

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

FINANCIAL SERVICES AGREEMENT

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

LISTING RULES IMPLICATIONS

As at the date of this announcement, Shanghai Shangshi, the Company, SI Capital and SIIC Dongtan hold 40%, 30%, 20% and 10% of equity interest in the Finance Company, respectively. Shanghai Shangshi is one of the controlling shareholders of the Company, and each of SI Capital and SIIC Dongtan is a subsidiary of Shanghai Shangshi, respectively. As such, the Finance Company is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules, and daily connected transactions as defined under the SSE Listing Rules and the Guidelines on Connected Transactions.

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

In respect of the provision of loan services under the Financial Services Agreement, such services 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 Listing Rules.

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

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK, has been established by the Board to consider and advise the independent shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement.

CIRCULAR TO THE ANNUAL GENERAL MEETING

A circular containing, among other things, (i) further information on the Financial Services Agreement, (ii) the letter from the Independent Board Committee to the independent shareholders, (iii) the letter from Gram Capital to the Independent Board Committee and the independent shareholders, and (iv) the notice of the general meeting, is expected to be despatched to the shareholders on or before 8 June 2022.

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

BACKGROUND

We refer to the announcement of the Company dated 28 March 2019 in relation to the Existing Financial Services Agreement. The Existing Financial Services Agreement will expire on the date on which the Company convenes the 2021 annual general meeting.

FINANCIAL SERVICES AGREEMENT

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

Historical amounts, annual caps and basis of determination

For the period from the date on which the Company convenes the 2021 annual general meeting to 31 December 2024, the annual caps for the deposits and loans of the Group with the Finance Company are as follows:

	For the period from the date of the 2021 annual general meeting to 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Maximum daily balance of deposits of the Group with the Finance Company	RMB4,000 million	RMB4,500 million	RMB5,000 million
Maximum outstanding balance of	RMB6,000 million	RMB6,000	RMB6,000

**comprehensive credit facilities
provided by the Finance Company to
the Group**

million

million

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

- (1) for the three years ended 31 December 2019, 2020 and 2021, the historical amounts for the maximum daily balance of deposits of the Group with the Finance Company were approximately RMB2,219 million, RMB2,938 million and RMB2,899 million, representing a utilization rate of previous annual caps amounting to approximately 74.0 %, 97.9% and 96.6%, respectively;
- (2) for the three years ended 31 December 2019, 2020 and 2021, (a) the total amount of Group's cash and cash equivalents was RMB15,716 million, RMB19,576 million and RMB20,138 million, respectively, and (b) the trade and other receivables^{note} was RMB49,543 million, RMB54,755 million and RMB60,527 million, respectively, indicating the Group's potential strong demand on deposit services;
- (3) the Group's financial performance for the year ended 31 December 2021; 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.

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

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

- (1) for the three years ended 31 December 2019, 2020 and 2021, the historical amounts for the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group were approximately RMB2,401 million, RMB2,066 million and RMB2,314 million, respectively; and
- (2) the current financing condition and the possible increased demand in capital due to business development of the Group.

Pricing policies

- (1) Deposit services: the Finance Company undertakes to offer favourable interest rates for the Group's deposits with reference to the prevailing market rates, which should not be lower than those published by the People's Bank of China, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, 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 Financial Services Agreement shall be effective upon the affixation of the official stamps of the Company and the Finance Company along with the signature of their respective legal representatives or authorised representatives, commencing from the date on which it was considered and passed at the 2021 annual general meeting of the Company.
- (2) The Financial Services Agreement will take effect on the date on which it was considered and passed at the 2021 annual general meeting of the Company and terminate on 31 December 2024. 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 Listing Rules, the Financial Services Agreement may be renewed. The period for each renewal of the Financial Services Agreement shall not exceed three years.

REASONS FOR AND BENEFITS OF 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;
- (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.

INFORMATION OF PARTIES TO THE AGREEMENT

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.

Finance Company

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

LISTING RULES IMPLICATIONS

As at the date of this announcement, Shanghai Shangshi, the Company, SI Capital and SIIC Dongtan hold 40%, 30%, 20% and 10% of equity interest in the Finance Company, respectively. Shanghai Shangshi is one of the controlling shareholders of the Company, and each of SI Capital and SIIC Dongtan is a subsidiary of Shanghai Shangshi, respectively. As such, the Finance Company is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules, and daily connected transactions as defined under the SSE Listing Rules and the Guidelines on Connected Transactions.

In respect of the provision of deposit services under the Financial Services Agreement, the highest applicable percentage ratio as defined under Rule 14.07 of the Listing Rules, calculated on an annual basis, is expected to be more than 5% but are less than 25%. Such deposit services are subject to the relevant reporting, annual review,

announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules (as the case maybe).

In respect of the provision of loan services under the Financial Services Agreement, such services 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 Listing Rules.

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

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 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.

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.

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 does 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.

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 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.

THE APPROVAL PROCEDURES OF THE TRANSACTIONS

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

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

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

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK, have been established by the Board to consider and advise the independent shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement.

CIRCULAR TO THE ANNUAL GENERAL MEETING

A circular containing, among other things, (i) further information on the Financial Services Agreement, (ii) the letter from the Independent Board Committee to the independent shareholders, (iii) the letter from Gram Capital to the Independent Board Committee and the independent shareholders, and (iv) the notice of the general meeting, is expected to be despatched to the shareholders on or before 8 June 2022.

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

DEFINITIONS

Unless the context otherwise requires, the following expressions in this announcement shall have the following meanings:

“Board”	the board of directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“Company”	Shanghai Pharmaceuticals Holding Co., Ltd.* (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the A shares of which are listed on the Shanghai Stock Exchange with stock code 601607.SH and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange with stock code 02607.HK)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling”	has the meaning ascribed thereto under the Listing Rules

shareholder(s)”	
“Directors”	the directors of the Company
“Existing Financial Services Agreement”	the Financial Services Agreement entered into between the Company and Shanghai Shangshi dated 28 March 2019 in respect of the Finance Company’s provision of deposit, loan and other financial services as the CBIRC may approve, to the Group
“Finance Company”	Shanghai Shangshi Group Finance Co., Ltd. (上海上實集團財務有限公司), a company incorporated in the PRC with limited liability
“Financial Services Agreement”	the Financial Services Agreement entered into between the Company and Shanghai Shangshi dated 29 March 2022 in respect of the Finance Company’s provision of deposit, loan and other financial services as the CBIRC may approve, to the Group
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), will be appointed as the independent financial adviser to the Independent Board Committee and independent shareholders in connection with the provision of deposit services pursuant to the Financial Services Agreement
“the Group”	the Company and its subsidiaries
“Guidelines on Connected Transactions”	Guidelines of the Shanghai Stock Exchange on Connected Transactions of Listed Companies (《上海證券交易所上市公司關聯交易實施指引》)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, namely Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China, but for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“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
“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》)
“ % ”	per cent

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

Shanghai, the PRC, 30 March 2022

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, Mr. GE Dawei and Ms. LI An, and the independent non-executive Directors are Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK.

** For identification purpose only*