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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)**

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

On 28 March 2019, the board of directors (the **“Board”**) of Shanghai Pharmaceuticals Holding Co., Ltd. (the **“Company”**) considered and passed a resolution approving the renewal of the Financial Services Agreement (the **“Agreement”**) by the Company with Shanghai Shangshi Group Finance Co., Ltd. (the **“Finance Company”**). Pursuant to the Agreement, the Finance Company will continue to provide the Company and its subsidiaries (the **“Group”**) with deposit, loan and other financial services as the The China Banking and Insurance Regulatory Commission (**“CBIRC”**) may approve.

Shanghai Shangshi (Group) Co., Ltd. (**“Shanghai Shangshi”**), the Company, Shanghai Industrial Capital Co., Ltd. (**“SI Capital”**) and SIIC Dongtan Investment & Development (Holdings) Co., Ltd. (**“SIIC Dongtan”**) respectively hold 40%, 30%, 20% and 10% of equity interest in the Finance Company. Shanghai Shangshi is one of the controlling shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. As a result, the Finance Company is a connected person of the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **“Hong Kong Listing Rules”**). The transactions under the Agreement constitute continuing connected transactions of the Company as defined in Chapter 14A of the Hong Kong Listing Rules, as well as daily connected transactions as defined in the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (the **“Shanghai Listing Rules”**) and the Guidelines of the Shanghai Stock Exchange on Connected Transactions of Listed Companies (the **“Guidelines on Connected Transactions”**).

In respect of the provision of deposit services under the Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be more than 5%. Such services are subject to the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Chapter 14A of the Hong Kong Listing Rules.

In respect of the provision of loan services under the Agreement, such services are being 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 the loan services. Such services are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

In respect of the provision of other financial services under the Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be less than 0.1%. Such services are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

An independent board committee (the “**Independent Board Committee**”), comprising all the independent non-executive directors of the Company, namely Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang, have been appointed by the Board to consider and advise the independent shareholders in connection with the provision of deposit services pursuant to the Agreement.

A circular containing, among other things, (i) further information on the Agreement; (ii) the letter from the Independent Board Committee to the independent shareholders; (iii) the letter from the independent financial adviser to the Independent Board Committee and the independent shareholders; and (iv) the notice of general meeting, is expected to be despatched to the shareholders on or before 24 May 2019.

This announcement is made in accordance with the requirements of Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 4 February 2016 in relation to the renewal of the Financial Services Agreement (the “**Existing Financial Services Agreement**”) by the Company with the Finance Company, pursuant to which the Finance Company would continue to provide the Group with deposit, loan and other financial services as CBIRC may approve. The Existing Financial Services Agreement will expire on the date on which the Company convenes the 2018 annual general meeting.

## **FINANCIAL SERVICES AGREEMENT**

On 28 March 2019, the Board of the Company considered and passed a resolution approving the renewal of the Agreement with the Finance Company. Pursuant to the Agreement, the Finance Company continues to provide the Group with deposit, loan and other financial services as CBIRC may approve.

### *Annual caps and basis of determination*

For the period from the effective date of the Agreement to the date of the 2021 annual general meeting of the Company, the annual caps for the deposits and loans of the Group with the Finance Company are as follows:

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

For each of the three years ended 31 December 2018, the maximum daily balance of deposits of the Group with the Finance Company amounted to approximately RMB1,984million, RMB1,992 million and RMB1,992 million, respectively, and the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company amounted to approximately RMB1,237 million, RMB1,573 million and RMB1,683 million, respectively.

The above annual caps are determined based on the historical figures, while taking into account the Group's current financing condition and the possible changes in the future use of funds for business development.

#### *Pricing principles*

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

#### *Conditions of the Agreement and subsequent arrangements*

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

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

- (1) The Company can further expand its financing channels through business corporation with the Finance Company;
- (2) The favourable interest rates for deposits and loans provided by the Finance Company are conducive

to improving the 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; and
- (4) Through its business cooperation with the Finance Company, the Company can further strengthen its bargaining power against external banks.

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

## **INFORMATION OF EACH PARTY TO THE AGREEMENT**

### *Basic information of the Company*

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

### *Basic information of the Finance Company*

Company name:	Shanghai Shangshi Group Finance Co., Ltd.
Company type:	a non-bank financial institution with financial license, under industrial regulation by CBIRC and the People's Bank of China
Registered capital:	RMB1 billion
Capital contribution:	RMB400 million (40%) by Shanghai Shangshi, RMB300 million (30%) by the Company, RMB200 million (20%) by SI Capital and RMB100 million (10%) by SIIC Dongtan
Business scope:	Operation covers the following local and foreign currency businesses: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount to members of the group; approved insurance agency business; guarantee provided to members of the group; entrusted loans among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; portfolio investment (except stock investment); underwriting corporate bonds of member units. [For the projects requiring approvals in accordance with the law, operations are subject to the approval by the relevant regulatory authorities]

## **HONG KONG LISTING RULES IMPLICATIONS**

Shanghai Shangshi, the Company, SI Capital and SIIC Dongtan respectively hold 40%, 30%, 20% and 10% of equity interest in the Finance Company. Shanghai Shangshi is one of the controlling shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. As a result, the Finance Company is a connected person of the Company under the Shanghai Listing Rules, the Guidelines on Connected Transactions and the Hong Kong Listing Rules. Accordingly, the Agreement entered into between the Company and the Finance Company constitutes a connected transaction of the Company. The connected transaction does not constitute a major asset restructuring under the Administrative Rules Governing Major Asset Restructuring (as amended in 2014).

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

In respect of the provision of loan services under the Agreement, such services are being 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 Financial Company in respect of the loan services. Such services are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules.

In respect of the provision of other financial services under the Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be less than 0.1%. Such services are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

This announcement is made in accordance with the requirements of Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

## **THE APPROVAL PROCEDURES OF THE TRANSACTIONS**

The continuing connected transactions were considered and approved at the meeting of the Board of the Company held on 28 March 2019. All nine directors of the Company attended the meeting, which comply with the quorum requirement for board meetings under the Company Law of the People's Republic of China and the articles of association of the Company. The interested directors, namely Mr. Zhou Jun voluntarily abstained from voting, and all other disinterested directors voted in favour of the above continuing connected transactions.

The Board (excluding the independent non-executive directors of the Company who will, after taking into account the advice from the independent financial adviser, provide their recommendation to the independent shareholders in the circular to be despatched to shareholders) is of the view that the above continuing connected transactions will help optimise the Group financial management, improve their capital use 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 above continuing connected transactions will be submitted to the general meeting of the Company for shareholders' approval in accordance with the Hong Kong Listing Rules, the Shanghai Listing Rules and the Guidelines on Connected Transactions. Interested shareholders will abstain from voting at the general meeting. The Company proposes that shareholders authorise the Board, who will in turn authorise the management of the Company, to execute the 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 of the Company, namely Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang, have been appointed by the Board to consider and advise the independent shareholders in connection with the provision of deposit services pursuant to the Agreement.

In order to save costs and expenses for the Company, which will be in the interests of the shareholders of the Company as a whole, the Board intends to (a) propose the resolution to approve the transactions under the Agreement at the Company's 2018 annual general meeting and (b) issue a combined circular containing, among other things, (i) further information on the Agreement, (ii) the letter from the Independent Board Committee to the independent shareholders, (iii) the letter from the independent financial adviser to the Independent Board Committee and the independent shareholders, (iv) information on the other resolutions to be proposed at the Company's 2018 annual general meeting and (v) the notice of annual general meeting. The combined circular is therefore expected to be despatched to the shareholders on or before 24 May 2019.

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

Shanghai, the PRC, 29 March 2019

*As at the date of this announcement, the executive directors of the Company are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive directors are Mr. ZHOU Jun and Ms. LI An; and the independent non-executive directors are Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang.*

*\* For identification purpose only*