
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code: 02607)

**ANNUAL REPORT FOR 2023
REPORT OF THE BOARD OF DIRECTORS FOR 2023
REPORT OF THE BOARD OF SUPERVISORS FOR 2023
FINAL ACCOUNTS REPORT FOR 2023 AND FINANCIAL BUDGET FOR 2024
PROFIT DISTRIBUTION PLAN FOR 2023
INTERIM DIVIDEND ARRANGEMENT FOR 2024
CHANGE OF THE ACCOUNTING FIRM FOR 2024
RENEWAL OF FINANCIAL SERVICES AGREEMENT AND DAILY RELATED/CONTINUING
CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS
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APPLICATION FOR CENTRALIZED REGISTRATION OF DIFFERENT TYPES OF NEW DEBT
FINANCING INSTRUMENTS (DFI)
ISSUANCE OF DEBT FINANCING PRODUCTS
SATISFACTION OF CONDITIONS FOR ISSUING CORPORATE BONDS
ISSUANCE OF CORPORATE BONDS
GENERAL MANDATE OF THE COMPANY
ELECTION OF NON-EXECUTIVE DIRECTOR OF THE EIGHTH SESSION OF THE BOARD
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.

7 June 2024

* For identification purpose only

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DEFINITIONS

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

“2023 Annual General Meeting” or “Annual General Meeting” or “AGM”	the annual general meeting or any adjourned meeting thereof to be held by the Company on 28 June 2024 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
“Group”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (listed on the Shanghai Stock Exchange with stock code 601607 and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd.* and its subsidiaries (where applicable)
“connected person(s)”	unless otherwise specified, 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 (Group) Co., Ltd. (上海上實(集團)有限公司) 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
“Existing Financial Services Agreement”	the Financial Services Agreement entered into between the Company and the Finance Company dated 29 March 2022 in respect of the Finance Company’s provision of deposit, loan and other financial services as the China Banking and Insurance Regulatory Commission may approve, to the Group

DEFINITIONS

“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 the Finance Company dated 28 March 2024 in respect of the Finance Company’s provision of deposit services, loan services and other financial services as the NAFR 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 advise the Independent Board Committee and Independent Shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement
“Guidelines on Related Transactions”	Guidelines of the Shanghai Stock Exchange on Related 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 PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“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. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong
“Independent Directors” or “Independent Non-executive Directors”	independent non-executive directors of the Company
“Independent Shareholder(s)”	Shareholder(s) other than Shanghai Shangshi Group and its associates
“Latest Practicable Date”	3 June 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

DEFINITIONS

“NAFR”	The National Administration of Financial Regulation (國家金融監督管理總局), and/or the former China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員), as the context require
“NZ\$”	New Zealand dollars, the lawful currency of New Zealand
“PRC” or “China”	the People’s Republic of China, but for the purpose of this circular only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the 12-month period from 1 January 2023 to 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC. Unless otherwise specified, the currency generally refers to 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
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent

LETTER FROM THE BOARD



上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code: 02607)

Executive Directors:

Mr. YANG Qihua
Mr. SHEN Bo
Mr. LI Yongzhong
Mr. DONG Ming

Registered Address:

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

Independent Non-executive Directors:

Mr. GU Zhaoyang
Mr. Manson FOK
Mr. WANG Zhong

Principal Place of Business in Hong Kong:

5/F, Manulife Place
348 Kwun Tong Road
Hong Kong

To the Shareholders

Dear Sir or Madam,

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LETTER FROM THE BOARD

1. INTRODUCTION

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

Resolutions to be proposed at the AGM for the Shareholders to approve by way of ordinary resolutions include: (1) Annual Report for 2023; (2) Report of the Board of Directors for 2023; (3) Report of the Board of Supervisors for 2023; (4) Final Accounts Report for 2023 and Financial Budget for 2024; (5) Profit Distribution Plan for 2023; (6) Proposal Regarding Interim Dividend Arrangement for 2024; (7) Proposal regarding Change of the Accounting Firm for 2024; (8) Proposal regarding Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Daily Related/Continuing Connected Transactions and Discloseable Transactions; and (9) Proposal regarding External Guarantees for 2024.

Resolutions to be proposed at the AGM for the Shareholders to approve by way of special resolutions include: (10) Proposal regarding Application for Centralized Registration of Different Types of New Debt Financing Instruments (DFI); (11) Proposal regarding Issuance of Debt Financing Products; (12) Proposal regarding the Satisfaction of Conditions for Issuing Corporate Bonds; (13) Proposal regarding Issuance of Corporate Bonds; and (14) Proposal regarding the General Mandate of the Company.

Resolution to be proposed at the AGM for the Shareholders to approve by way of an ordinary resolution includes: (15) Proposal regarding Election of Non-executive Director of the Eighth Session of the Board.

2. ANNUAL REPORT FOR 2023

The Annual Report for 2023 of the Company has been dispatched, and published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.sphchina.com) on 26 April 2024.

3. REPORT OF THE BOARD OF DIRECTORS FOR 2023

(1) Overview of the Company's operation in 2023

At present, the pharmaceutical industry in China is undergoing profound adjustments. In 2023, Shanghai Pharmaceuticals adhered to the general principle of seeking progress while maintaining stability, confronted difficulties and challenges, successfully completed the election of the new session of the directors, supervisors and senior management, and solidly promoted "4+1" strategy of innovation development, intensive development, financial and industrial integration, international development and digital construction around "stabilizing growth, improving efficiency, controlling risks and optimizing systems", continuously solidifying the foundation for high-quality development.

LETTER FROM THE BOARD

In 2023, the Company continued to be listed among the Fortune Global 500 and has won honors such as “Top 50 Global Pharma Companies”, “Global Top 25 Most Valuable Pharmaceutical Brands”, “Top 100 Pharmaceutical Enterprises in China” and “Best Industrial Enterprise with Pharmaceutical R& D Product Line in China”.

During the Reporting Period, the Company achieved operating income of RMB260.295 billion, representing a year-on-year increase of 12.21%. Among which, the pharmaceutical manufacturing achieved sales revenue of RMB26.257 billion, down 1.87% year-on-year; the pharmaceutical service achieved sales revenue of RMB234.038 billion, up 14.04% year-on-year.

During the Reporting Period, due to the influence of one-off special profit or loss, the Company recorded RMB3.768 billion of net profit attributable to shareholders of the listed company, representing a year-on-year decrease of 32.92%. The net profit attributable to shareholders of the listed company after deduction of one-off special profit or loss amounted to RMB4.919 billion, representing a year-on-year increase of 2.99%. Among which, the pharmaceutical manufacturing contributed profits of RMB2.116 billion, representing a year-on-year decrease of 5.04%; pharmaceutical service contributed profits of RMB3.350 billion, representing a year-on-year increase of 7.67%. The major shareholding enterprises contributed profits of RMB538 million, representing a year-on-year increase of 13.23%. The net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company amounted to RMB3.596 billion, representing a year-on-year decrease of 16.31%. Upon excluding the effect of above one-off special profit or loss, the net profit after deduction of non-recurring profit or loss basically kept flat with the previous year.

During the Reporting Period, the Company’s R&D investment reached RMB2.602 billion, including RMB2.204 billion of R&D expenditure, representing a year-on-year increase of 4.35%.

During the Reporting Period, the operating net cash inflow of the Company amounted to RMB5.232 billion, representing a year-on-year increase of 10.29%, continuously maintaining its high-quality development.

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

In 2023, 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 exchanges where the Shares are listed, the Articles of Association and the requirements

LETTER FROM THE BOARD

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. A total of nine meetings were held including four meetings held by the seventh session of the Board of Directors and five meetings held by the eighth session of the Board of Directors. 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 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 Board of Directors held five meetings in total, during which, the audit committee discussed and reviewed the regular reports, audit plans, implementation of internal control, major and daily related/connected transactions, provided advice for the Group to strengthen its internal control mechanism and conscientiously performed its duties as the audit committee.
- During the Reporting Period, the nomination committee of the Board of Directors held two meetings in total, during which, the nomination committee discussed and reviewed the election of Directors of the eighth session of the Board of Directors and amendments to the terms of references of the nomination committee 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 seventh session of the Board of Directors held four meetings in total, during which, the remuneration and assessment committee considered the amendments to the terms of references of the remuneration and assessment committee, annual allowance of independent Directors, performance appraisal report for 2022 of senior management of the Company and adjustments and exercise of options under the 2019 Option Incentive Scheme and other matters, and conscientiously performed its duties as the remuneration and assessment committee.
- During the Reporting Period, the strategy committee of the seventh session of the Board of Directors held one meeting in total, during which, the strategy committee reviewed the implementation of the “14th Five-Year” Development Plan of the Group in 2023, and conscientiously performed its duties as the strategy committee.

LETTER FROM THE BOARD

③ *Convening the Shareholders' general meeting*

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

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

In 2023, 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 C1 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.

In 2023, the Company amended the Articles of Association and the Independent Directors System of the Company in accordance with the Measures for the Administration of Independent Directors of Listed Companies and formulated the Working Rules for Special Meeting of the Independent Directors of the Company.

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.

The office of the Board actively served the Directors. Directors can obtain the information necessary for decision-making from the office of the Board, the convener of the meeting, senior management, intermediaries, etc., before the meeting, or request the above-mentioned personnel to explain the relevant situation at the meeting. The mechanism for Directors to obtain independent viewpoints and opinions was effectively implemented during the Reporting Period.

The Company attached great importance to maintaining communication with Shareholders and updated the information in the official website in real time for the public to access information about the Company. At the same time, Shareholders can make inquiries about the Company or express their opinions at any time through the "SSE E interactive platform", the Company's email and other ways. The Company also actively organized the results presentation, investor roadshow activity and other activities to communicate directly with the Shareholders. The Shareholder communication policy of the Company was effectively implemented during the Reporting Period.

(4) **Work plan for 2024**

In 2024, 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.

LETTER FROM THE BOARD

4. REPORT THE BOARD OF SUPERVISORS FOR 2023

(1) Work of the Board of Supervisors in 2023

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 eight meetings in total, at which seventeen resolutions were considered and approved. Details are as follows:

- The 24th meeting of the seventh session of the Board of Supervisors considered and approved: the Proposal regarding Adjusting the List of Incentive Objects and the Quantity of Options in the 2019 A-Share Stock Option Incentive Plan and Cancelling of Part of Options and the Proposal regarding Fulfillment of the Exercise Conditions for the Second Exercise Period of the Initial Granted Share Options and the First Exercise Period of the Reserved Share Options under the 2019 A-Share Stock Option Incentive Plan of the Company;
- The 25th meeting of the seventh session of the Board of Supervisors considered and approved: the Report of the Board of Supervisors for 2022, Final Accounts Report for 2022 and Financial Budget for 2023, Annual Report and its Summary for 2022, Profit Distribution Plan for 2022, Proposal regarding the Payment of Auditors' Fees for 2022 and Re-appointment of Accounting Firm, Proposal regarding Cancellation of Expired and Unexercised Stock Options of the first Exercise Period of the Initial Granted Share Options under the 2019 A-Share Stock Option Incentive Plan of the Company, and Proposal regarding Ratification of the Use of Part of Temporarily Idle Proceeds to Handle Seven-day Notice Deposit Business and Special Report of the Deposit and Utilisation of the Proceeds of Shanghai Pharmaceuticals in 2022;
- The 26th meeting of the seventh session of the Board of Supervisors considered and approved: the First Quarterly Report of 2023;
- The 27th meeting of the seventh session of the Board of Supervisors considered and approved: the Proposal regarding Election of Supervisors of the Eighth Session of the Board of Supervisors;
- The 1st meeting of the eighth session of the Board of Supervisors considered and approved: the Proposal regarding Election of the Chief Supervisor of the Eighth Session of the Board of Supervisors;
- The 2nd meeting of the eighth session of the Board of Supervisors considered and approved: the Interim Report of 2023 and its Summary;

LETTER FROM THE BOARD

- The 3rd meeting of the eighth session of the Board of Supervisors considered and approved: the Third Quarterly Report of 2023;
- The 4th meeting of the eighth session of the Board of Supervisors considered and approved: the Proposal regarding Adjusting the List of Incentive Objects and the Quantity of Options in the 2019 A-Share Stock Option Incentive Plan and Cancelling of Part of Options and the Proposal regarding Fulfillment of the Exercise Conditions for the Third Exercise Period of the Initial Granted Share Options and the Second Exercise Period of the Reserved Share Options under the 2019 A-Share Stock Option Incentive Plan of the Company.

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 2023 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 were 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 firm: PricewaterhouseCoopers Zhong Tian LLP has issued standard unqualified auditor's report.

LETTER FROM THE BOARD

- 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 2023 and had no objection to the report.

(2) Work plan for 2024

In 2024, 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 2023 AND FINANCIAL BUDGET FOR 2024

The Final Accounts Report for 2023 and Financial Budget for 2024 are set out in the Annual Report for 2023 of the Company.

6. PROFIT DISTRIBUTION PLAN FOR 2023

As audited, in 2023, the Company's net profit attributable to shareholders of the listed company was RMB3,767,999,581.18. The balance of the Company's consolidated undistributed profit as of 31 December 2023 amounted to RMB33,822,332,888.31 after the addition of RMB32,479,872,339.12 of consolidated undistributed profit at the beginning of the year, the deduction of RMB2,258,992,103.23 of cash dividend in 2022, the withdrawal of RMB148,142,112.47 of statutory surplus reserve for 2023, and the decrease of other changes of RMB18,404,816.29.

The profit distribution plan for 2023 is as follows: the Company is proposed to pay cash dividend of RMB4.10 (tax inclusive) for every ten Shares to all Shareholders. Based on the total share capital of 3,703,301,054 Shares as at 31 December 2023, it is proposed to pay cash dividend of RMB1,518,353,432.14 (tax inclusive) in total, accounting for 40.30% 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 RMB32,303,979,456.17. 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.

7. PROPOSAL REGARDING INTERIM DIVIDEND ARRANGEMENT FOR 2024

In order to safeguard the value of the Company and the interests of the Shareholders, actively reward its Shareholders and share its business results with investors, the Company proposes to pay interim cash dividends in 2024. The Company has formulated the interim dividend arrangement in accordance

LETTER FROM THE BOARD

with the requirements of relevant laws, regulations and normative documents such as the Company Law, and the Regulatory Guidelines of Listed Companies No. 3 – Cash Dividend Distribution of Listed Companies and the Self-regulatory Guideline No. 1 for Companies Listed on the Shanghai Stock Exchange – Standardised Operation issued by the CSRC and the provisions of the Articles of Association, details of which are set out below:

(1) Conditions to interim dividend

- i. comply with the requirements of the Guidelines on the Distribution of Cash Dividends issued by the CSRC and other relevant systems for profit distribution of listed companies; comply with relevant requirements of the SASAC on turning over income from stated-owned assets; and in line with the strategic objectives and development path of the Company;
- ii. the accumulative undistributed profit of the Company is positive and the Company is profitable during the period;
- iii. the cash flow of the Company can meet the needs for normal operation and sustainable development.

(2) Proportion of interim dividend

The Company proposes to pay dividends in the half year of 2024 in combination with the undistributed profit and results for the period, and distributes a cash dividend with the total amount not less than 10% (inclusive) of net profit attributable to shareholders of the listed company during the corresponding period and not exceeding 30% (inclusive) of net profit attributable to shareholders of the listed company during the corresponding period based on the total share capital registered on the record date for implementation of interest distribution.

(3) Procedures of interim dividend

While satisfying the above conditions to and proportion of the interim dividend, a proposal is submitted to the Shareholders' general meeting to authorize the Board to formulate the specific interim dividend plan after taking into comprehensive consideration of the Company's profitability, development stage, capital arrangement, needs for the future growth, reasonable returns to the Shareholders and other factors. The Company will complete the dividend distribution within two months after the consideration and approval of the interim dividend plan by the Board.

8. PROPOSAL REGARDING CHANGE OF THE ACCOUNTING FIRM FOR 2024

PricewaterhouseCoopers Zhong Tian LLP (the "PwC Zhong Tian") has been providing audit services for the Company for 13 consecutive years, which reached the maximum term for a company to engage the same accounting firm consecutively as required by the Ministry of Finance of the People's

LETTER FROM THE BOARD

Republic of China, the State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission. Therefore, the Company shall change its accounting firm for the year 2024.

Based on the bidding results, the recommendation from the Audit Committee under the Board of Directors and the consideration and approval of the Board of Directors (for details, please refer to the announcement of the Company in relation to the proposed change of the accounting firm on 22 December 2023), the Company proposed to appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's auditor of financial statements and internal control for the year 2024. The auditing fees in total are RMB19.88 million and it is proposed to authorize the Board of Directors to adjust and determine the specific fees based on the actual situation in the event that changes in the audit scope and content of financial statements and internal control result in the changes in the aforementioned auditing fees.

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

Please refer to Appendix I to this circular.

10. PROPOSAL REGARDING EXTERNAL GUARANTEES FOR 2024

Please refer to Appendix II to this circular.

11. PROPOSAL REGARDING APPLICATION FOR CENTRALIZED REGISTRATION OF DIFFERENT TYPES OF NEW DEBT FINANCING INSTRUMENTS (DFI)

In order to further expand the financing channels of the Company, optimize the debt structure of the Company, control the financial cost reasonably, and at the same time, enable the Company to select financing instruments flexibly to meet its needs for funds in a timely manner, the Company has obtained the Notice of Acceptance of Registration (Zhong Shi Xie Zhu [2022] DFI39) issued by the National Association of Financial Market Institutional Investors and was qualified to flexibly issue extra short-term financing bills, short-term financing bills, medium-term notes, perpetual bonds, asset-backed notes and directional debt financing instruments and other products in the inter-bank trading market within the validity period of the approval. Such approval is valid until 31 October 2024. Based on the issuance trend of debt financing market and the subsisting balance and application of its debt financing instruments in recent years, the Company proposes to continue to apply to the National Association of Financial Market Institutional Investors for the centralized registration of different types of debt financing instruments (DFI) before the expiry of such approval, including extra short-term financing bills, short-term financing bills, medium-term notes, perpetual notes, asset-backed notes, directional debt financing instruments, etc., so as to meet the demand of subsequent flexible use of the debt financing instruments and turnover of subsisting debts of the Company upon its maturity.

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(1) DFI Registration Conditions

In accordance with the provisions of the Rules and Procedures for the Registration of Debt Financing Instruments of Non-Financial Enterprises for Public Issuance issued by the National Association of Financial Market Institutional Investors, the mature layer enterprise can prepare centralized registration documents for the public issuance of extra short-term financing bills, short-term financing bills, medium-term notes, perpetual notes, asset-backed notes, directional debt financing instruments and other products, and make a unified registration. The mature layer enterprise shall meet the following conditions simultaneously.

- ① The production and operation shall be in line with the national macro-control policies and industrial policies, with high market recognition, remarkable position in the industry and complete corporate governance.
- ② The operating and financial situation is stable and healthy, and the enterprise scale, capital structure and profitability can meet the corresponding requirements.
- ③ The information disclosure of public issuance is mature. In the past 36 months, the cumulative public issuance of corporate credit bonds, such as debt financing instruments, shall be no less than three tranches, and the scale of public issuance was no less than RMB10 billion.
- ④ In the past 36 months, the enterprise had no default or delayed payment of principal or interest of corporate credit bonds, such as debt financing instruments, or other major debts default; the Controlling Shareholders and controlling subsidiaries had no default or delayed payment of principal or interest of corporate credit bonds, such as debt financing instruments.
- ⑤ In the past 36 months, the enterprise had no major violations of laws and regulations, had no violations of restrictions on direct debt financing stipulated by national laws or policies, and had no self-discipline punishment such as warning from the Association of Institutional Investors or above; the actual controller was not investigated by the competent authority or subject to major administrative or criminal penalties due to suspected violations of laws or regulations.

(2) Registration and Issuance Plan of the New DFI

① *Types and quota*

The Company proposes to continue to apply to the National Association of Financial Market Institutional Investors for the centralized registration of different types of debt financing instruments (DFI) before the expiry of such approval, including extra short-term financing bills, short-term financing bills, medium-term notes, perpetual notes, asset-backed notes, directional debt financing instruments, etc.

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② *Time of issuance and use of proceeds*

The Company will, according to the actual needs for funds, issue the products in one or more tranche within the term approved by or registered at the regulatory authorities for related products. The funds raised from the debt financing products issued by the Company will be used for replenishing working capital and repaying debts, etc.

③ *Term of issuance*

The specific term of issuance will be determined based on the Company's needs for funds and market conditions.

④ *Term of validity of the resolution*

This resolution shall be valid for 12 months from the date on which it is considered and approved at the Shareholders' general meeting (if during the aforesaid validity period, for the portion of the non-financial enterprise's debt financing instruments 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 afore-mentioned non-financial enterprise's debt financing instruments quota for which the issuance application has been submitted is fully issued), or the date on which the Shareholders' general meeting makes a new resolution, whichever is earlier.

(3) Authorizations Related to the Issuance

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

- ① To prepare and implement the specific proposal according to the laws and regulations of the PRC, related provisions and policies of the regulatory authorities as well as the resolutions of the Shareholders' general meeting and the Company's Board of Directors, and determine specific issues concerning the issuance and listing of debt financing products, including but not limited to negotiating with the principal underwriter and determining or adjusting the varieties to be issued, amount of each variety and whether they should be issued in tranches according to the Company's needs and market conditions, determining the arrangements of issuance amount in each tranche, timing of issuance, term and way of principal and interest repayment, way of issuance and whether there should be any put or redemption provision within the term of registration notice or regulatory approval, as well as determining, adding and adjusting the leading underwriting syndicate and engaging the intermediaries, way of underwriting, way of

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pricing, coupon interest rate or its determination, details of use of the raised funds, measures to ensure repayment, credit-related issues such as guarantee and the issuance and listing of debt financing products.

- ② To modify and adjust the issuance proposal and related documents as necessary according to advices of the regulatory authorities and/or changes in market conditions.
- ③ To carry out negotiations on issuance and listing of the debt financing products on behalf of the Company, enter into legal documents such as contracts and agreements related to the issuance and listing of the debt financing products and appropriate information disclosure.
- ④ To take all necessary actions to determine/handle all other specific issues related to the issuance and listing.
- ⑤ The afore-mentioned authorization issues shall be valid for 12 months from the date on which it is considered and approved at the Shareholders' general meeting (if during the aforesaid validity period, for the portion of the non-financial enterprise's debt financing instruments 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 afore-mentioned non-financial enterprise's debt financing instruments quota for which the issuance application has been submitted is fully issued), or the date on which the Shareholders' general meeting makes a new resolution, whichever is earlier.

(4) Approval Procedures for the Issuance

This proposal should be submitted to the Shareholders' general meeting of the Company for approval as a special resolution and could not be implemented before being submitted to the related competent 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 ISSUANCE OF DEBT FINANCING PRODUCTS

In order to further expand the financing channel of Shanghai Pharmaceuticals, 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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(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

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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.

(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

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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.

(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.

13. 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》) and the Rules for Listing of Corporate Bonds on Shanghai Stock Exchange (revised in 2022) 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.

14. PROPOSAL REGARDING ISSUANCE OF CORPORATE BONDS

Please refer to Appendix III to this circular.

15. 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:

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Subject to the terms and conditions set out in the following provisions ①②③, and in compliance with the regulations stipulated in the Hong Kong Listing Rules and the Articles of Association, it is proposed that the Shareholders' general meeting shall grant an unconditional general mandate to the Board to allot, issue and/or deal with A Shares and/or H Shares separately or concurrently, and to enter into the relevant agreements, make offers for Shares, or grant options or conversion rights to purchase or convert Shares (including convertible corporate bonds):

- ① The mandate is valid for the period from the date of passing of this resolution at the Shareholders' general meeting to approve the grant of such mandate until whichever is the earliest of:
- 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.

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

16. PROPOSAL REGARDING ELECTION OF NON-EXECUTIVE DIRECTOR OF THE EIGHTH SESSION OF THE BOARD

Reference is made to the announcement of the Company dated 31 May 2024 in relation to the proposed election of Director. The Board has nominated Mr. ZHANG Wenxue as a candidate for non-executive Director of the eighth session of the Board of the Company with a term from the date of consideration and approval at the Shareholders' general meeting to the expiration of the eighth session of the Board. Biographical details of Mr. ZHANG Wenxue are set out as follows:

Mr. ZHANG Wenxue, born in June 1963, is a member of the Communist Party of China and a senior economist. Mr. ZHANG is currently the secretary of the Party Committee and chairman of Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange with stock code of 000538. He successively acted as a member of the 10th session of the Committee of the Communist Party of China in Yunnan Province and a member of the 12th session of the Committee of the Chinese People's Political Consultative Conference in Yunnan Province. Mr. ZHANG was successively awarded the 19th Model Worker of Yunnan Province, Professional and Technical Talent with Outstanding Contributions in Yunnan Province, the second prize of the State Scientific Progress Award, and the Medal in Commemoration of the 70th Anniversary of the People's Republic of China issued by the Central Committee of the Communist Party of China, the State Council, and the Central Military Commission in 2019, and was also selected as the "National Outstanding Entrepreneurs of the Year 2021-2022". Mr. ZHANG successively served as deputy general manager of Yunnan Phosphorus Chemical Industry (Group) Company (雲南磷化學工業(集團)公司), general manager and deputy secretary of the Party Committee of Yunnan Phosphorus Chemicals Group Co., Ltd. (雲南磷化集團有限公司), secretary of the Party Committee and general manager of Yunnan Phosphorus Chemicals Group Co., Ltd., director, deputy general manager and member of the Party Committee of Yuntianhua Group Co., Ltd. (雲天化集團有限責任公司), general manager, deputy secretary of the Party Committee and vice chairman of Yuntianhua Group Co., Ltd., secretary of the Party Committee and chairman of Yuntianhua Group Co., Ltd., and the chairman of Chongqing Polycomp International Corporation (重慶國際複合材料股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange with stock code of 301526.

Save as disclosed above, the above candidate did not hold any directorships in any other listed companies or any other major positions in the three years prior to the date of notice of this AGM. The above candidate does not have any relationship with any Director, Supervisor, senior management or substantial Shareholder or Controlling Shareholder of the Company. As at the date of notice of this AGM, Mr. ZHANG Wenxue does not hold any equity interest in the Company (within the meaning of Part XV of the Securities and Futures Ordinance).

If the above candidate is elected as the non-executive Director, his term of office will expire on the same date when the term of eighth session of the Board ends. He will not receive any Director's fee during his term of office.

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Save as disclosed above, there are no other matters concerning the election of the above candidate as the non-executive Director that need to be brought to the attention of the Shareholders and there are no other matters which shall be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

The proposal will be submitted at the general meeting as an ordinary resolution for consideration and voting by way of a cumulative polling system.

17. 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, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, 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.

18. VOTING BY POLL

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

19. RECOMMENDATION 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.

20. 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

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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.*
YANG Qiuhua
Chairman

Shanghai, the PRC, 7 June 2024

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

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

We refer to the announcement of the Company dated 28 March 2024 in relation to the renewal of the Financial Services Agreement. The Existing Financial Services Agreement will expire on 31 December 2024. 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, on 28 March 2024, the Company entered into the renewal of the Financial Services Agreement with the Finance Company, pursuant to which the Finance Company will continue to provide the Group with (i) deposit services, (ii) loan services and (iii) other financial services (including bill acceptance and discounting services, fund settlement, collection and payment services, entrusted loans, bond underwriting, non-financing letters of guarantee, financial consulting, credit authentication and consulting agency services, and other financial services approved by the NAFR).

During the term of the renewed Financial Services Agreement, the maximum daily balance of deposits of the Group with the Finance Company shall not exceed RMB5,000 million, RMB5,500 million RMB6,000 million for the year ending 31 December 2025, 2026 and 2027, respectively, and the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB7,000 million for the years ending 31 December 2025, 2026 and 2027. The Financial Services Agreement will take effect on 1 January 2025 and expire on 31 December 2027.

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. 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 Related Transactions. Shanghai Shangshi is primarily engaged in industrial investment, domestic trade (except for special regulations), and authorized operation and management of state-owned assets. 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, is expected to be more than 5% but less than 25%. Such deposit services also constitute a disclosable transaction under Chapter 14 of the Hong Kong Listing Rules 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).

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong, has been established by the Board to consider and advise the Independent Shareholders in connection with the deposit services under the Financial Services Agreement and their annual caps. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the deposit services under the Financial Services Agreement and their annual caps. Having considered the reasons for and benefits of the renewal of the Financial Services Agreement set out in this circular and the terms of the Financial Services Agreement, Gram Capital and the Independent Board Committee consider that (i) the terms of the Deposit Services are on normal commercial terms and are fair and reasonable; and (ii) the Deposit Services are conducted 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. Accordingly, Gram Capital and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM to approve the Deposit Services and their annual caps.

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 NAFR and the People's Bank of China
Registered capital:	RMB1 billion
Capital contribution and background of shareholders:	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

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, equity investment management and industrial investment, and SIIC Dongtan is primarily engaged in land development, industrial investment, assets management, real estate development and property management.

Business scope:

Accepting deposits from members of the group; providing loans to members of the group; discounting bills of members of the group; settling funds and making payments to members of the group; providing entrusted loans to members of the group, bond underwriting, non-financial guarantees, financial consulting, credit verification and advisory agency services; engaging in inter-bank borrowing; accepting bills of members of the group; and investing in fixed-income marketable securities.

III. PRINCIPAL TERMS OF THE FINANCIAL SERVICES AGREEMENT

1. Date: 28 March 2024

2. Parties: (1) the Company; and
(2) the Finance Company

3. Term: from 1 January 2025 to 31 December 2027

4. 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 parties¹, for the same type of deposits.

¹Note: The "third parties" herein means members of Shanghai Shangshi (excluding the Group).

- (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.

5. 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.
- (2) The Financial Services Agreement will take effect on 1 January 2025 and expire on 31 December 2027. Should each party agree, and it be approved or exempted by the SSE or the Hong Kong Stock Exchange and/or approved by the general meeting of the Company (if applicable) and/or in compliance with the other relevant provisions of the SSE Listing Rules and the Hong Kong Listing Rules, the Financial Services Agreement may be renewed. The period for each renewal of the Financial Services Agreement shall not exceed three years.

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.

IV. ANNUAL CAPS AND BASIS OF DETERMINATION

The annual caps for the years ended 31 December 2025, 2026 and 2027 for the deposits and loans of the Group with the Finance Company are as follows:

	For the year ending 31 December		
	2025	2026	2027
	<i>(in RMB million)</i>		
Maximum daily balance of deposits of the Group with the Finance Company	5,000	5,500	6,000
Maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group	7,000	7,000	7,000

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 period from 30 June to 31 December 2022 and the year ended 31 December 2023, the historical amounts for the maximum daily balance of deposits of the Group with the Finance Company were approximately RMB3,920 million and RMB4,212 million, representing a utilization rate of previous annual caps amounting to approximately 98.0% and 93.6%, respectively;
2. for the two years ended 31 December 2022 and 2023, (a) the total amount of Group's cash and cash equivalents was RMB24,534 million and RMB27,500 million, respectively, and (b) accounts receivables and notes receivables was RMB68,559 million and RMB74,843 million, respectively, indicating the Group's potential strong demand on deposit services;
3. the Group's financial performance for the year ended 31 December 2023 and in particular, there is a substantial increase in the revenue of the Group for the year ended 31 December 2023 (RMB260,295 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 2021 (RMB215,824 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 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.

Taking into account the factors as disclosed above and in particular, (i) the Group's cash and cash equivalents as of 31 December 2023 substantially increased as compared to that as of 31 December 2021 and (ii) the historical utilization rates of the annual caps with respect to the deposit service for the period from 30 June to 31 December 2022 and the year ended 31 December 2023 were over 90%, 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 two years ended 31 December 2022 and 2023, the historical amounts for the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group were approximately RMB2,431 million and RMB3,381 million, respectively;

2. the Group's financial performance for the year ended 31 December 2023 and in particular, there is a substantial increase in the revenue of the Group for the year ended 31 December 2023 (RMB260,295 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 2021 (RMB215,824 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
3. 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 by 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 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.

V. MEASURES TO ENSURE COMPLIANCE WITH THE 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 NAFR and the PBOC and is subject to various laws and regulations including relevant provisions of depositing sufficient capital reserve.

To assess the financial standing and the creditability of the Finance Company as well as the credit risk and/or default risk associated with the transactions contemplated under the Financial Services Agreements, the Company has also adopted comprehensive assessment and review procedures, which include, among other things, (i) obtaining and reviewing the requisite qualification of the Finance Company and its compliance record with the applicable laws and regulations, including any disciplinary actions or penalty imposed by the NAFR; (ii) reviewing the control environment of the

Finance Company, including its corporate governance structure, composition and credentials of the members of the board of directors, the supervisory committee, and senior management team; (iii) regularly reviewing the risk assessment protocols and risk management measures adopted by the Finance Company, including the composition and responsibilities of the risk and compliance department and the risk management related policies; (iv) assessing the business policies and measures adopted by the Finance Company on the fund management (covering the fund planning, deposit services, settlement services and financing services), the credit management, investment management, internal supervision and IT system; and (v) regularly obtaining financial information and operating data from the Finance Company, including, among other things, its financial statements and key operating indicators. Based on above assessment and review procedures conducted, the Company did not identify major defects in the risk management of Finance Company as to its qualifications, business and risk profiles or any violation of Management Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》), and is satisfied with the financial standing and creditability of the Finance Company.

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 preconsult 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. GUARANTEE LETTER FROM THE FINANCE COMPANY AND UNDERTAKING FROM ITS CONTROLLING SHAREHOLDER

In respect of the Financial Services Agreement, on 3 June 2024, the Finance Company issued an guarantee letter to the Company, pursuant to which the Finance Company unconditionally and irrevocably guarantees that during the term of the Financial Services Agreement, the Finance Company will use its best endeavours and take all reasonable steps to apply the Group’s deposits placed with it under the Financial Services Agreement mainly to provide loan services to the Group.

The Company has also adopted comprehensive assessment and review procedures to assess the financial standing and the creditability of the Finance Company as well as the credit risk and/or default risk associated with the transactions contemplated under the Financial Services Agreements. For details, please refer to “– V. Measures to Ensure Compliance with the Listing Rules” of this Appendix.

Shanghai Shangshi, as the holding company of the Finance Company, has also undertaken that if the Finance Company encounters an emergency situation of payment difficulties, Shanghai Shangshi will make additional contribution to the capital of the Finance Company pursuant to the actual needs to solve the payment difficulties, and in the event of a liquidity crisis of the Finance Company, Shanghai Shangshi will not withdraw any capital and will provide liquidity support as much as possible. Such undertakings will effectively protect the safety of the Group's deposits placed with the Finance Company.

According to the regulatory requirements of the Management Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) promulgated by the China Banking and Insurance Regulatory Commission, the controlling shareholders of the finance companies are obliged to replenish capital to the finance companies when necessary. Therefore, the Finance Company has also included such requirements in its articles of association. Article 14 of the Finance Company's articles of association stipulates that the controlling shareholder of the Finance Company shall replenish capital to the Finance Company when necessary.

VII. REASONS FOR AND BENEFITS FROM CONDUCTING THE TRANSACTIONS

1. the Company can further expand its financing channels through business corporation with the Finance Company. In the past three years, the amounts of loans obtained by the Group from the Finance Company were much larger than the deposits placed by the Group with Finance Company. For the years ended 31 December 2021, 2022 and 2023, the ratios of the average daily balance of the Group's loans obtained from the Finance Company to the average daily balance of the Group's deposits with the Finance Company were 380.88%, 272.67% and 426.94% respectively, which effectively broadened the Group's financing channels and promoted the Group's business development while ensuring the safety of deposits;
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.

VIII. EFFECTS OF THE CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS ON THE COMPANY

1. Regulated by the NAFR 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 services, loan services (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.

IX. THE APPROVAL PROCEDURES OF THE TRANSACTIONS

The continuing connected/daily related transactions were considered and approved at the meeting of the Board of the Company held on 28 March 2024. All 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 director, namely Mr. YANG Qihua 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 the opinion of whom is included in "Letter from the Independent Board Committee" as set out in Appendix IB to this circular) are of the view that the above continuing connected/daily related 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 Related 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. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong, has been established by the Board to consider and advise the Independent Shareholders in connection with the deposit services under the Financial Services Agreement and their annual caps, and its advice is set out in Appendix IB. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the deposit services under the Financial Services Agreement and their annual caps, 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 1,125,317,837 Shares representing approximately 30.39% 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 Annual General Meeting.

X. 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)

7 June 2024

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 7 June 2024 issued by Shanghai Pharmaceuticals Holding Co., Ltd.* (the “**Circular**”) of which this letter forms a 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.

Gram Capital has been appointed to act as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders with regard to the deposit services under the Financial Services Agreement and their annual caps as described in the Circular. The text of the letter from Gram Capital containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out in Appendix IC of the Circular.

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*

APPENDIX IB LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We draw the attention of the Independent Shareholders to (1) Appendix IA to this Circular set out on pages 24 to 35 of the Circular and (2) the letter from Gram Capital set out on pages 38 to 49 of the Appendix IC to the Circular.

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

Mr. GU Zhaoyang
Independent
Non-executive Director

Mr. Manson FOK
Independent
Non-executive Director

Mr. WANG Zhong
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

7 June 2024

*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 contained in and Appendix IA to the circular dated 7 June 2024 (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 28 March 2024, the Company entered the Financial Services Agreement with the Finance Company, pursuant to which, the Finance Company will continue to provide the Group with deposit services, loan services and other financial services.

With reference to the Circular, the Deposit Services 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. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong (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

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to continuing connected transaction and discloseable transactions (details of which was set out in the Company's circular dated 9 June 2022). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only an independent financial advisory engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

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 PRC commercial banks/ 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 Circular, 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 2023 as extracted from the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”):

	For the year ended 31 December 2023	For the year ended 31 December 2022	Change from 2022 to 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	260,295,089	231,981,300	12.21
Profit attributable to equity owners of the Company	3,768,000	5,617,152	(32.92)
	As at 31 December 2023	As at 31 December 2022	Change from 2022 to 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Cash and cash equivalents	27,499,809	24,533,891	12.09
Net assets	80,326,093	78,002,451	2.98

As illustrated by the above table, the Group recorded an increase of approximately 12.21% in revenue for the year ended 31 December 2023 (“**FY2023**”) as compared to that for the year ended 31 December 2022 (“**FY2022**”). With reference to the 2023 Annual Report, the increase in revenue was mainly due to the increase of sales income from pharmaceutical service. Despite the increase in revenue, the Group recorded a decrease in profit attributable to equity owners of the Company for FY2023 as compared to that for FY2022 due to the influence of one-off special profit or loss in FY2023.

As at 31 December 2023, the Group recorded cash and cash equivalents and net assets of approximately RMB27,499.81 million and approximately RMB80,326.09 million respectively.

Information on the Finance Company

With reference to the Circular, the Finance Company is a non-bank financial institution with financial license, under industrial regulation by the NAFR and the People’s Bank of China (PBOC). The business scopes of Finance Company include: accepting deposits from members of the group; providing loans to members of the group; discounting bills of members of the group; settling funds and making payments to members of the group; providing entrusted loans to members of the group, bond underwriting, non-financial guarantees, financial consulting, credit verification and advisory agency services; engaging in inter-bank borrowing; accepting bills of members of the group; and investing in fixed-income marketable securities.

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》^(Note) (Administrative Measures for the Group Finance Companies*, the “**Administrative Measures**”) promulgated by China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會), which was replaced by NAFR in May 2023. Pursuant to the Administrative

Note: source: https://www.gov.cn/gongbao/content/2022/content_5734813.htm

Measures, it regulates the operation of non-banking financial institutions which provide financial management services to the enterprise group member entities. The Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group finance companies, including but not limited to maintaining certain financial ratios at all times. Furthermore, pursuant to the Administrative Measures, the parent group company and controlling shareholder(s) of group finance company will increase such group finance company's capital accordingly based on the actual need.

Based on our discussions with the Finance Company, we understood the followings:

- NAFR monitors the Finance Company's operations and compliance with relevant laws and regulations, through on-site examinations and off-site surveillance, from time to time. The NAFR may impose corrective and punitive measures, including fines and ordering the suspension of certain business activities. As advised by the Finance Company, (i) the NAFR has not taken any disciplinary actions, or imposed penalties or fines on the Finance Company for the two years ended 31 December 2023; and (ii) the Finance Company is required to submit quarterly operational analysis report of the Finance Company's business operation to the NAFR.
- 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.
- 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; and (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.

With reference to the Circular, to assess the financial standing and the creditability of the Finance Company as well as the credit risk and/or default risk associated with the transactions contemplated under the Financial Services Agreement, the Company has also adopted comprehensive assessment and review procedures, details of which are set out under the section headed “V. MEASURES TO ENSURE COMPLIANCE WITH THE LISTING RULES” of the Circular.

According to the Company’s published announcements in relation to the risk assessment report on Finance Company from 2022 to 2024, we noted that the Company conducted risk assessment procedures on a semi-annual basis. According to the Company’s risk assessment report dated 29 March 2024, among other things,

- the Company (i) reviewed qualifications of the Finance Company, including 金融許可證 (Financial Permit*) and 企業法人營業執照 (Business License of Enterprise Legal Person*); (ii) reviewed Finance Company’s financial statements for FY2023; and (iii) understood and assessed Finance Company’s business and risk profiles.
- risk and compliance department of Finance Company is the centralized management department for risk and compliance management. Its main responsibilities include: organizing the construction of a comprehensive risk management system, identifying, assessing, monitoring, and reporting major risks; reviewing and evaluating the compliance of various policies, procedures, and operational processes; continuously monitoring the latest developments in laws, regulations, and standards, and understanding their impact on operations; providing necessary compliance reviews and tests for the development of new products and new businesses, etc.
- the Finance Company has established processes and systems related to risk control. It has clearly defined the standards for the construction of the internal control system within the system framework. Each department, within its scope of responsibilities and based on the characteristics of its various businesses and risk management requirements, formulated its own business management measures, operating procedures, and implementation details. This ensures the separation of responsibilities for the front, middle, and back offices, as well as mutual supervision, to effectively fulfill all responsibilities related to internal control and risk management.
- the Finance Company continuously improves its internal control management system, clarifies internal control and compliance standards, and optimizes the hierarchical structure of the system.
- in 2023, the Finance Company did not experience any risk events. As at 31 December 2023, all regulatory indicators of the Finance Company were in compliance with regulation requirements.
- the Company did not identify any major defects in the risk management of Finance Company as to its qualifications, business and risk profiles or any violation of Administrative Measures.

Based on the above factors, in particular (i) the Finance Company is required to operate in compliance with the Administrative Measures, which set out certain compliance and risk control requirements/measures in relation to the operation of group finance companies; and (ii) the parent group company and controlling shareholder(s) of group finance company will increase such group finance company’s capital accordingly based on the actual need pursuant to the Administrative Measures, we consider that the credit risk in respect of the Deposit Services may be mitigated.

Reasons for and benefit of the Deposit Services

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

- (i) the Company can further expand its financing channels through business cooperation with the Finance Company;
- (ii) the favourable interest rates^(Note) for deposits and loans provided by the Finance Company are conducive to improving the Company's deposit income and lowering financing costs;
- (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 will help optimise the financial management of the Group, improve the Group's efficiency on use of funds, and reduce financing costs and 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.

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

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 Group (excluding the Group).

In light of the above factors, in particular the pricing policy of the Deposit Services, we consider that the Deposit Services are conducted 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.

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 “Principal terms of the Financial Services Agreement” of the Circular.

Date:	28 March 2024
Parties:	(i) The Finance Company (as provider of services); and (ii) The Company (as recipient of services)
Subject matter:	The Finance Company shall provide the Group with deposit, loan and other financial services.
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.

The Financial Services Agreement will take effect on 1 January 2025 and terminate on 31 December 2027. Should each party agree, and it be approved or exempted by the SSE or the Hong Kong Stock Exchange and/or approved by the general meeting of the Company (if applicable) and/or in compliance with the other relevant provisions of the SSE Listing Rules and the Hong Kong Listing Rules, the Financial Services Agreement may be renewed. The period for each renewal of the Financial Services Agreement shall not exceed three years.

Pricing principles:	the Finance Company undertakes to offer favourable interest rates for the Group’s deposits with reference to the prevailing market rates, which should not be lower than those published by the People’s Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.
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(Note: The “third parties” herein means members of Shanghai Shangshi Group (excluding the Group))

With reference to the Circular, the Group has taken the specific 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 LISTING RULES” of the Circular.

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, for the same type of deposits, we consider that the effective implementation of the internal control 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 obtained the following documents:

- (i) 42 copies of deposits records of the Group with the Finance Company for the period from June 2022 to March 2024 (the “**Review Period**”);
- (ii) one copy of agreement deposits (協議存款) determination agreement entered into between a subsidiary of the Company and a PRC commercial bank in 2022 for the period from March 2022 to March 2023, with automatic term extension clause; and four copies of deposit records of another subsidiary of the Company with a PRC commercial bank. The aforesaid documents covered the Review Period; and
- (iii) 16 copies of deposit records of a Shanghai Shangshi Group's member with Finance Company for the Review Period.

As the above documents showing the deposit rates offered by Finance Company (to both the Group and the Shanghai Shangshi Group's member) and the independent commercial banks (to the Group) covered the whole period from June 2022 (i.e. the effective date of the Existing Financial Services Agreement) to March 2024, we consider the samples are representative.

We 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 Services Agreement.

Having also 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 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 2022 and 2023, 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 continuing 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 two years ended 31 December 2023 were approximately RMB3,920 million (maximum daily balance: RMB4,000

million) and RMB4,212 million (maximum daily balance: RMB4,500 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 ending 31 December 2024 with existing annual caps; and (ii) the proposed maximum daily deposit balance of Deposit Services under the Financial Services Agreement (the “**Deposit Cap(s)**”) for the three years ending 31 December 2027:

Historical transaction amounts	During the period from the effective date of Existing Financial Services Agreement to		For the year ended
	31 December 2022 (RMB'million)	31 December 2023 (RMB'million)	31 December 2027 (RMB'million)
Maximum daily deposit balance	3,920	4,212	
Existing annual caps (<i>Note</i>)	4,000	4,500	
Utilisation rate (%)	98.0	93.6	
	For the year ending 31 December 2025 (RMB'million)	For the year ending 31 December 2026 (RMB'million)	For the year ending 31 December 2027 (RMB'million)
The Deposit Caps	5,000	5,500	6,000

Details of the bases for determining the Deposit Caps for the three years ending 31 December 2027 are set out under the section headed “IV. ANNUAL CAPS AND BASIS OF DETERMINATION” of the Circular.

According to the above table, we noted that the relevant utilisation rate of the existing annual caps were approximately 98.0% and 93.6% for each of the two years ended 31 December 2023. The utilisation rate of existing annual caps for each of the two years ended 31 December 2023 were at high levels.

The Deposit Cap for the year ending 31 December 2025 is the same as that for the year ending 31 December 2024 and RMB500 million (or approximately 11.1%) more than that for FY2023. The Deposit Cap for the year ending 31 December 2025 also represented an increase of approximately 18.7% as compared to the historical maximum daily deposit balance for FY2023 or an increase of approximately 27.6% as compared to the historical maximum daily deposit balance for FY2022. The Deposit Caps for the years ending 31 December 2026 and 2027 are RMB500 million (or 10% and approximately 9.1% respectively) (the “**Increases**”) more than those for the years ending 31 December 2025 and 2026 respectively.

We noted from the 2023 Annual Report that as at 31 December 2023, the Group's (i) cash and cash equivalents was approximately RMB27,500 million; and (ii) accounts receivables and notes receivables were approximately RMB74,843 million. The sum of the aforesaid two items (the "Sum") amounted to approximately RMB102,342 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.

To further assess the fairness and reasonableness of the Increases, we summarised the relevant financial information for (i) FY2023, being the latest available public full-year financial information as at the date of Financial Services Agreement; and (ii) the year ended 31 December 2021, being the latest available public full-year financial information as at the date of the Existing Financial Services Agreement, as follows:

	For the year ended 31 December 2023 <i>RMB'million</i>	For the year ended 31 December 2021 <i>RMB'million</i>	Increase amounts <i>RMB'million</i>	Increase rate %
Revenue	260,295	215,824	44,471	20.6
	As at 31 December 2023 <i>RMB'million</i>	As at 31 December 2021 <i>RMB'million</i>	Increase amounts <i>RMB'million</i>	Increase rate %
Cash and cash equivalents	27,500	20,138	7,362	36.6

Based on the above table, we noted that there was substantial increase in revenue for FY2023 (being the latest available public full-year financial information as at the date of Financial Services Agreement) as compared to that for 2021 (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 2023 also increased substantially as compared to that as at 31 December 2021 (being the latest available public financial information before entering the Existing Financial Service Agreement). As such, we consider that the Increases are acceptable.

Having considered the following factors:

- (i) the utilisation rate of existing annual caps for each of the two years ended 31 December 2023 were at high levels;
- (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;
- (iii) the Increases are acceptable as analysed above; and
- (iv) 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,

we are of the view that the Deposit Caps for the three years ending 31 December 2027 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 transactions contemplated under the Financial Services Agreement 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 on the Deposit Services

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services are on normal commercial terms and are fair and reasonable; and (ii) the Deposit Services are conducted 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. 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 2024

In order to accommodate its 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 2024 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 and meet the security and financing requirements of the Company and its subsidiaries, the external guarantee for 2024 to be provided by Shanghai Pharmaceuticals and its subsidiaries amounted to RMB19,305.2850 million (including RMB18,912.84 million, US\$30 million and NZ\$40 million, based on the average price as published by the People's Bank of China (PBOC) on 31 December 2023), including: (I) the external guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2024 amounted to US\$30 million and NZ\$40 million; (II) the external guarantee to be provided by the controlled subsidiaries of Shanghai Pharmaceuticals in 2024 amounted to RMB8,912.84 million; (III) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2024 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 2024 is equivalent to RMB5,000 million; and (V) the guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected bill pool in 2024 amounted to RMB2,000 million. Details are as follows:

(I) External guarantee to be provided by Shanghai Pharmaceuticals headquarter in 2024 amounted to US\$30 million and NZ\$40 million.

Details of the above guarantee of 2 parties are as follows:

Unit: 0'000

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
Unit with asset-liability ratio above 70%						
1	Shanghai Pharmaceuticals Holding Co., Ltd.	China International Pharmaceutical (Holding) Corporation Limited	Yes	90.17%	US\$3,000	Provision of guarantee according to percentage of shareholding

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
Unit with asset-liability ratio below 70%						
1	Shanghai Pharmaceuticals Holding Co., Ltd.	Vitaco Health Limited	Yes	31.09%	NZ\$4,000	With counter guarantee and charge on credit of other shareholders

(II) External guarantee to be provided by controlled subsidiaries of Shanghai Pharmaceuticals in 2024 amounted to RMB8,912.84 million.

Details of the above guarantee of the 73 parties are as follows:

Unit: 0'000 Currency: RMB

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
Units with asset-liability ratio above 70%						
1	Shanghai Pharmaceutical Co., Ltd.	Jiangxi Nanhua (Shanghai Pharma) Medicines Co., Ltd.	Yes	72.84%	10,000.00	With counter guarantee and charge on equity of other shareholders
2	Shanghai Pharmaceutical Co., Ltd.	SPH Jiangxi Shangrao Pharmaceutical Co., Ltd.	Yes	86.73%	10,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
3	Shanghai Pharmaceutical Co., Ltd.	SPH Shandong Pharmaceutical Co., Ltd.	Yes	91.95%	3,000.00	With counter guarantee and charge on equity of other shareholders
4	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Ji'nan Co., Ltd.	Yes	88.36%	5,000.00	Provision of guarantee according to percentage of shareholding
5	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Nantong Co., Ltd.	Yes	88.91%	15,000.00	Provision of guarantee according to percentage of shareholding
6	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Wenzhou Co., Ltd.	Yes	89.17%	18,000.00	With counter guarantee and charge on equity of other shareholders
7	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Yunnan Co., Ltd.	Yes	88.05%	35,000.00	With counter guarantee and charge on equity of other shareholders
8	Shanghai Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical Anqing Co., Ltd.	Yes	79.66%	32,650.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
9	Shanghai Pharmaceutical Co., Ltd.	SPH Anhui Pharmaceutical Co., Ltd.	Yes	83.99%	26,974.00	With counter guarantee and charge on equity of other shareholders
10	Shanghai Pharmaceutical Co., Ltd.	SPH Sichuan Biological Products Co., Ltd.	Yes	73.56%	24,000.00	With counter guarantee and charge on equity of other shareholders
11	Shanghai Pharmaceutical Co., Ltd.	SPH Zunyi Pharmaceutical Co., Ltd.	Yes	73.54%	12,000.00	With counter guarantee and charge on equity of other shareholders
12	Shanghai Pharmaceutical Co., Ltd.	SPH Hangzhou Kailun Pharmaceutical Co., Ltd.	Yes	85.11%	6,000.00	Provision of guarantee according to percentage of shareholding
13	Shanghai Pharmaceutical Co., Ltd.	SPH Runddy Jiangsu Pharmaceutical Co., Ltd.	Yes	85.67%	55,000.00	With counter guarantee and charge on equity of other shareholders
14	Shanghai Pharmaceutical Co., Ltd.	SPH Cardinal (Chongqing) Pharma Co., Ltd.	Yes	81.89%	2,500.00	Provision of guarantee according to percentage of shareholding

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
15	Shanghai Suzuken Chinese Medicine Co., Ltd.	Shanghai Pharmaceutical Qingdao Co., Ltd.	Yes	81.79%	15,652.80	Provision of guarantee according to percentage of shareholding
	Shanghai Pharmaceutical Co., Ltd.				8,347.20	Provision of guarantee according to percentage of shareholding
16	Zhejiang SPH Xinxin Pharmaceutical Co., Ltd.	SPH (Hangzhou) Medical Instruments Co., Ltd.	Yes	70.40%	5,000.00	With counter guarantee and charge on equity of other shareholders
17	SPH Sichuan Pharmaceutical Co., Ltd.	SPH Luzhou Pharmaceutical Co., Ltd.	Yes	78.02%	14,000.00	With counter guarantee and charge on equity of other shareholders
18	Shanghai Pharmaceutical Yunnan Co., Ltd.	SPH Yunnan Medical Instruments Co., Ltd.	Yes	85.00%	11,000.00	With counter guarantee and charge on equity of other shareholders
19	SPH Jiangsu Holding Co., Ltd.	SPH Yancheng Co., Ltd.	Yes	88.10%	24,900.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
20	SPH Jiangsu Holding Co., Ltd.	SPH Suzhou Pharmaceutical Co., Ltd.	Yes	91.61%	40,000.00	With counter guarantee and charge on equity of other shareholders
21	SPH Jiangsu Holding Co., Ltd.	SPH Lianyungang Pharmaceutical Co., Ltd.	Yes	77.79%	20,000.00	Provision of guarantee according to percentage of shareholding
22	SPH Guizhou Pharmaceutical Co., Ltd.	SPH Bijie Pharmaceutical Co., Ltd.	Yes	73.11%	3,600.00	With counter guarantee and charge on equity of other shareholders
23	SPH Guizhou Pharmaceutical Co., Ltd.	SPH Qiannan Pharmaceutical Co., Ltd.	Yes	75.82%	3,000.00	With counter guarantee and charge on equity of other shareholders
24	Shanghai Pharma (Hunan) Co., Ltd.	SPH Xiangxi Pharmaceutical Co., Ltd.	Yes	86.60%	1,500.00	Provision of guarantee according to percentage of shareholding
25	Shanghai Pharma (Hunan) Co., Ltd.	SPH Huaihua Pharmaceutical Co., Ltd.	Yes	80.38%	1,500.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
26	Shanghai Pharma (Hunan) Co., Ltd.	SPH Yiyang Pharmaceutical Co., Ltd.	Yes	72.64%	1,500.00	With counter guarantee and charge on equity of other shareholders
27	Shanghai Pharma (Hunan) Co., Ltd.	SPH Hengyang Pharmaceutical Co., Ltd.	Yes	82.37%	1,500.00	With counter guarantee and charge on equity of other shareholders
28	Shanghai Pharma (Hunan) Co., Ltd.	SPH Yueyang Pharmaceutical Co., Ltd.	Yes	80.33%	1,500.00	With counter guarantee and charge on equity of other shareholders
29	Shanghai Pharma (Hunan) Co., Ltd.	SPH Lianzong (Shanghai) Medical Device Co., Ltd.	Yes	80.61%	3,000.00	With counter guarantee and charge on equity of other shareholders
30	Shanghai Pharma (Hunan) Co., Ltd.	SPH (Hunan) Biological Products Co., Ltd. (上藥控股(湖南)生物製品有限公司)	Yes	72.43%	20,000.00	With counter guarantee and charge on equity of other shareholders
31	SPH Cardinal (Beijing) Pharma Co., Ltd.	SPH Cardinal (Beijing) Medical Instruments Co., Ltd.	Yes	83.38%	10,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
32	SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd.	SPH (Sichuan) Medical Equipment Co., Ltd.	Yes	79.62%	8,000.00	Provision of guarantee according to percentage of shareholding
33	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai Heilongjiang Pharmaceutical Co., Ltd.	Yes	92.29%	3,000.00	With counter guarantee and charge on equity of other shareholders
34	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai Inner Mongolia Pharmaceutical Co., Ltd.	Yes	93.53%	11,000.00	Provision of guarantee according to percentage of shareholding
35	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai Pharmaceutical (Hainan) Co., Ltd.	Yes	77.83%	3,000.00	With counter guarantee and charge on equity of other shareholders
36	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai Tongliao Pharmaceutical Co., Ltd.	Yes	81.87%	10,000.00	Provision of guarantee according to percentage of shareholding
37	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai Hohhot Pharmaceutical Co., Ltd.	Yes	211.52%	3,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
38	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. or Liaoning Medical Foreign Trading Co., Ltd.	SPH Keyuan Xinhai Pharmaceutical Dalian Co., Ltd.	Yes	90.85%	1,500.00	With counter guarantee and charge on equity of other shareholders
39	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Yes	77.46%	130,000.00	Provision of guarantee according to percentage of shareholding
	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd.				1,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals
40	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. or Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Honour Drug House Joint (H.K.) Limited	Yes	83.65%	10,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals
	SPH Health Science Co., Ltd.				1,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals
	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd.				1,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
41	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd.	SPH Keyuan Xinhai Pharmaceutical (Jilin) Co., Ltd.	Yes	90.63%	2,000.00	With counter guarantee and charge on equity of other shareholders
42	SPH Keyuan Xinhai Pharmaceutical (Hubei) Co., Ltd.	SPH Keyuan Xinhai Huanggang Pharmaceutical Company Limited	Yes	84.77%	1,000.00	With counter guarantee and charge on equity of other shareholders
43	SPH Keyuan Xinhai Inner Mongolia Pharmaceutical Co., Ltd.	Inner Mongolia SPH Keyuan Pharmacy Co., Ltd. (內蒙古上藥科園大藥房有限公司)	Yes	117.30%	800.00	Provision of guarantee according to percentage of shareholding
44	SPH Keyuan Xinhai Heilongjiang Pharmaceutical Co., Ltd.	SPH Keyuan Xinhai (Suihua) Pharmaceutical Co., Ltd.	Yes	83.26%	3,200.00	Provision of guarantee according to percentage of shareholding
45	Liaoning Medical Foreign Trading Co., Ltd.	SPH Tongshan (Shenyang) Pharmacy Chain Co., Ltd.	Yes	78.93%	5,000.00	Provision of guarantee according to percentage of shareholding
46	Liaoning Medical Foreign Trading Co., Ltd.	SPH (Jinzhou) Pharmaceutical Co., Ltd. (上藥(錦州)醫藥有限公司)	Yes	92.62%	5,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
47	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai Lei Yun Shang Pharmaceutical Co., Ltd.	Yes	93.69%	1,000.00	Provision of guarantee according to percentage of shareholding
48	Shanghai SPH HuaYu Pharmaceutical Co., Ltd.	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	Yes	87.10%	1,000.00	With counter guarantee and charge on inventory
49	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Chongqing Tianbao Pharmaceutical Co., Ltd.	Yes	82.98%	3,000.00	Provision of guarantee according to percentage of shareholding
50	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Chongqing SPH Huiyuan Qinglong Pharmacy Co., Ltd.	Yes	94.35%	3,000.00	Provision of guarantee according to percentage of shareholding
51	SPH New Asia Pharmaceutical Co., Ltd.	Liaoning Meiya Pharmaceutical Co., Ltd.	Yes	80.73%	42,000.00	Provision of guarantee according to percentage of shareholding

Units with asset-liability ratio below 70%

1	Shanghai Pharmaceutical Co., Ltd.	SPH Holding (Anhui) Biologicals Co., Ltd.	Yes	61.41%	12,000.00	With counter guarantee and charge on equity of other shareholders
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Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
2	Shanghai Pharmaceutical Co., Ltd.	SPH Sichuan Pharmaceutical Co., Ltd.	Yes	65.12%	82,000.00	With counter guarantee and charge on equity of other shareholders
3	Shanghai Pharmaceutical Co., Ltd.	SPH Guizhou Pharmaceutical Co., Ltd.	Yes	58.76%	13,450.00	Provision of guarantee according to percentage of shareholding
4	Shanghai Pharmaceutical Co., Ltd.	Shanghai Suzuken Chinese Medicine Co., Ltd.	Yes	54.62%	3,050.00	Provision of guarantee according to percentage of shareholding
5	Shanghai Pharmaceutical Co., Ltd.	SPH International Logistics (Shanghai) Co., Ltd.	Yes	15.19%	4,500.00	Provision of guarantee according to percentage of shareholding
6	Shanghai Pharmaceutical Co., Ltd.	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	No	56.14%	1,960.00	Provision of guarantee according to percentage of shareholding
7	Shanghai Pharmaceutical Yunnan Co., Ltd.	SPH Chuxiong Pharmaceutical Co., Ltd.	Yes	51.68%	1,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
8	Shanghai Pharmaceutical Yunnan Co., Ltd.	SPH Qujing Pharmaceutical Co., Ltd.	Yes	65.34%	4,000.00	With counter guarantee and charge on equity of other shareholders
9	SPH Shandong Pharmaceutical Co., Ltd.	SPH Shandong (Logistics) Co., Ltd. (上藥山東(物流)有限公司)	Yes	0.16%	15,000.00	Provision of guarantee according to percentage of shareholding
10	SPH Jiangsu Holding Co., Ltd.	SPH Zhongwei (Hangzhou) Pharmaceutical Co., Ltd. (上藥中衛(杭州)醫藥有限公司)	Yes	55.45%	5,000.00	Provision of guarantee according to percentage of shareholding
11	SPH Guizhou Pharmaceutical Co., Ltd.	SPH Qiannan Pharmaceutical Co., Ltd.	Yes	56.84%	4,000.00	With counter guarantee and charge on equity of other shareholders
12	SPH Guizhou Pharmaceutical Co., Ltd.	SPH Anshun Pharmaceutical Co., Ltd.	Yes	62.65%	2,000.00	With counter guarantee and charge on equity of other shareholders
13	SPH Guizhou Pharmaceutical Co., Ltd.	SPH Liupanshui Pharmaceutical Co., Ltd.	Yes	68.36%	3,000.00	With counter guarantee and charge on equity of other shareholders

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
14	SPH Cardinal (Chongqing) Pharma Co., Ltd.	SPH Chongqing Medical Instruments Co., Ltd. (上藥控股重慶醫療器械有限公司)	Yes	68.11%	1,500.00	Provision of guarantee according to percentage of shareholding
15	Shanghai Huashi Pharmacy Co., Ltd.	Shanghai Huashi Pharmacy Nantong Chain Co., Ltd.	Yes	50.93%	700.00	Provision of guarantee according to percentage of shareholding
16	Liaoning Medical Foreign Trading Co., Ltd.	SPH (Liaoning) Pharmaceutical Logistics Co., Ltd.	Yes	4.13%	4,000.00	Provision of guarantee according to percentage of shareholding
17	Liaoning Medical Foreign Trading Co., Ltd.	SPH (Liaoning) Medical Device Co., Ltd.	Yes	69.50%	10,000.00	Provision of guarantee according to percentage of shareholding
18	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	SPH Health Science Co., Ltd.	Yes	59.82%	2,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals
19	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Keyuan Xinhai (Beijing) International Supply Chain Management Co., Ltd.	Yes	61.44%	4,000.00	Provision of guarantee according to percentage of shareholding

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of the guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
20	Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd.	Beijing Keyuan Xinhai Pharmaceutical Operation Co., Ltd.	Yes	56.41%	10,000.00	Both are wholly-owned subsidiaries of Shanghai Pharmaceuticals
21	Liaoning Medical Foreign Trading Co., Ltd.	SPH (Yingkou) Pharma Co., Ltd.	Yes	24.56%	10,000.00	With counter guarantee and charge on equity of other shareholders
22	Shanghai Traditional Chinese Medicine Co., Ltd.	Chongqing SPH Huiyuan Pharmacy Co., Ltd.	Yes	33.23%	7,500.00	Provision of guarantee according to percentage of shareholding

In respect of the above (I) and (II):

- The external guarantee provided by Shanghai Pharmaceuticals and its controlled subsidiaries amounted to approximately RMB9,305.2850 million (including RMB8,912.84 million, US\$30 million and NZ\$40 million, based on the middle price as published by the PBOC on 31 December 2023) for 2024. Guarantees among members in the consolidated statements of the Company amounted to RMB9,285.685 million, representing 99.79% of the total guarantees. Total guarantees provided by the controlled subsidiaries of the Company to companies out of the consolidated statements (including one associate) amounted to RMB19.60 million, representing 0.21% of the total guarantees.
- As of the disclosure date of the announcement dated 29 March 2024, the actual balance of external guarantee provided by Shanghai Pharmaceuticals and its controlled subsidiaries amounted to RMB4,687.4646 million. The balance of guarantees provided to entities with asset-liability ratio of over 70% amounted to RMB3,697.6817 million, and the balance of guarantees provided to entities with asset-liability ratio of less than 70% amounted to RMB989.7829 million.

3. The percentage of the guarantee amount accounted for 13.58% of the latest net assets of the listed company. The guarantee amount for entities with asset-liability ratio of over 70% accounted for 10.39% of the latest net assets of the listed company, and the guarantee amount for entities with asset-liability ratio of less than 70% accounted for 3.19% of the latest net assets of the listed company.
4. Expected validity period of the guarantee: from the date of consideration and approval at the relevant general meeting of 2024 until the date when the guarantee plan for 2025 is considered and approved at the general meeting. The specific guarantee period shall be subject to the specific agreement.
5. Whether related guarantees are provided: no.

(III) The guarantee to be provided by Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to expected new members added to consolidated statements in 2024 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 2024 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 2024 with planned guarantees up to RMB3,000 million, so as to ensure its business development.

(IV) The amount of guarantee to be provided by the Shanghai Pharmaceuticals headquarter and its controlled subsidiaries to the international business expansion of controlled subsidiaries with newly planned financing guarantees in 2024 is equivalent to RMB5,000 million. During the year, based on the actual demand of international business expansion, the Company can establish new controlled subsidiaries to provide guarantees, or use the planned guarantee amount among new controlled subsidiaries and the following controlled subsidiaries under the premise of not exceeding the total amount. The specific details are as follow:

Unit: 0'000 Currency: RMB

Guarantor	Guaranteed party	Whether the guaranteed party are enterprises within the scope of consolidated statements of the Company	The latest asset-liability ratio of Guaranteed party	Estimated amount of guarantee for 2024	Whether provision of guarantee according to percentage of shareholding or with counter guarantee	
Entities with asset-liability ratio above 70%						
1	Shanghai Pharmaceuticals Holding Co., Ltd.	SIIC Medical Science and Technology (Group) Limited	Yes	22.37%	100,000.00	Provision of guarantee according to percentage of shareholding
2	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Pharmaceuticals (HK) Investment Limited	Yes	10.77%	200,000.00	Provision of guarantee according to percentage of shareholding
3	Shanghai Pharmaceuticals Holding Co., Ltd.	SHANGHAI PHARMACEUTICAL (USA) INC.	Yes	1.95%	200,000.00	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 2024 amounted to RMB2,000 million.

Given that Shanghai Pharmaceuticals headquarter and its controlled subsidiaries are expected to commence group bill pool operation in 2024, Shanghai Pharmaceuticals headquarter and its controlled subsidiaries proposed to provide no more than RMB2,000 million guarantees for the bill pool in 2024. The amount shall be shared among Shanghai Pharmaceuticals headquarter and its controlled subsidiaries.

As of the disclosure date of the announcement dated 29 March 2024, the actual balance of external guarantee under the bill poll of the Company and its controlled subsidiaries amounted to RMB368.3277 million.

II. BRIEF DESCRIPTION OF GUARANTEED PARTIES

The guarantees proposal has involved 78 entities as guaranteed parties in total specifically, including 1 associate and the rest being entities included in the consolidated statements.

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

As of the disclosure date of the announcement dated 29 March 2024, the total amount of the external guarantees provided by the Company and its controlled subsidiaries is RMB24,432.1220 million, representing 35.65% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2023, the total amount of guarantee to the controlled subsidiaries provided by the Company is RMB6,221.1820 million, representing 9.08% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2023.

As of the disclosure date of the announcement dated 29 March 2024, the actual balance of the external guarantees provided by the Company and its controlled subsidiaries is RMB5,055.7923 million, representing 7.38% of the Company's audited net assets attributable to the shareholders of the listed company as at 31 December 2023.

As of the disclosure date of the announcement dated 29 March 2024, 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》) (Revised in 2023) 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 of 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 the issuance of corporate bonds 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: 0'000 Currency: RMB

Items	31 December 2023	31 December 2022	31 December 2021
Current asset			
Monetary funds	3,051,770.64	2,740,139.60	2,239,038.57
Financial assets held for trading	1,015,215.48	961,355.47	-
Derivative financial assets	259.64	482.01	328.45
Notes and accounts receivable	7,484,253.01	6,855,943.84	5,938,665.09
Including: Notes receivable	190,864.90	179,958.44	127,888.07
Accounts receivable	7,293,388.11	6,675,985.40	5,810,777.02
Receivables financing	232,010.60	162,738.61	161,900.98
Prepayments	319,004.43	386,758.27	245,776.11
Other receivables	338,113.39	257,481.41	241,910.80
Inventories	3,662,339.39	3,446,021.68	2,710,403.53
Non-current assets due within one year	7,742.01	18,561.99	12,650.56
Other current assets	132,677.64	121,804.19	98,769.14
Total current assets	16,243,386.23	14,951,287.06	11,649,443.23
Non-current asset			
Long-term receivables	22,793.96	21,229.98	19,774.23
Long-term equity investments	835,191.01	923,264.36	907,327.54
Other equity instrument investments	5,541.67	10,148.75	7,339.24
Other non-current financial assets	219,537.19	214,304.01	138,890.07
Investment properties	31,467.31	24,641.55	21,332.33
Fixed assets	1,215,505.47	1,153,928.94	1,048,411.82
Projects under construction	356,962.91	277,736.31	291,413.00
Productive biological assets	13,342.72	13,719.18	40,256.91
Right-of-use assets	214,831.11	186,865.99	199,243.37
Intangible assets	605,083.59	624,414.00	604,943.12
Development expenditure	31,050.97	34,260.53	25,922.79
Goodwill	1,139,333.22	1,133,592.66	1,123,897.24
Long-term prepaid expenses	47,471.12	46,243.86	42,911.75
Deferred income tax assets	171,685.81	153,472.90	136,754.49
Other non-current assets	44,069.11	44,380.07	85,689.79
Total non-current assets	4,953,867.14	4,862,203.09	4,694,107.68

Items	31 December 2023	31 December 2022	31 December 2021
Total assets	21,197,253.38	19,813,490.15	16,343,550.92
Current liabilities			
Short-term borrowings	3,556,049.97	2,775,058.86	2,251,457.40
Derivative financial liabilities	231.65	156.99	77.41
Notes and accounts payable	5,463,245.43	5,156,552.90	4,199,541.44
Notes payable	671,744.35	596,172.37	476,474.80
Accounts payable	4,791,501.07	4,560,380.53	3,723,066.64
Contract liabilities	197,069.01	224,282.35	131,092.09
Employee benefits payable	178,398.00	158,048.82	143,302.81
Taxes payable	121,717.22	144,082.34	169,266.01
Other payables	1,794,935.39	1,647,485.59	1,306,252.78
Non-current liabilities due within one year	296,347.58	324,943.31	58,204.26
Other current liabilities	629,193.65	638,493.45	923,238.16
Total current liabilities	12,237,187.90	11,069,104.60	9,182,432.36
Non-current liabilities			
Long-term borrowings	578,615.47	625,979.94	715,775.17
Lease liabilities	155,007.67	130,161.11	143,427.41
Long-term payables	816.35	799.59	31,516.15
Accrued liabilities	3,958.51	2,397.89	2,324.39
Deferred income	63,348.13	53,458.11	234,908.01
Long-term employee benefits payable	3,888.42	3,891.20	3,900.72
Deferred income tax liabilities	101,582.01	104,923.75	99,876.88
Other non-current liabilities	20,239.62	22,528.87	22,768.81
Total non-current liabilities	927,456.18	944,140.44	1,254,497.55
Total liabilities	13,164,644.08	12,013,245.04	10,436,929.90
Shareholders' equity			
Share capital	370,330.11	369,754.62	284,208.93
Capital reserves	2,918,764.92	2,909,810.38	1,607,072.31
Other comprehensive income	-49,608.94	-37,132.37	-14,439.42
Surplus reserves	230,694.94	215,880.73	199,246.37
Undistributed profits	3,382,233.29	3,247,987.23	2,859,859.80
Total shareholders' equity attributable to parent company	6,852,414.31	6,706,300.59	4,935,947.99
Minority interests	1,180,194.99	1,093,944.52	970,673.02
Total shareholders' equity	8,032,609.30	7,800,245.11	5,906,621.01
Total liabilities and shareholders' equity	21,197,253.38	19,813,490.15	16,343,550.92

(2) Consolidated income statement

Unit: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Operating income	26,029,508.89	23,198,129.98	21,582,425.90

Items	Year 2023	Year 2022	Year 2021
Less: Operating costs	22,896,694.70	20,149,492.31	18,728,114.93
Taxes and surcharges	73,810.64	71,627.37	66,622.76
Selling expenses	1,390,219.15	1,427,897.49	1,331,803.35
Administrative expenses	571,182.74	499,168.92	514,341.77
R&D expenses	220,403.37	211,219.76	198,727.76
Financial expenses – net	148,575.76	131,319.25	124,536.90
Add: Other income	79,316.16	39,376.02	49,878.58
Investment income/(losses)	-6,812.27	53,311.71	181,139.39
Including: Share of investment income of associates and joint ventures	12,932.87	52,674.33	78,959.64
Gains from derecognition of financial assets measured at amortised cost	-18,759.85	-8,050.82	-7,821.33
Gains/(losses) on changes in fair value	40,473.14	21,873.79	-20,600.38
Credit impairment reversals/(losses)	-27,995.87	-31,246.05	67.79
Assets impairment reversals/(losses)	-56,127.75	-33,147.13	-14,044.11
Gains/(losses) on assets disposal	9,247.53	143,891.81	5,828.93
Operating profits	766,723.47	901,465.04	820,548.63
Add: Non-operating income	4,068.97	3,277.81	8,195.70
Less: Non-operating expenses	65,362.77	23,907.52	14,362.84
Total profit	705,429.67	880,835.33	814,381.49
Less: Income tax expenses	188,772.65	181,633.85	186,924.54
Net profit	516,657.03	699,201.48	627,456.94
Less: Profit and loss of minority shareholders	139,857.07	137,486.28	118,110.22
Net profits attributable to owners of parent company	376,799.96	561,715.20	509,346.73
Other comprehensive income, net of tax	-12,671.99	-22,648.03	8,743.89
Other comprehensive income attributable to shareholders of parent company, net of tax	-12,476.58	-22,692.95	12,101.66
Other comprehensive income that will not be reclassified to profit or loss	-4,607.08	2,809.51	4,034.07
Including: Changes in fair value of investments in other equity instruments	-4,607.08	2,809.51	4,034.07
Other comprehensive income that will be reclassified to profit or loss	-7,869.50	-25,502.46	8,067.59

Items	Year 2023	Year 2022	Year 2021
Including: Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	-13.33	-23.49	-66.09
Provision for credit impairment of receivables financing	109.97	299.98	-198.91
Effective portion of gains or losses on cash flow hedge	-216.74	68.99	1,114.77
Exchange differences on translation of financial statements denominated in foreign currencies	-7,749.39	-25,847.94	7,217.82
Other comprehensive income attributable to minority shareholders, net of tax	-195.41	44.91	-3,357.77
Total comprehensive income	503,985.04	676,553.45	636,200.83
Less: Total comprehensive income attributable to minority shareholders	139,661.66	137,531.19	114,752.45
Total comprehensive income attributable to ordinary shareholders of parent company	364,323.38	539,022.25	521,448.38
Earnings per Share (RMB):			
Basic earnings per share	1.02	1.61	1.79
Diluted earnings per share	1.02	1.61	1.79

(3) Consolidated cash flow statement

Unit: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Cash flows from operating activities:			
Cash received from sales of goods or rendering of services	28,363,939.13	24,991,061.88	23,337,389.47
Refund of taxes received	11,374.34	30,103.91	11,414.59
Cash received relating to other operating activities	303,027.58	218,548.53	198,193.66
Sub-total of cash inflows from operating activities	28,678,341.04	25,239,714.32	23,546,997.72
Cash paid for goods and services	25,197,826.50	21,878,337.29	20,367,891.38
Cash paid to and on behalf of employees	989,604.43	915,406.09	870,174.31
Payments of taxes	749,783.59	790,001.77	635,314.53
Cash paid relating to other operating activities	1,217,974.55	1,181,633.05	1,167,484.87
Sub-total of cash outflows from operating activities	28,155,189.07	24,765,378.20	23,040,865.10
Net cash flows from operating activities	523,151.97	474,336.12	506,132.63
Cash flows from investing activities:			
Cash received from disposal of investments	2,687,864.37	2,938,710.00	253,587.15
Cash received from returns on investments	98,275.41	87,994.32	75,232.51
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	17,914.74	16,033.80	19,090.02
Net cash received from disposal of subsidiaries and other business units	50.00	10,680.01	11,370.05
Cash received relating to other investing activities	126,830.48	116,468.32	147,497.90
Sub-total of cash inflows from investing activities	2,930,935.00	3,169,886.45	506,777.63
Cash paid to acquire fixed assets, intangible assets and other long-term assets	297,061.02	268,486.38	411,877.15
Cash paid to acquire investments	2,737,665.00	3,968,375.00	314,783.96
Net cash paid to acquire subsidiaries and other business units	35,707.79	8,433.25	115,302.31
Cash paid relating to other investing activities	109,688.47	171,904.24	266,371.79
Sub-total of cash outflows from investing activities	3,180,122.28	4,417,198.87	1,108,335.21
Net cash flows from investing activities	-249,187.28	-1,247,312.42	-601,557.59

Items	Year 2023	Year 2022	Year 2021
Cash flows from financing activities:			
Cash received from capital contributions	35,427.72	1,412,327.51	16,934.42
Including: Cash received from capital contributions of minority shareholders of subsidiaries	24,785.77	14,154.43	16,934.42
Cash received from borrowings	6,419,658.71	4,865,196.46	3,755,401.63
Cash received from issue of bonds	1,499,676.33	1,499,250.83	1,899,266.03
Cash received relating to other financing activities	16,413.81	51,336.27	161,923.34
Sub-total of cash inflows from financing activities	7,971,176.57	7,828,111.07	5,833,525.42
Cash paid for repayments of debts	7,233,833.79	5,980,866.85	5,221,456.24
Cash paid for distribution of dividends, profits or interest payment	491,591.80	376,883.28	332,308.93
Including: Dividends and profits paid to minority shareholders by subsidiaries	93,471.25	67,494.11	64,716.94
Cash paid relating to other financing activities	222,565.90	256,501.53	123,197.40
Sub-total of cash outflows from financing activities	7,947,991.48	6,614,251.66	5,676,962.57
Net cash flows from financing activities	23,185.09	1,213,859.41	156,562.85
Effect of foreign exchange rate changes on cash	-558.01	-1,244.00	-5,032.34
Net increase in cash and cash equivalents	296,591.77	439,639.11	56,105.54
Opening balance of cash and cash equivalents	2,453,389.13	2,013,750.02	1,957,644.48
Ending balance of cash and cash equivalents	2,749,980.90	2,453,389.13	2,013,750.02

2. *Financial statements of parent company for the last three years*(1) *Balance sheet of parent company**Unit: 0'000 Currency: RMB*

Items	31 December 2023	31 December 2022	31 December 2021
Current assets			
Monetary funds	792,973.54	889,632.59	495,624.17
Financial assets held for trading	1,015,215.48	961,355.47	–
Prepayments	991.00	934.55	546.25
Other receivables	1,675,088.56	1,464,758.98	1,948,919.19
Non-current assets due within one year	922.08	1,036.63	–
Other current assets	575.06	76.33	372.90
Total current assets	3,485,765.73	3,317,794.55	2,445,462.50
Non-current asset			
Long-term receivables	3,013.97	3,732.03	–
Long-term equity investments	3,104,879.37	2,764,674.56	2,693,907.53
Other non-current financial assets	178,951.71	178,729.83	100,033.09
Investment properties	352.18	–	–
Fixed assets	9,735.85	10,058.24	9,524.74
Construction in progress	2,996.09	3,535.46	4,113.47
Right-of-use assets	5,599.17	8,659.33	8,081.68
Intangible assets	5,078.91	6,826.22	6,795.19
Development expenditure	6,055.22	7,670.30	7,579.77
Long-term prepaid expenses	4,373.68	1,806.49	801.33
Other non-current assets	686.00	931.95	30,563.45
Total non-current assets	3,321,722.15	2,986,624.42	2,861,400.25
Total assets	6,807,487.87	6,304,418.96	5,306,862.75

Items	31 December 2023	31 December 2022	31 December 2021
Current liabilities			
Short-term borrowings	100,061.57	130,099.76	105,140.08
Accounts payable	5,029.69	6,188.42	4,311.13
Contract liabilities	2,009.72	3,309.72	2,009.72
Employee benefits payable	7,038.96	9,070.03	6,429.24
Taxes payable	320.39	186.74	202.46
Other payables	1,624,369.60	1,351,851.26	1,467,511.32
Non-current liabilities due within one year	3,632.07	93,216.63	2,653.94
Other current liabilities	605,132.13	606,036.16	907,703.34
Total current liabilities	2,347,594.14	2,199,958.72	2,495,961.23
Non-current liabilities			
Long-term borrowings	436,342.00	13,936.00	138,000.00
Lease liabilities	2,536.65	5,939.09	6,087.55
Deferred income	10,398.25	8,364.11	5,362.90
Deferred income tax liabilities	585.97	585.97	585.97
Total non-current liabilities	449,862.87	28,825.18	150,036.43
Total liabilities	2,797,457.01	2,228,783.90	2,645,997.66
Shareholders' equity			
Share capital	370,330.11	369,754.62	284,208.93
Capital reserves	3,239,153.09	3,227,566.83	1,909,421.11
Other comprehensive income	-39.08	-30.22	-14.63
Surplus reserves	193,115.86	178,301.65	161,667.29
Undistributed profits	207,470.88	300,042.19	305,582.39
Total shareholders' equity	4,010,030.86	4,075,635.07	2,660,865.09
Total liabilities and shareholders' equity	6,807,487.87	6,304,418.96	5,306,862.75

(2) *Income statement of parent company**Unit: 0'000 Currency: RMB*

Items	Year 2023	Year 2022	Year 2021
Operating income	22,524.54	27,252.50	13,748.45
Less: Operating costs	6,141.24	9,181.31	99.88
Taxes and surcharges	145.83	379.14	62.20
Administrative expenses	28,050.50	27,673.52	28,080.86
R&D expenses	44,300.06	41,445.99	41,970.05
Financial expenses – net	22,967.37	14,283.89	34,394.22
Add: Other income	2,371.95	2,097.24	1,849.56
Investment income	209,239.75	207,843.69	244,669.95
In which: Share of investment income of associates and joint ventures	13,128.25	10,026.31	23,642.92
Gains/(losses) on changes in fair value	31,545.95	24,926.65	7,868.80
Credit impairment reversals/(losses)	-638.89	-2,571.02	3,302.78
Asset impairment reversals/(losses)	-15,479.98	–	–
Gains/(losses) on assets disposal	322.27	–	1.75
Operating profits	148,280.62	166,585.20	166,834.08
Add: Non-operating income	25.03	11.73	297.03
Less: Non-operating expenses	163.54	253.38	725.68
Total profit	148,142.11	166,343.56	166,405.44
Net profit	148,142.11	166,343.56	166,405.44
Other comprehensive income, net of tax	-8.85	-15.60	-43.89
Other comprehensive income attributable to shareholders of parent company, net of tax	-8.85	-15.60	-43.89
Other comprehensive income that will be reclassified to profit or loss	-8.85	-15.60	-43.89
Share of other comprehensive income of investees accounted for using equity method, which will be reclassified subsequently to profit or loss	-8.85	-15.60	-43.89
Total comprehensive income	148,133.26	166,327.97	166,361.55

(3) Cash flow statement of parent company

Unit: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Cash flows from operating activities:			
Cash received from sales of goods or rendering of services	20,615.18	29,280.88	15,028.96
Refund of taxes received	–	183.00	–
Cash received relating to other operating activities	39,163.07	39,326.78	42,346.64
Sub-total of cash inflows from operating activities	59,778.25	68,790.66	57,375.60
Cash paid for goods and services	29,919.66	29,352.45	7,206.54
Cash paid to and on behalf of employees	33,778.11	25,945.87	22,879.41
Payments of taxes	140.59	376.02	147.45
Cash paid relating to other operating activities	33,783.09	34,969.51	68,309.59
Sub-total of cash outflows from operating activities	97,621.46	90,643.85	98,542.99
Net cash flows from operating activities	-37,843.21	-21,853.19	-41,167.39
Cash flows from investing activities:			
Cash received from disposal of investments	2,685,330.00	2,938,710.00	253,587.15
Cash received from returns on investments	240,896.86	201,824.95	203,718.85
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	–	–	–
Net cash received from disposal of subsidiaries and other business units	–	681.24	–
Cash received relating to other investing activities	367,697.21	612,213.76	205,137.12
Sub-total of cash inflows from investing activities	3,293,924.07	3,753,429.94	662,443.12
Cash paid to acquire fixed assets, intangible assets and other long-term assets	7,055.26	6,850.57	11,698.46
Cash paid to acquire investments	2,737,665.00	3,968,375.00	295,000.00
Net cash paid to acquire subsidiaries and other business units	32,330.00	2,640.00	9,596.00
Cash paid relating to other investing activities	681,326.23	464,574.54	424,438.81
Sub-total of cash outflows from investing activities	3,458,376.48	4,442,440.11	740,733.27
Net cash flows from investing activities	-164,452.42	-689,010.17	-78,290.14

Items	Year 2023	Year 2022	Year 2021
Cash flows from financing activities:			
Cash received from capital contributions	10,641.94	1,398,173.08	–
Cash received from borrowings	772,626.00	165,936.00	215,039.26
Cash received from issue of bonds	1,499,676.33	1,499,250.83	1,899,266.03
Cash received relating to other financing activities	87,304.41	313,814.52	241,054.20
Sub-total of cash inflows from financing activities	2,370,248.68	3,377,174.44	2,355,359.48
Cash paid for repayments of debts	1,970,220.00	1,975,039.26	1,950,000.00
Cash paid for distribution of dividends, profits or interest payment	258,486.96	185,497.45	146,498.48
Cash paid relating to other financing activities	5,916.46	117,211.43	66,771.35
Sub-total of cash outflows from financing activities	2,234,623.42	2,277,748.13	2,163,269.84
Net cash flows from financing activities	135,625.27	1,099,426.31	192,089.64
Effect of foreign exchange rate changes on cash	11.20	-554.53	35.90
Net increase in cash and cash equivalents	-66,659.16	388,008.43	72,668.01
Opening balance of cash and cash equivalents	859,632.30	471,623.87	398,955.86
Ending balance of cash and cash equivalents	792,973.14	859,632.30	471,623.87

(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.	Huzhou	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%
Shanghai Medical Instruments Co., Ltd.	Shanghai	3.27	100.00%
TECHPOOL Bio-pharma Co., Ltd.	Guangzhou	1.00	67.14%
SPH Changzhou Kony Pharmaceutical Co., Ltd.	Changzhou	0.15	100.00%

(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 2023/ Year 2023	31 December 2022/ Year 2022	31 December 2021/ Year 2021
Current ratio	1.33	1.35	1.27
Quick ratio	1.02	1.03	0.96
Asset-liability ratio	62.11%	60.63%	63.86%
Net assets per share attributable to shareholders of parent company (RMB)	18.50	18.14	17.37
Turnover of accounts receivable (times)	3.63	3.63	3.84
Turnover of inventories (times)	6.44	6.55	7.32
Net cash flow per share generated from operating activities (RMB)	1.41	1.28	1.78
Net cash flow per share (RMB)	0.80	1.19	0.20

Notes: 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	Items	Weighted average net return on assets (%)	Earnings per share (RMB/share)	
			Basic	Diluted
Year 2023	Net profits attributable to ordinary shareholders of the Company	5.56	1.02	1.02
	Net profits attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	5.30	0.97	0.97
Year 2022	Net profits attributable to ordinary shareholders of the Company	9.11	1.61	1.61
	Net profits attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	6.97	1.23	1.23
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

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

The non-recurring profit and loss for the reporting period are disclosed according to requirements in the Explanatory 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 follow:

Unit: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Profit and loss from disposal of non-current assets	88,316,279.93	1,577,562,366.09	1,249,686,382.85
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)	431,911,464.26	332,209,644.16	465,740,372.82
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	404,731,380.72	218,737,860.49	-197,618,301.60
Reversal of impairment provision for accounts receivable used for impairment test separately	33,633,287.85	33,395,114.84	8,341,978.95
Non-operating incomes and expenses other than above	-612,937,965.84	-206,297,108.14	-61,671,412.79
Other profit and loss items meeting the definition of non-recurring profit and loss	-	-	-
Effect of income taxes	-122,936,269.10	-342,272,194.73	-303,704,084.16
Effect of minority interests (after tax)	-50,830,922.93	-293,237,382.98	-68,237,862.88
Total	171,887,254.89	1,320,098,299.73	1,092,537,073.19

(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: 0'000 Currency: RMB

Items	31 December 2023		31 December 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Current assets	16,243,386.23	76.63%	14,951,287.06	75.46%	11,649,443.23	71.28%
Non-current assets	4,953,867.14	23.37%	4,862,203.09	24.54%	4,694,107.68	28.72%
Total assets	21,197,253.38	100.00%	19,813,490.15	100.00%	16,343,550.92	100.00%

At the end of each reporting period from 2021 to 2023, 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: 0'000 Currency: RMB*

Items	31 December 2023		31 December 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Monetary funds	3,051,770.64	18.79%	2,740,139.60	18.33%	2,239,038.57	19.22%
Financial assets held for trading	1,015,215.48	6.25%	961,355.47	6.43%	-	-
Derivative financial assets	259.64	0.00%	482.01	0.00%	328.45	0.00%
Notes and accounts receivable	7,484,253.01	46.08%	6,855,943.84	45.86%	5,938,665.09	50.98%
Notes receivable	190,864.90	1.18%	179,958.44	1.20%	127,888.07	1.10%
Accounts receivable	7,293,388.11	44.90%	6,675,985.40	44.65%	5,810,777.02	49.88%
Receivables financing	232,010.60	1.43%	162,738.61	1.09%	161,900.98	1.39%
Prepayments	319,004.43	1.96%	386,758.27	2.59%	245,776.11	2.11%
Other receivables	338,113.39	2.08%	257,481.41	1.72%	241,910.80	2.08%
Inventories	3,662,339.39	22.55%	3,446,021.68	23.05%	2,710,403.53	23.27%
Non-current assets due within one year	7,742.01	0.05%	18,561.99	0.12%	12,650.56	0.11%
Other current assets	132,677.64	0.82%	121,804.19	0.81%	98,769.14	0.85%
Total current assets	16,243,386.23	100%	14,951,287.06	100%	11,649,443.23	100%

As at 31 December 2021, 2022 and 2023, the total amount of current assets of the Company were RMB116,494,432,300, RMB149,512,870,600 and RMB162,433,862,300, respectively, accounting for 71.28%, 75.46% and 76.63% 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. With the expansion of the operations of the Company, monetary funds, accounts receivable and inventories increased and the proportion of current assets of the Company increased during the Reporting Period.

(3) Analysis of non-current assets

Unit: 0'000 Currency: RMB

Items	31 December 2023		31 December 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Long-term receivables	22,793.96	0.46%	21,229.98	0.44%	19,774.23	0.42%
Long-term equity investments	835,191.01	16.86%	923,264.36	18.99%	907,327.54	19.33%
Other equity instrument investments	5,541.67	0.11%	10,148.75	0.21%	7,339.24	0.16%
Other non-current financial assets	219,537.19	4.43%	214,304.01	4.41%	138,890.07	2.96%
Investment properties	31,467.31	0.64%	24,641.55	0.51%	21,332.33	0.45%
Fixed assets	1,215,505.47	24.54%	1,153,928.94	23.73%	1,048,411.82	22.33%
Construction in progress	356,962.91	7.21%	277,736.31	5.71%	291,413.00	6.21%
Bearer biological assets	13,342.72	0.27%	13,719.18	0.28%	40,256.91	0.86%
Right-of-use assets	214,831.11	4.34%	186,865.99	3.84%	199,243.37	4.24%
Intangible assets	605,083.59	12.21%	624,414.00	12.84%	604,943.12	12.89%
Development expenditure	31,050.97	0.63%	34,260.53	0.70%	25,922.79	0.55%
Goodwill	1,139,333.22	23.00%	1,133,592.66	23.31%	1,123,897.24	23.94%
Long-term prepaid expenses	47,471.12	0.96%	46,243.86	0.95%	42,911.75	0.91%
Deferred income tax assets	171,685.81	3.47%	153,472.90	3.16%	136,754.49	2.91%
Other non-current assets	44,069.11	0.89%	44,380.07	0.91%	85,689.79	1.83%
Total non-current assets	4,953,867.14	100.00%	4,862,203.09	100.00%	4,694,107.68	100.00%

As at 31 December 2021, 2022 and 2023, the total amount of non-current assets of the Company were RMB46,941,076,800, RMB48,622,030,900 and RMB49,538,671,400 respectively, accounting for 28.72%, 24.54% and 23.37% 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: 0'000 Currency: RMB

Items	31 December 2023		31 December 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Short-term borrowings	3,556,049.97	27.01%	2,775,058.86	23.10%	2,251,457.40	21.57%
Derivative financial liabilities	231.65	0.00%	156.99	0.00%	77.41	0.00%
Notes and accounts payable	5,463,245.43	41.50%	5,156,552.90	42.92%	4,199,541.44	40.24%
Notes payable	671,744.35	5.10%	596,172.37	4.96%	476,474.80	4.57%
Accounts payable	4,791,501.07	36.40%	4,560,380.53	37.96%	3,723,066.64	35.67%
Contract liabilities	197,069.01	1.50%	224,282.35	1.87%	131,092.09	1.26%
Employee benefits payable	178,398.00	1.36%	158,048.82	1.32%	143,302.81	1.37%
Taxes payable	121,717.22	0.92%	144,082.34	1.20%	169,266.01	1.62%
Other payables	1,794,935.39	13.63%	1,647,485.59	13.71%	1,306,252.78	12.52%
Non-current liabilities due						
within one year	296,347.58	2.25%	324,943.31	2.70%	58,204.26	0.56%
Other current liabilities	629,193.65	4.78%	638,493.45	5.31%	923,238.16	8.85%
Total current liabilities	12,237,187.90	92.95%	11,069,104.60	92.14%	9,182,432.36	87.98%
Long-term borrowings	578,615.47	4.40%	625,979.94	5.21%	715,775.17	6.86%
Lease liabilities	155,007.67	1.18%	130,161.11	1.08%	143,427.41	1.37%
Long-term payables	816.35	0.01%	799.59	0.01%	31,516.15	0.30%
Accrued liabilities	3,958.51	0.03%	2,397.89	0.02%	2,324.39	0.02%
Deferred income	63,348.13	0.48%	53,458.11	0.44%	234,908.01	2.25%
Long-term employee benefits payable	3,888.42	0.03%	3,891.20	0.03%	3,900.72	0.04%
Deferred income tax liabilities	101,582.01	0.77%	104,923.75	0.87%	99,876.88	0.96%
Other non-current liabilities	20,239.62	0.15%	22,528.87	0.19%	22,768.81	0.22%
Total non-current liabilities	927,456.18	7.05%	944,140.44	7.86%	1,254,497.55	12.02%
Total liabilities	13,164,644.08	100%	12,013,245.04	100%	10,436,929.9	100%

In recent years, the demand of the Company for working capital is increasing year by year as the Company expands. As at 31 December 2021, 2022 and 2023, the total amount of liabilities of the Company were RMB104,369,299,000, RMB120,132,450,400 and RMB131,646,440,800 respectively, in which, the respective balance of current liabilities were RMB91,824,323,600, RMB110,691,046,000 and RMB122,371,879,000, accounting for 87.98%, 92.14% and 92.95% of the total liabilities, respectively and mainly consisting of short-term borrowings, notes payable, accounts payable, other payables, etc.; the respective balance of non-current liabilities were RMB12,544,975,500, RMB9,441,404,400 and RMB9,274,561,800, accounting for 12.02%, 7.86% and 7.05% of the total liabilities, respectively and mainly consisting of long-term borrowings, lease liabilities, deferred income and deferred income tax liabilities, etc. As at 31 December 2021, 2022 and 2023, the asset-liability ratios of the

Company were 63.86%, 60.63% and 62.11%, respectively. During the Reporting Period, the overall asset-liability structure remained stable. The issuance of corporate bonds will further 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: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Operating income	26,029,508.89	23,198,129.98	21,582,425.90
Operating costs	22,896,694.70	20,149,492.31	18,728,114.93
Operating profits	766,723.47	901,465.04	820,548.63
Total profits	705,429.67	880,835.33	814,381.49
Net profits	516,657.03	699,201.48	627,456.94

During the Reporting Period, the operating income of the Company is increasing steadily year by year. In 2022, the total profits and net profits increased by 8.16% and 11.43% on a year-on-year basis; in 2023, the total profits and net profits decreased by 19.91% and 26.11% on a year-on-year basis. During the Reporting Period, change in the total profits and net profits are mainly due to the fluctuation of operating costs, expenses and profit and loss from disposal of assets. According to its business layout and business development, the Company's profitability is sustainable.

The composition of the operating income is as follows:

Unit: 0'000 Currency: RMB

Items	Year 2023		Year 2022		Year 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Revenues from main business	25,915,206.21	99.56%	23,124,005.75	99.68%	21,504,159.68	99.64%
Revenues from other businesses	114,302.69	0.44%	74,124.23	0.32%	78,266.23	0.36%
Total	26,029,508.89	100%	23,198,129.98	100%	21,582,425.90	100.00%

The growth of operating income of the Company mainly comes from steady growth of revenues from main business and the proportion of revenues from main business in the total operating income of the Company remains above 99% in the last three years. In 2022 and 2023, the operating income of the Company increased by 7.49% and 12.21%, respectively on a year-on-year basis.

The composition of revenues from main business is as follows:

Unit: 0'000 Currency: RMB

Items	Year 2023		Year 2022		Year 2021	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Manufacturing	2,625,679.22	10.13%	2,675,764.46	11.57%	2,509,847.68	11.67%
Distribution	23,375,954.14	90.20%	20,573,289.25	88.97%	19,061,666.58	88.64%
Retailing	911,075.09	3.52%	826,352.43	3.57%	776,759.73	3.61%
Others	28,452.93	0.11%	14,409.32	0.06%	24,199.02	0.11%
Offset	-1,025,955.18	-3.96%	-965,809.71	-4.18%	-868,313.33	-4.04%
Total	25,915,206.21	100.00%	23,124,005.75	100.00%	21,504,159.68	100.00%

The Company's revenues from main business mainly consist of revenues from distribution and revenues from manufacturing, in which, the amounts of annual revenues from distribution for the Year 2021, Year 2022 and Year 2023 were RMB190,616,665,800, RMB205,732,892,500 and RMB233,759,541,400, respectively, accounting for 88.64%, 88.97% and 90.20% of revenues from the main business, respectively. Revenues from distribution business increased steadily, and the proportion in revenues from main business increased.

4. *Analysis of cash flow*

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

Unit: 0'000 Currency: RMB

Items	Year 2023	Year 2022	Year 2021
Net cash flows from operating activities	523,151.97	474,336.12	506,132.63
Net cash flows from investing activities	-249,187.28	-1,247,312.42	-601,557.59
Net cash flows from financing activities	23,185.09	1,213,859.41	156,562.85
Net increase in cash and cash equivalents	296,591.77	439,639.11	56,105.54

For the Year 2021, Year 2022 and Year 2023, the net increases of cash and cash equivalents of the Company were RMB561,055,400, RMB4,396,391,100 and RMB2,965,917,700 respectively. The main reason for the fluctuation is the fluctuation in the Company's cash flows from investment activities and cash flows from financing activities during the Reporting Period. In addition, in 2022, due to the impact of the pandemic, the collection of payment for goods slowed down, which led to the decrease in cash flows from operating activities, thereby resulting in the overall fluctuation in the net increase in cash and cash equivalents.

5. *Analysis of solvency*

The main solvency indicators of the Company are as follows:

Key financial indicators	Year 2023	Year 2022	Year 2021
Current ratio	1.33	1.35	1.27
Quick ratio	1.02	1.03	0.96
Asset-liability ratio	62.11%	60.63%	63.86%

In terms of short-term solvency indicators, the current ratio of the Company as at 31 December 2021, 2022 and 2023 were 1.27, 1.35 and 1.33, respectively, while the quick ratio was 0.96, 1.03 and 1.02, respectively, and the short-term solvency of the Company had been enhanced in a whole during the Reporting Period. In terms of long-term solvency indicators, the asset-liability ratios of the Company were 63.86%, 60.63% and 62.11%, respectively, which remained at a reasonable level in a whole.

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

Recently, the Chinese government has taken the biopharmaceutical industry as its national development strategy gradually, and has released a series of major policies in all fields of the pharmaceutical industry to put forward systematic transformation measures 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, proactively 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 a “Healthy China”. In the medium and long term, the scale of the pharmaceutical market will continue to expand under the multiple drivers of comprehensive factors such as national policies, economic development, population aging and biopharmaceutical technology development. Against this background, as a leading integrated industrial group in China’s industry and commerce industry, 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, continuously accelerate innovation and transformation, deepen intensive development, stably improve the business quality, profitability, operation efficiency and industry status, and create value for people’s health constantly.

As to pharmaceutical manufacturing, the Company will continuously optimize its product structure by actively developing product strategy, increasing investment in innovation, implementing open innovation modes, utilizing combination of industry and finance, and focusing on international development, enrich its innovative drugs with differentiated advantages and improved innovative drug products to promote the sustained and healthy development of the Company’s pharmaceutical manufacturing. With respect to innovative drugs, the Company will further accelerate the research and development, continue to increase new drug pipelines for clinical application acceptance

and entering the clinical study stage, and several innovative drug pipelines are in pivotal studies or clinical Phase III. The Company will reserve a number of special varieties in the preclinical stage through self-development and cooperative development. In addition, the Company will expand the business through multi channels, and engage in the stem cell industry by investment and further make layout for cutting-edge stem cell drugs. With respect to traditional Chinese medicine field, the Company will actively respond to the national strategy, reserve and tap the resources of traditional Chinese medicine products, and continue to promote the cultivation of large varieties of traditional Chinese medicine. The Company will focus on cooperation in the field of traditional Chinese medicine, strive to create a new mode of the whole industry chain of this industry to be featured with collaborative development of upstream, midstream and downstream. In addition, with respect to rare disease field, the Company attaches importance to rare diseases, and is one of the enterprises with the largest number of approvals for rare diseases in China. The Company plans to build its rare disease platform – SPH Ruier into an important innovative research and development base for rare diseases drugs in China, a transformation base for rare diseases drugs with global influence, a high-end international production base for rare diseases drugs and a guarantee and supply base for urgently needed rare diseases drugs.

As to pharmaceutical service, the Company has established strategic partnerships with major pharmaceutical manufacturers at home and abroad. With its strong supply chain service network to provide integrated pharmaceutical supply chain solutions, the Company consolidates China's leading position in the service of imported drugs and innovative drugs. Meanwhile, the non-pharmaceutical businesses such as device health maintain a strong momentum, which cooperatively assists the Company become the preferred partner for domestic pharmaceutical distribution and innovative product marketing. In addition, the Company actively promotes the upgrade of the supply chain of pharmaceutical and health products in the PRC, and continues to explore and innovate models for the supply and payment of medical and health products by means of information technology.

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 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 2023, the balance of guarantee was provided by subsidiaries of the Company for other enterprises out of the consolidated statements amounted to RMB10,793,600. 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 EXECUTIVES

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

Name	Position	Number of Shares held as at the Latest Practicable Date
SHEN Bo	Executive Director, President, Chief Financial Officer	71,700 A Shares ^{Note 1}
LI Yongzhong	Executive Director, Executive President	0 ^{Note 2}

Notes:

- As at the Latest Practicable Date, Mr. SHEN Bo also had an interest in 132,600 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 had an interest in 132,600 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 executives 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 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
Mr. YANG Qihua	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president
Mr. DONG Ming	Yunnan Baiyao Group Co., Ltd.	Director, chief executive, officer and president
Mr. XU Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president

4. **COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or Supervisors 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' AND SUPERVISORS' 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 which does not expire or is not 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 2023, 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:

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

As of the Latest Practicable Date, 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. The letter and recommendation from Gram Capital Limited are given as of the date of this circular for incorporation herein.

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 2023, 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 2023, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE ON DISPLAY

A copy of the Financial Services Agreement 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>) for a period of 14 days from the date of this circular.

9. GENERAL

In the event of any inconsistencies between the Chinese version and English version of Appendices IA, IB, IC and IV to this circular, the English version shall prevail.

NOTICE OF ANNUAL GENERAL MEETING



上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code: 02607)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd.* (the “**Company**”) will be held at Meeting Room 601, 6th Floor of Affiliated Building, Maple International Building Two, 450 Fenglin Road, Xuhui District, Shanghai, the PRC on 28 June 2024 at 13:00, to consider and approve the following proposals:

ORDINARY RESOLUTIONS

- (1) Annual Report for 2023
- (2) Report of the Board of Directors for 2023
- (3) Report of the Board of Supervisors for 2023
- (4) Final Accounts Report for 2023 and Financial Budget for 2024
- (5) Profit Distribution Plan for 2023
- (6) Proposal regarding Interim Dividend Arrangement for 2024
- (7) Proposal regarding Change of the Accounting Firm for 2024
- (8) Proposal regarding Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Daily Related/Continuing Connected Transactions and Discloseable Transactions
- (9) Proposal regarding External Guarantees for 2024

SPECIAL RESOLUTIONS

- (10) Proposal regarding Application for Centralized Registration of Different Types of New Debt Financing Instruments (DFI)
- (11) Proposal regarding Issuance of Debt Financing Products
- (12) Proposal regarding the Satisfaction of Conditions for Issuing Corporate Bonds

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING

- (13) Proposal regarding Issuance of Corporate Bonds
- (14) Proposal regarding the General Mandate of the Company

ORDINARY RESOLUTION (by means of cumulative voting)

- (15) Proposal regarding Election of Non-executive Director of the Eighth Session of the Board

By order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
YANG Qiuhua
Chairman

Shanghai, the PRC, 7 June 2024

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 24 June 2024 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, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F., Central Tower, 28 Queen's Road Central, Hong Kong, before 16:30 on 24 June 2024.

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, Link Market Services (Hong Kong) Pty Limited at Suite 1601, 16/F., Central Tower, 28 Queen's Road Central, 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.

NOTICE OF ANNUAL GENERAL 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, Link Market Services (Hong Kong) Pty Limited (for holders of H Shares) at Suite 1601, 16/F., Central Tower, 28 Queen's Road Central, Hong Kong on or before 18 June 2024.

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 Link Market Services (Hong Kong) Pty Limited is:

Suite 1601, 16/F., Central Tower, 28 Queen's Road Central, Hong Kong.
- (3) The address of China Securities Depository and Clearing Corporation Limited, Shanghai Branch is:

36F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai, the People's Republic of China.
- (4) The registered address of the Company:

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

Contact office: Office of the Board
Telephone No.: 86 (21) 6373 0908
Facsimile No.: 86 (21) 6328 9333
Contact person: ZHONG Tao
- (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 7 June 2024.