,292.62</b>	<b>9,809,158.14</b>
<b>Non-current asset</b>			
Long-term receivables	19,774.23	16,984.69	26,564.21
Long-term equity investments	907,327.54	665,106.40	485,377.91
Other equity instrument investments	7,339.24	3,305.17	19,418.40
Other non-current financial assets	138,890.07	97,855.70	38,439.82
Investment properties	21,332.33	23,528.81	29,231.92
Fixed assets	1,048,411.82	1,049,071.57	944,567.51
Projects under construction	291,413.00	173,720.40	164,989.64
Productive biological assets	40,256.91	40,581.83	41,014.50
Right-of-use assets	199,243.37	199,265.09	162,209.64
Intangible assets	604,943.12	519,525.38	393,037.18
Development expenditure	25,922.79	22,382.56	21,159.33

Item	31 December 2021	31 December 2020	31 December 2019
Goodwill	1,123,897.24	1,134,226.82	1,078,991.85
Long-term unamortized expenses	42,911.75	41,532.05	39,479.99
Deferred income tax assets	136,754.49	135,936.34	122,250.76
Other non-current assets	85,689.79	39,250.13	326,748.79
<b>Total non-current assets</b>	<b>4,694,107.68</b>	<b>4,162,272.93</b>	<b>3,893,481.45</b>
<b>Total assets</b>	<b>16,343,550.92</b>	<b>14,918,565.55</b>	<b>13,702,639.59</b>

Unit: RMB0'000

Item	31 December 2021	31 December 2020	31 December 2019
<b>Current liabilities</b>			
Short-term borrowings	2,251,457.40	2,013,918.59	2,313,868.72
Derivative financial liabilities	77.41	931.49	172.45
Notes and accounts payable	4,199,541.44	3,779,216.65	3,687,245.89
Notes payable	476,474.80	493,072.63	505,347.34
Accounts payable	3,723,066.64	3,286,144.02	3,181,898.55
Contract liabilities	131,092.09	131,083.73	153,419.91
Staff compensation payable	143,302.81	127,396.59	109,085.67
Taxes payable	169,266.01	147,806.75	121,542.08
Other payables	1,306,252.78	1,214,279.75	956,569.20
Non-current liabilities due within one year	58,204.26	896,803.78	118,860.23
Other current liabilities	923,238.16	501,861.64	–
<b>Total current liabilities</b>	<b>9,182,432.36</b>	<b>8,813,298.96</b>	<b>7,460,764.15</b>
<b>Non-current liabilities</b>			
Long-term borrowings	715,775.17	118,407.83	613,599.28
Bonds payable	–	–	299,822.87
Lease liabilities	143,427.41	150,102.18	115,563.89
Long-term payables	31,516.15	35,357.47	41,562.80
Accrued liabilities	2,324.39	2,576.07	7,092.32
Deferred incomes	234,908.01	222,406.91	127,872.63
Long-term staff compensation payable	3,900.72	4,641.11	4,809.59
Deferred income tax liabilities	99,876.88	83,237.55	80,959.91
Other non-current liabilities	22,768.81	14,464.50	11,999.32

Item	31 December 2021	31 December 2020	31 December 2019
<b>Total non-current liabilities</b>	<b>1,254,497.55</b>	<b>631,193.61</b>	<b>1,303,282.60</b>
<b>Total liabilities</b>	<b>10,436,929.90</b>	<b>9,444,492.57</b>	<b>8,764,046.76</b>
<b>Equity interests</b>			
Share capital	284,208.93	284,208.93	284,208.93
Capital reserve	1,607,072.31	1,589,758.79	1,572,060.18
Other comprehensive income	-14,439.42	-26,541.08	-54,222.91
Surplus reserve	199,246.37	182,605.83	166,768.45
Undistributed profits	2,859,859.80	2,505,435.30	2,197,090.81
Total equity interests attributable to shareholders of parent company	4,935,947.99	4,535,467.77	4,165,905.47
Minority interests	970,673.02	938,605.21	772,687.35
<b>Total equity interests</b>	<b>5,906,621.01</b>	<b>5,474,072.98</b>	<b>4,938,592.83</b>
<b>Total liabilities and equity interests</b>	<b>16,343,550.92</b>	<b>14,918,565.55</b>	<b>13,702,639.59</b>

## (2) Consolidated profit statement

Unit: RMB0'000

Item	Year 2021	Year 2020	Year 2019
<b>Operating income</b>	<b>21,582,425.90</b>	<b>19,190,915.62</b>	<b>18,656,579.65</b>
Less: Operating costs	18,728,114.93	16,447,396.12	15,975,166.96
Taxes and surcharges	66,622.76	59,299.44	54,475.84
Sales expenses	1,331,803.35	1,286,484.39	1,285,572.31
Overhead expenses	514,341.77	473,179.43	465,157.34
R&D expenditure	198,727.76	165,667.08	134,950.41
Financial expenses – net	124,536.90	123,958.44	125,877.22
Assets impairment loss	14,044.11	89,861.63	109,312.21
Credit impairment loss	-67.79	-3,965.77	21,107.17
Add: other income	49,878.58	54,889.81	51,706.35
Investment incomes	181,139.39	97,619.45	65,378.23
In which: gains on investments in associates and joint ventures	78,959.64	100,954.72	76,518.58
Gains/(losses) on changes in fair value	-20,600.38	11,679.78	12,216.25
Gains/(losses) on assets disposal	5,828.93	5,214.92	7,133.65

Item	Year 2021	Year 2020	Year 2019
<b>Operating profits</b>	<b>820,548.63</b>	<b>718,438.81</b>	<b>621,394.67</b>
Add: Non-operating incomes	8,195.70	19,272.57	15,285.06
Less: Non-operating expenses	14,362.84	20,163.13	10,433.06
<b>Total profits</b>	<b>814,381.49</b>	<b>717,548.26</b>	<b>626,246.67</b>
Less: Income tax expenses	186,924.54	157,021.85	143,172.47
<b>Net profits</b>	<b>627,456.94</b>	<b>560,526.40</b>	<b>483,074.20</b>
Less: Profit and loss of minority shareholders	118,110.22	110,904.71	74,974.83
Net profits attributable to owners of parent company	509,346.73	449,621.70	408,099.37
<b>Net after-tax amount of other comprehensive income</b>	<b>8,743.89</b>	<b>28,086.18</b>	<b>-5,701.32</b>
Net after-tax amount of other comprehensive income attributable to shareholders of parent company	12,101.66	28,584.92	-4,959.01
Other comprehensive income that cannot be reclassified to profit or loss	4,034.07	311.93	3,187.15
Changes in fair value of other equity instrument investments	4,034.07	311.93	3,187.15
Other comprehensive income to be reclassified to profit or loss	8,067.59	28,272.99	-8,146.16
Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	-66.09	269.43	1.28
Provision for impairment of receivables financing	-198.91	33.72	115.09
Effective portion of gains or losses on hedging instruments in a cash flow hedge	1,114.77		
Exchange differences on translation of financial statements denominated in foreign currencies	7,217.82	27,969.85	-8,262.52



Item	Year 2021	Year 2020	Year 2019
Net after-tax amount of other comprehensive income attributable to minority shareholders	-3,357.77	-498.74	-742.31
<b>Total comprehensive income</b>	<b>636,200.83</b>	<b>588,612.59</b>	<b>477,372.88</b>
Less: Total comprehensive income attributable to minority shareholders	114,752.45	110,405.97	74,232.52
Total comprehensive income attributable to ordinary shareholders of parent company	521,448.38	478,206.62	403,140.36
<b>Earnings per share (RMB):</b>			
Basic earnings per share	1.79	1.58	1.44
Diluted earnings per share	1.79	1.58	1.44

## (3) Consolidated cash flow statement

Unit: RMB0'000

Item	Year 2021	Year 2020	Year 2019
<b>Cash flow generated from operating activities:</b>			
Cash received from sales of goods and provision of labor services	23,337,389.47	21,000,099.78	20,473,497.10
Tax refunds received	11,414.59	6,665.81	6,746.91
Other cash received related to operating activities	198,193.66	191,059.85	214,727.37
<b>Subtotal of cash inflow from operating activities</b>	<b>23,546,997.72</b>	<b>21,197,825.44</b>	<b>20,694,971.38</b>
Cash paid for goods purchased and labor services accepted	20,367,891.38	18,016,564.01	17,670,349.71
Cash paid to and for staff	870,174.31	774,877.43	762,193.81
Taxes paid	635,314.53	591,608.16	568,908.72
Other cash paid related to operating activities	1,167,484.87	1,130,303.78	1,091,280.57
<b>Subtotal of cash outflow for operating activities</b>	<b>23,040,865.10</b>	<b>20,513,353.37</b>	<b>20,092,732.82</b>
<b>Net cash flow generated from operating activities</b>	<b>506,132.63</b>	<b>684,472.06</b>	<b>602,238.56</b>

Item	Year 2021	Year 2020	Year 2019
<b>Cash flow generated from investment activities:</b>			
Cash received from disinvestment	253,587.15	417,290.31	90,543.87
Cash received from investment incomes	75,232.51	63,315.33	36,613.59
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	19,090.02	38,385.90	14,190.34
Net cash received from disposal of subsidiaries and other business units	11,370.05	11,013.33	6,590.29
Other cash received related to investment activities	147,497.90	415,336.54	126,923.29
<b>Subtotal of cash inflow from investment activities</b>	<b>506,777.63</b>	<b>945,341.42</b>	<b>274,861.39</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	411,877.15	300,997.13	275,312.54
Cash paid for investments	314,783.96	449,091.40	104,138.78
Net cash paid for acquisition of subsidiaries and other business units	115,302.31	215,578.83	75,958.78
Other cash paid related to investment activities	266,371.79	150,241.70	277,879.04
<b>Subtotal of cash outflow for investment activities</b>	<b>1,108,335.21</b>	<b>1,115,909.06</b>	<b>733,289.15</b>
<b>Net cash flow generated from investment activities</b>	<b>-601,557.59</b>	<b>-170,567.64</b>	<b>-458,427.75</b>
<b>Cash flow generated from financing activities:</b>			
Cash received from capital contribution	16,934.42	14,154.64	2,853.70
In which: cash received by subsidiaries from minority shareholders	16,934.42	14,154.64	2,853.70
Cash received from borrowings	3,755,401.63	3,676,915.96	4,004,661.36
Cash received from issue of bonds	1,899,266.03	1,249,581.25	-
Other cash received related to financing activities	161,923.34	167,281.36	40,338.39
<b>Subtotal of cash inflow from financing activities</b>	<b>5,833,525.42</b>	<b>5,107,933.21</b>	<b>4,047,853.45</b>
Cash paid for repayment of debts	5,221,456.24	4,757,548.00	3,834,030.65
Cash paid for distribution of dividends, profits or repayment of interests	332,308.93	351,761.83	301,424.78

Item	Year 2021	Year 2020	Year 2019
In which: dividends and profits paid by subsidiaries to minority shareholders	64,716.94	109,922.37	43,008.43
Other cash paid related to financing activities	123,197.40	124,746.37	144,977.87
<b>Subtotal of cash outflow for financing activities</b>	<b>5,676,962.57</b>	<b>5,234,056.19</b>	<b>4,280,433.31</b>
<b>Net cash flow generated from financing activities</b>	<b>156,562.85</b>	<b>-126,122.98</b>	<b>-232,579.85</b>
Impacts of exchange rate movement on cash	-5,032.34	-1,762.75	-160.63
<b>Net increase of cash and cash equivalents</b>	<b>56,105.54</b>	<b>386,018.69</b>	<b>-88,929.68</b>
Opening balance of cash and cash equivalents	1,957,644.48	1,571,625.79	1,660,555.47
<b>Ending balance of cash and cash equivalents</b>	<b>2,013,750.02</b>	<b>1,957,644.48</b>	<b>1,571,625.79</b>

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

(1) *Balance sheet of parent company*

*Unit: RMB0'000*

Item	31 December 2021	31 December 2020	31 December 2019
<b>Current asset</b>			
Monetary funds	495,624.17	457,960.48	368,830.68
Prepayments	546.25	79.06	48.25
Other receivables	1,948,919.19	1,876,516.18	1,667,640.05
Other current assets	372.90	-	-
<b>Total current assets</b>	<b>2,445,462.50</b>	<b>2,334,555.72</b>	<b>2,036,518.98</b>
<b>Non-current asset</b>			
Long-term equity investments	2,693,907.53	2,354,078.51	2,250,823.62
Other non-current financial assets	100,033.09	49,858.39	2,520.67
Fixed assets	9,524.74	6,589.62	5,539.44
Projects under construction	4,113.47	4,240.95	1,781.16
Right-of-use assets	8,081.68	9,253.49	548.55
Intangible assets	6,795.19	12,671.23	9,051.81
Development expenditure	7,579.77	-	-
Long-term unamortized expenses	801.33	104.92	90.14
Other non-current assets	30,563.45	197.10	153.57

Item	31 December 2021	31 December 2020	31 December 2019
<b>Total non-current assets</b>	<b>2,861,400.25</b>	<b>2,436,994.21</b>	<b>2,270,508.96</b>
<b>Total assets</b>	<b>5,306,862.75</b>	<b>4,771,549.93</b>	<b>4,307,027.94</b>

*Unit: RMB0'000*

Item	31 December 2021	31 December 2020	31 December 2019
<b>Current liabilities</b>			
Short-term borrowings	105,140.08	120,118.03	270,322.99
Notes payable	-	-	-
Accounts payable	4,311.13	7,271.23	2,085.29
Contract liabilities	2,009.72	420.72	420.72
Staff compensation payable	6,429.24	4,036.49	4,327.73
Taxes payable	202.46	501.17	1,050.03
Other payables	1,467,511.32	1,140,663.74	1,144,231.42
Non-current liabilities due within one year	2,653.94	304,538.90	2,399.65
Other current liabilities	907,703.34	501,861.64	-
<b>Total current liabilities</b>	<b>2,495,961.23</b>	<b>2,079,411.93</b>	<b>1,424,837.83</b>
<b>Non-current liabilities</b>			
Long-term borrowings	138,000.00	58,049.99	-
Bonds payable	-	-	299,822.87
Lease liabilities	6,087.55	6,830.50	-
Deferred incomes	5,362.90	3,535.62	4,313.13
Deferred income tax liabilities	585.97	585.97	585.97
<b>Total non-current liabilities</b>	<b>150,036.43</b>	<b>69,002.08</b>	<b>304,721.98</b>
<b>Total liabilities</b>	<b>2,645,997.66</b>	<b>2,148,414.01</b>	<b>1,729,559.82</b>
<b>Equity interests</b>			
Share capital	284,208.93	284,208.93	284,208.93
Capital reserve	1,909,421.11	1,896,951.62	1,884,785.83
Other comprehensive income	-14.63	29.26	-150.94
Surplus reserve	161,667.29	145,494.90	129,657.53
Undistributed profits	305,582.39	296,451.20	278,966.77
<b>Total equity interests</b>	<b>2,660,865.09</b>	<b>2,623,135.92</b>	<b>2,577,468.12</b>
<b>Total liabilities and equity interests</b>	<b>5,306,862.75</b>	<b>4,771,549.93</b>	<b>4,307,027.94</b>

## (2) Profit statement of parent company

Unit: RMB0'000

Item	Year 2021	Year 2020	Year 2019
<b>Operating income</b>	<b>13,748.45</b>	<b>18,370.11</b>	<b>14,472.48</b>
Less: Operating costs	99.88	206.79	207.02
Taxes and surcharges	62.20	142.30	263.03
Overhead expenses	28,080.86	23,045.23	26,784.16
R&D expenditure	41,970.05	33,649.49	21,226.35
Financial expenses – net	34,394.22	35,632.92	19,087.34
Assets impairment loss	–	–	–
Credit impairment loss	-3,302.78	524.60	1,519.54
Add: Other income	1,849.56	2,284.62	1,096.34
Investment incomes	244,669.95	230,820.39	232,928.69
In which: gains on investments in associates and joint ventures	23,642.92	24,435.11	16,955.13
Gains/(losses) on changes in fair value	7,868.80	292.01	31.69
Gains/(losses) on assets disposal	1.75	–	–
<b>Operating profits</b>	<b>166,834.08</b>	<b>158,565.79</b>	<b>179,441.74</b>
Add: Non-operating incomes	297.03	–	23.72
Less: Non-operating expenses	725.68	192.05	213.31
<b>Total profits</b>	<b>166,405.44</b>	<b>158,373.74</b>	<b>179,252.15</b>
<b>Net profits</b>	<b>166,405.44</b>	<b>158,373.74</b>	<b>179,252.15</b>
<b>Net after-tax amount of other comprehensive income</b>	<b>-43.89</b>	<b>180.20</b>	<b>0.85</b>
Net after-tax amount of other comprehensive income attributable to shareholders of parent company	-43.89	180.20	0.85
Other comprehensive income to be reclassified to profit and loss	-43.89	180.20	0.85
Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	-43.89	180.20	0.85
<b>Total comprehensive income</b>	<b>166,361.55</b>	<b>158,553.94</b>	<b>179,253.00</b>

## (3) Cash flow statement of parent company

Unit: RMB0'000

Item	Year 2021	Year 2020	Year 2019
<b>Cash flow generated from operating activities:</b>			
Cash received from sales of goods and provision of labor services	15,028.96	21,377.33	17,249.34
Tax refunds received	-	-	-
Other cash received related to operating activities	42,346.64	69,348.32	59,238.27
<b>Subtotal of cash inflow from operating activities</b>	<b>57,375.60</b>	<b>90,725.66</b>	<b>76,487.61</b>
Cash paid for goods purchased and labor services accepted	7,206.54	1,034.25	1,365.83
Cash paid to and for staff	22,879.41	18,292.52	18,528.99
Taxes paid	147.45	390.93	1,225.85
Other cash paid related to operating activities	68,309.59	92,336.73	74,142.66
<b>Subtotal of cash outflow for operating activities</b>	<b>98,542.99</b>	<b>112,054.43</b>	<b>95,263.33</b>
<b>Net cash flow generated from operating activities</b>	<b>-41,167.39</b>	<b>-21,328.77</b>	<b>-18,775.73</b>
<b>Cash flow generated from investment activities:</b>			
Cash received from disinvestment	253,587.15	401,024.20	90,514.06
Cash received from investment incomes	203,718.85	178,522.11	174,258.24
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	-	4.64	1.07
Other cash received related to investment activities	205,137.12	413,142.82	333,323.99
<b>Subtotal of cash inflow from investment activities</b>	<b>662,443.12</b>	<b>992,693.78</b>	<b>598,097.36</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	11,698.46	8,609.12	4,091.90
Cash paid for investments	295,000.00	447,045.70	90,050.00
Net cash paid for acquisition of subsidiaries and other business units	9,596.00	12,572.00	4,191.67
Other cash paid related to investment activities	424,438.81	714,767.30	432,718.53

Item	Year 2021	Year 2020	Year 2019
<b>Subtotal of cash outflow for investment activities</b>	<b>740,733.27</b>	<b>1,182,994.12</b>	<b>531,052.09</b>
<b>Net cash flow generated from investment activities</b>	<b>-78,290.14</b>	<b>-190,300.33</b>	<b>67,045.27</b>
<b>Cash flow generated from financing activities:</b>			
Cash received from capital contribution	-	-	-
Cash received from borrowings	215,039.26	398,000.00	270,000.00
Cash received from issue of bonds	1,899,266.03	1,249,581.25	-
Other cash received related to financing activities	241,054.20	18,574.04	267,383.39
<b>Subtotal of cash inflow from financing activities</b>	<b>2,355,359.48</b>	<b>1,666,155.29</b>	<b>537,383.39</b>
Cash paid for repayment of debts	1,950,000.00	1,240,000.00	260,000.00
Cash paid for distribution of dividends, profits or repayment of interests	146,498.48	134,403.82	128,986.20
Other cash paid related to financing activities	66,771.35	21,516.13	17,931.95
<b>Subtotal of cash outflow for financing activities</b>	<b>2,163,269.84</b>	<b>1,395,919.95</b>	<b>406,918.15</b>
<b>Net cash flow generated from financing activities</b>	<b>192,089.64</b>	<b>270,235.34</b>	<b>130,465.24</b>
Impacts of exchange rate movement on cash	35.90	522.44	-645.08
<b>Net increase of cash and cash equivalents</b>	<b>72,668.01</b>	<b>59,128.67</b>	<b>178,089.71</b>
Opening balance of cash and cash equivalents	398,955.86	339,827.19	161,737.48
<b>Ending balance of cash and cash equivalents</b>	<b>471,623.87</b>	<b>398,955.86</b>	<b>339,827.19</b>

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

## 1. Major subsidiaries included in the consolidated financial statements

Enterprise name	Place of registration	Registered capital (RMB100,000,000)	Proportion of shareholding (direct + indirect)
Shanghai Pharmaceutical Co., Ltd.	Shanghai	50.00	100.00%
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Haikou	13.00	100.00%
SPH Sine Pharmaceutical Factory Co., Ltd.	Shanghai	11.92	100.00%
SPH No.1 Biochemical & Pharmaceutical Co., Ltd.	Shanghai	2.25	100.00%
SPH New Asia Pharmaceutical Co., Ltd.	Shanghai	10.52	96.90%
Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai	14.76	100.00%
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Hangzhou	1.29	75.00%
SPH Changzhou Pharmaceutical Co., Ltd.	Changzhou	1.58	75.89%
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Shanghai	5.46	100.00%
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Qingdao	0.93	67.52%
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Hangzhou	1.35	51.01%
Xiamen Traditional Chinese Medicine Co., Ltd.	Xiamen	2.00	61.00%
Liaoning Herbapex Pharmaceutical (Group) Co., Ltd.	Benxi	1.02	55.00%
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Shanghai	0.94	100.00%
SPH Materials Supply and Sales Co., Ltd.	Shanghai	1.01	100.00%
Shanghai Medical Instruments Co., Ltd.	Shanghai	1.27	100.00%
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Nantong	1.41	100.00%
Shanghai Pharma Sales Co., Ltd.	Shanghai	0.50	100.00%
TECHPOOL Bio-pharma Co., Ltd.	Guangzhou	1.00	67.14%



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

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

1) Subsidiaries newly included in the scope of consolidation

Compared with the end of 2018, major enterprises included in the consolidated statements by the Company by the end of 2019 increased by one. Changes and reasons are as follows:

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

2) Subsidiaries no longer included in the scope of consolidation

Nil.

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

1) Subsidiaries newly included in the scope of consolidation

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

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

2) Subsidiaries no longer included in the scope of consolidation

Nil.

(3) *Changes in the scope of consolidated statements for Year 2021*

1) Subsidiaries newly included in the scope of consolidation

Compared with the end of 2020, major enterprise included in the consolidated statements by the Company by the end of 2021 increased by one. Change and reason are as follow:

No.	Time	Scope of change	Reason
1	2021	Fimet Invest OY	Acquired not under common control

2) Subsidiaries no longer included in the scope of consolidation

Compared with the end of 2020, major enterprise included in the consolidated statements by the Company by the end of 2021 decreased by one. Change and reason are as follow:

No.	Time	Scope of change	Reason
1	2021	SPH Cloud Health	Passive dilution

**(III) Key financial indicators in the last three years**

**1. The key financial indicators**

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

Key financial indicators	31 December 2021/Year 2021	31 December 2020/Year 2020	31 December 2019/Year 2019
Current ratio	1.27	1.22	1.31
Quick ratio	0.96	0.93	0.97
Asset-liability ratio	63.86%	63.31%	63.96%
Net assets per share attributable to shareholders of parent company (RMB)	17.37	15.96	14.66
Turnover of accounts receivable (times)	3.84	3.81	4.07
Turnover of inventories (times)	7.32	6.72	6.40
Net cash flow per share generated from operating activities (RMB)	1.78	2.41	2.12
Net cash flow per share (RMB)	0.20	1.36	-0.31

*Note:* The above financial indicators are calculated as follows:

- (1) Current ratio = current assets/current liabilities;
- (2) Quick ratio = (current assets – inventories – other current assets)/current liabilities;
- (3) Asset-liability ratio = total liabilities/total assets;

- (4) Net assets per share = ending equity attributable to shareholders of parent company/ share capital;
- (5) Turnover of accounts receivable (times) = operating income/average balance of notes receivable and accounts receivable;
- (6) Turnover of inventories (times) = operating costs/average balance of inventories;
- (7) Net cash flow per share generated from operating activities = net cash flow generated from operating activities/share capital;
- (8) Net cash flow per share = increase in cash and cash equivalents/total share capital.

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

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

Year	Item	Weighted average net return on assets (%)	Earnings per share (RMB/share)	
			Basic	Diluted
Year 2021	Net profits attributable to ordinary shareholders of the company	10.76	1.79	1.79
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	8.45	1.41	1.41
Year 2020	Net profits attributable to ordinary shareholders of the company	10.34	1.58	1.58
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	8.79	1.34	1.34
Year 2019	Net profits attributable to ordinary shareholders of the company	10.12	1.44	1.44
	Net profits attributable to ordinary shareholders of the company after deduction of non-recurring profit and loss	8.58	1.22	1.22

### 3. Details of non-recurring profit and loss

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

*Unit: RMB*

Item	Year 2021	Year 2020	Year 2019
Profit and loss from disposal of non-current assets	1,249,686,382.85	121,927,393.32	137,783,794.01
Governmental grants credited into current profit and loss (except governmental grants closely related to business of the enterprise and enjoyed according to uniform standard quota or volume of the state)	465,740,372.82	543,156,846.45	352,660,731.72
Profit and loss from changes in fair value of financial assets held for trading and financial liabilities held for trading as well as investment incomes from the disposal of financial assets held for trading, financial liabilities held for trading and financial assets available for sale, except effective hedging business related to the normal operation of the Group	-197,618,301.60	134,409,436.48	127,995,557.08
Reversal of impairment provision for accounts receivable used for impairment test separately	8,341,978.95	51,767,019.97	2,776,584.91
Non-operating incomes and expenses other than above	-61,671,412.79	-8,905,578.93	48,519,990.45
Other profit and loss items meeting the definition of non-recurring profit and loss	–	33,435,397.74	148,754,784.49
Effect of income taxes	-303,704,084.16	-142,128,883.59	-115,211,345.85
Effect of minority interests (after tax)	-68,237,862.88	-58,656,474.03	-83,114,781.08
<b>Total</b>	<b>1,092,537,073.19</b>	<b>675,005,157.41</b>	<b>620,165,315.73</b>

**(IV) Analysis opinion of the management**

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

**1. Analysis of asset structure****(1) Assets***Unit: RMB0'000*

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Current assets	11,649,443.23	71.28%	10,756,292.62	72.10%	9,809,158.14	71.59%
Non-current assets	4,694,107.68	28.72%	4,162,272.93	27.90%	3,893,481.45	28.41%
<b>Total assets</b>	<b>16,343,550.92</b>	<b>100.00%</b>	<b>14,918,565.55</b>	<b>100.00%</b>	<b>13,702,639.59</b>	<b>100.00%</b>

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

**(2) Analysis of current assets***Unit: RMB0'000*

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Monetary funds	2,239,038.57	19.22%	2,229,623.27	20.73%	1,815,281.77	18.51%
Derivative financial assets	328.45	0.00%	50.13	0.00%	302.70	0.00%
Notes and accounts receivable	5,938,665.09	50.98%	5,303,644.51	49.31%	4,761,392.31	48.54%
Notes receivable	127,888.07	1.10%	29,053.93	0.27%	27,411.95	0.28%
Accounts receivable	5,810,777.02	49.88%	5,274,590.59	49.04%	4,733,980.35	48.26%
Receivables financing	161,900.98	1.39%	248,537.37	2.31%	218,705.95	2.23%
Prepayments	245,776.11	2.11%	238,993.07	2.22%	193,745.61	1.98%
Other receivables	241,910.80	2.08%	200,945.65	1.87%	220,296.08	2.25%
Inventories	2,710,403.53	23.27%	2,408,825.77	22.39%	2,487,735.68	25.36%

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Assets classified as held-for-sale	-	-	-	-	-	-
Non-current assets due within one year	12,650.56	0.11%	10,532.51	0.10%	2,325.77	0.02%
Other current assets	98,769.14	0.85%	115,140.34	1.07%	109,372.26	1.12%
<b>Total current assets</b>	<b>11,649,443.23</b>	<b>100.00%</b>	<b>10,756,292.62</b>	<b>100.00%</b>	<b>9,809,158.14</b>	<b>100.00%</b>

As at 31 December 2019, 2020 and 2021, the total amount of current assets of the Company were RMB98,091,581,400, RMB107,562,926,200 and RMB116,494,432,300, respectively, accounting for 71.59%, 72.10% and 71.28% of the total assets, respectively. The current assets mainly consist of monetary funds, accounts receivable and inventories and thus the Company has a relatively good liquidity.

(3) *Analysis of non-current assets*

*Unit: RMB0'000*

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Long-term receivables	19,774.23	0.42%	16,984.69	0.41%	26,564.21	0.68%
Long-term equity investments	907,327.54	19.33%	665,106.40	15.98%	485,377.91	12.47%
Other equity instrument investments	7,339.24	0.16%	3,305.17	0.08%	19,418.40	0.50%
Other non-current financial assets	138,890.07	2.96%	97,855.70	2.35%	38,439.82	0.99%
Investment properties	21,332.33	0.45%	23,528.81	0.57%	29,231.92	0.75%
Fixed assets	1,048,411.82	22.33%	1,049,071.57	25.20%	944,567.51	24.26%
Projects under construction	291,413.00	6.21%	173,720.40	4.17%	164,989.64	4.24%
Productive biological assets	40,256.91	0.86%	40,581.83	0.97%	41,014.50	1.05%
Right-of-use assets	199,243.37	4.24%	199,265.09	4.79%	162,209.64	4.17%
Intangible assets	604,943.12	12.89%	519,525.38	12.48%	393,037.18	10.09%

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Development expenditure	25,922.79	0.55%	22,382.56	0.54%	21,159.33	0.54%
Goodwill	1,123,897.24	23.94%	1,134,226.82	27.25%	1,078,991.85	27.71%
Long-term unamortized expenses	42,911.75	0.91%	41,532.05	1.00%	39,479.99	1.01%
Deferred income tax assets	136,754.49	2.91%	135,936.34	3.27%	122,250.76	3.14%
Other non-current assets	85,689.79	1.83%	39,250.13	0.94%	326,748.79	8.39%
<b>Total non-current assets</b>	<b>4,694,107.68</b>	<b>100.00%</b>	<b>4,162,272.93</b>	<b>100.00%</b>	<b>3,893,481.45</b>	<b>100.00%</b>

As at 31 December 2019, 2020 and 2021, the total amount of non-current assets of the Company were RMB38,934,814,500, RMB41,622,729,300 and RMB46,941,076,800 respectively, accounting for 28.41%, 27.90% and 28.72% of the total assets, respectively. The non-current assets mainly consist of long-term equity investments, fixed assets, intangible assets and goodwill.

## 2. Analysis of liability structure

Unit: RMB0'000

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Short-term loans	2,251,457.40	21.57%	2,013,918.59	21.32%	2,313,868.72	26.40%
Derivative financial liabilities	77.41	0.00%	931.49	0.01%	172.45	0.00%
Notes and accounts payable	4,199,541.44	40.24%	3,779,216.65	40.02%	3,687,245.89	42.07%
Notes payable	476,474.80	4.57%	493,072.63	5.22%	505,347.34	5.77%
Accounts payable	3,723,066.64	35.67%	3,286,144.02	34.79%	3,181,898.55	36.31%
Contract liabilities	131,092.09	1.26%	131,083.73	1.39%	153,419.91	1.75%
Staff compensation payable	143,302.81	1.37%	127,396.59	1.35%	109,085.67	1.24%
Taxes payable	169,266.01	1.62%	147,806.75	1.57%	121,542.08	1.39%
Other payables	1,306,252.78	12.52%	1,214,279.75	12.86%	956,569.20	10.91%

Item	31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Non-current liabilities due within one year	58,204.26	0.56%	896,803.78	9.50%	118,860.23	1.36%
Other current liabilities	923,238.16	8.85%	501,861.64	5.31%	-	-
<b>Total current liabilities</b>	<b>9,182,432.36</b>	<b>87.98%</b>	<b>8,813,298.96</b>	<b>93.32%</b>	<b>7,460,764.15</b>	<b>85.13%</b>
Long-term borrowings	715,775.17	6.86%	118,407.83	1.25%	613,599.28	7.00%
Bonds payable	-	-	-	-	299,822.87	3.42%
Lease liabilities	143,427.41	1.37%	150,102.18	1.59%	115,563.89	1.32%
Long-term payables	31,516.15	0.30%	35,357.47	0.37%	41,562.80	0.47%
Accrued liabilities	2,324.39	0.02%	2,576.07	0.03%	7,092.32	0.08%
Deferred incomes	234,908.01	2.25%	222,406.91	2.35%	127,872.63	1.46%
Long-term staff compensation payable	3,900.72	0.04%	4,641.11	0.05%	4,809.59	0.05%
Deferred income tax liabilities	99,876.88	0.96%	83,237.55	0.88%	80,959.91	0.92%
Other non-current liabilities	22,768.81	0.22%	14,464.50	0.15%	11,999.32	0.14%
<b>Total non-current liabilities</b>	<b>1,254,497.55</b>	<b>12.02%</b>	<b>631,193.61</b>	<b>6.68%</b>	<b>1,303,282.60</b>	<b>14.87%</b>
<b>Total liabilities</b>	<b>10,436,929.90</b>	<b>100.00%</b>	<b>9,444,492.57</b>	<b>100.00%</b>	<b>8,764,046.76</b>	<b>100.00%</b>

In recent years, the demand of the Company for working capital is increasing year by year as the Company expands. As at 31 December 2019, 2020 and 2021, the total amount of liabilities of the Company were RMB87,640,467,600, RMB94,444,925,700 and RMB104,369,299,000 respectively, in which, the respective balance of current liabilities were RMB74,607,641,500, RMB88,132,989,600 and RMB91,824,323,600, accounting for 85.13%, 93.32% and 87.98% of the total liabilities, respectively and mainly consisting of short-term borrowings, notes payable and accounts payable, etc.; the respective balance of non-current liabilities were RMB13,032,826,000, RMB6,311,936,100 and RMB12,544,975,500, accounting for 14.87%, 6.68% and 12.02% of the total liabilities, respectively and mainly consisting of bonds payable, long-term borrowings, deferred income and deferred income tax liabilities, etc. As at 31 December 2019, 2020 and 2021, the asset-liability ratios of the Company were 63.96%, 63.31% and 63.86%, respectively. The issuance of corporate bonds will help the Company adjust its debt structure and control financial risks.



### 3. Analysis of profitability and sustainability of profitability

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

Unit: RMB0'000

Item	Year 2021	Year 2020	Year 2019
Operating income	21,582,425.90	19,190,915.62	18,656,579.65
Operating costs	18,728,114.93	16,447,396.12	15,975,166.96
Operating profits	820,548.63	718,438.81	621,394.67
Total profits	814,381.49	717,548.26	626,246.67
Net profits	627,456.94	560,526.40	483,074.20

The operating income of the Company are increasing steadily year by year. In addition, after strengthening and realizing the effective cost control, the Company's total profits and net profits also increase steadily year by year. In 2020 and 2021, the total profits of the Company increased by 14.58% and 13.50% and the net profits increased by 16.03% and 11.94%, respectively on a year-on-year basis. According to its business development, the Company can sustain its profitability.

The composition of the operating income is as follows:

Unit: RMB0'000

Item	Year 2021		Year 2020		Year 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Revenues from main business	21,504,159.68	99.64%	19,142,319.75	99.75%	18,596,347.54	99.68%
Revenues from other businesses	78,266.23	0.36%	48,595.87	0.25%	60,232.10	0.32%
<b>Total</b>	<b>21,582,425.90</b>	<b>100.00%</b>	<b>19,190,915.62</b>	<b>100%</b>	<b>18,656,579.65</b>	<b>100%</b>

The proportion of revenues from main business in the total operating income of the Company remains above 99.64% and the growth of operating income of the Company mainly comes from steady growth of revenues from main business. In 2020 and 2021, the operating income of the Company increased by 2.86% and 12.34%, respectively on a year-on-year basis.

The composition of revenues from main business is as follows:

*Unit: RMB0'000*

Item	Year 2021		Year 2020		Year 2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Manufacturing	2,509,847.68	11.67%	2,374,317.59	12.40%	2,349,048.01	12.63%
Distribution	19,061,666.58	88.64%	16,765,020.60	87.58%	16,238,975.78	87.32%
Retailing	776,759.73	3.61%	851,900.42	4.45%	833,966.87	4.48%
Others	24,199.02	0.11%	33,692.62	0.18%	30,316.26	0.16%
Offset	-868,313.33	-4.04%	-882,611.47	-4.61%	-855,959.38	-4.60%
<b>Total</b>	<b>21,504,159.68</b>	<b>100.00%</b>	<b>19,142,319.75</b>	<b>100.00%</b>	<b>18,596,347.54</b>	<b>100.00%</b>

The Company's revenues from main business mainly consist of revenues from distribution and revenues from manufacturing, in which, the amounts of annual revenues from distribution for the Year 2019, Year 2020 and Year 2021 were RMB162,389,757,800, RMB167,650,206,000 and RMB190,616,665,800, respectively, accounting for 87.32%, 87.58% and 88.64% of the main business revenues, respectively.

#### 4. Analysis of cash flow

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

*Unit: RMB0'000*

Item	Year 2021	Year 2020	Year 2019
Net cash flow generated from operating activities	506,132.63	684,472.06	602,238.56
Net cash flow generated from investment activities	-601,557.59	-170,567.64	-458,427.75
Net cash flow generated from financing activities	156,562.85	-126,122.98	-232,579.85
Net increase of cash and cash equivalents	56,105.54	386,018.69	-88,929.68

For the Year 2019, Year 2020 and Year 2021, the net increases of cash and cash equivalents of the Company were RMB-889,296,800, RMB3,860,186,900 and RMB561,055,400 respectively. The main reason for the fluctuation is that, as the business of the Company expands in the last three years, there were more external investment activities and financing activities, which led to the fluctuation in cash flow generated from investment activities and financing activities, thereby resulting in the fluctuation in the net increase of cash and cash equivalents.

### 5. *Analysis of solvency*

The main solvency indicators of the Company are as follows:

Key financial indicators	31 December 2021	31 December 2020	31 December 2019
Current ratio	1.27	1.22	1.31
Quick ratio	0.96	0.93	0.97
Asset-liability ratio	63.86%	63.31%	63.96%

In terms of short-term solvency indicators, the current ratio of the Company as at 31 December 2019, 2020 and 2021 were 1.31, 1.22 and 1.27, respectively, while the quick ratio were 0.97, 0.93 and 0.96, respectively. In terms of long-term solvency indicators, the asset-liability ratio of the Company were 63.96%, 63.31% and 63.86%, respectively, they remain at a reasonable level.

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

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

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

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

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

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

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

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

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

### **IV. OTHER IMPORTANT ISSUES**

As at 31 December 2021, no balance of guarantee was provided by subsidiaries of the Company for other enterprises out of the consolidated statements. The Company has no pending lawsuit or arbitration which should be disclosed and may have significant impact on the financial position, operating results, business activities and future prospect of the Company.

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

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

## 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 hold shares of the Company:

Name	Position	Number of Shares held as at the Latest Practicable Date
CHO Man	Executive Director, President	20,009 A Shares <i>Note 1</i>
LI Yongzhong	Executive Director, Vice President	0 <i>Note 2</i>
SHEN Bo	Executive Director, Vice President, Chief Financial Officer	71,700 A Shares <i>Note 3</i>
HUAN Jianchun	Employee Supervisor	3,000 H Shares

*Notes:*

- As at the 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.
- As at the Latest Practicable Date, Mr. LI Yongzhong 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.
- As at the 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

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

Name	Name of Shareholder	Position in the Shareholder
ZHOU Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	Executive director and president
	Shanghai Shangshi (Group) Co., Ltd.	Vice Chairman and president
	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president
GE Dawei	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice chairman and executive director
	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice chairman
XU Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president

### 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 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 had any interest, direct or indirect, in any assets which have, since 31 December 2021, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors or Supervisors 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 is the qualification of the expert who has given a letter which is contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Gram Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

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

As at the Latest Practicable Date, Gram Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interest, direct or indirect, in any assets which have, since 31 December 2021, 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 2021, being the date to which the latest published audited accounts of the Company were made up.

**8. DOCUMENTS AVAILABLE ON DISPLAY**

Copies of the following documents will be published on the website of the Hong Kong Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (<http://www.sphchina.com>) during the period from the date of this circular up to and including the date of the Annual General Meeting:

- (a) the Existing Financial Services Agreement;
- (b) the Financial Services Agreement;
- (c) the letter from the Independent Board Committee, refer to Appendix IB;
- (d) the letter from Gram Capital Limited, refer to Appendix IC; and
- (e) the written consent referred to in the section headed “Expert and Consent” in this appendix.



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## NOTICE OF ANNUAL GENERAL MEETING

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上海醫藥集團股份有限公司

**Shanghai Pharmaceuticals Holding Co., Ltd.\***

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

**(Stock Code: 02607)**

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd.\* (the "**Company**") will be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, the PRC on 30 June 2022 at 13:00, to consider and approve the following proposals:

#### ORDINARY RESOLUTIONS

- (1) Annual Report for 2021
- (2) Report of the Board of Directors for 2021
- (3) Report of the Board of Supervisors for 2021
- (4) Final Accounts Report for 2021 and Financial Budget for 2022
- (5) Profit Distribution Plan for 2021
- (6) Proposal regarding Re-appointment of Auditor
- (7) Proposal regarding Renewal of Financial Services Agreement with Shanghai Shangshi Finance Co., Ltd. and Daily Related/Continuing Connected Transactions and Discloseable Transactions
- (8) Proposal regarding External Guarantees for 2022
- (9) Proposal regarding Amendments to the Administrative Measures for Funds Raised by the Company

#### SPECIAL RESOLUTIONS

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

\* *For identification purpose only*

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## NOTICE OF ANNUAL GENERAL MEETING

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(13) Proposal regarding the General Mandate of the Company

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

Shanghai, the PRC, 9 June 2022

*Notes:*

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

Purchasers of shares who have submitted their instruments of share transfer to the H Share registrar of the Company and registered as shareholders on the H Share register of members of the Company before 16:30 on 21 June 2022 are entitled to attend this Annual General Meeting.

In order to attend this Annual General Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, before 16:30 on 21 June 2022.

**2. Proxy**

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

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

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

**3. Registration procedures for attending the Annual General Meeting**

- (1) A shareholder or his proxy should produce proof of identity when attending the Annual General Meeting. If the shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body may attend the Annual General Meeting by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders of the Company intending to attend the Annual General Meeting in person or by their proxies should complete and return the reply slip for attending the Annual General Meeting to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before 20 June 2022.

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## NOTICE OF ANNUAL GENERAL MEETING

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#### 4. Voting by poll

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

#### 5. Miscellaneous

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

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

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

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

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

(4) The registered address of the Company:

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

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

(5) For details of the proposals submitted to the Annual General Meeting for consideration and approval, please refer to the circular of the Company dated 9 June 2022.