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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

FINANCIAL SERVICES AGREEMENT

On 28 March 2024, 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 services, loan services and other financial services.

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, is expected to be more than 5% but are less than 25%. Such deposit services also constitute a discleasble transaction under Chapter 14 of the 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 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, 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. 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 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 7 June 2024, which will be more than 15 business days after publication of this announcement so as to allow sufficient time for the preparation of certain information for inclusion in the circular.

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 30 March 2022 in relation to the Existing Financial Services Agreement. The Existing Financial Services Agreement will expire on 31 December 2024.

FINANCIAL SERVICES AGREEMENT

On 28 March 2024, 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 (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).

Historical amounts, 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
Maximum daily balance of deposits of the Group with the Finance Company	RMB5,000 million	RMB5,500 million	RMB6,000 million
Maximum	RMB7,000 million	RMB7,000 million	RMB7,000 million

**outstanding
balance of
comprehensive
credit facilities
provided by the
Finance Company
to the Group**

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; and
- (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.

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^{Note}, 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.

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

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.

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

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 NAFR 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: 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.

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, 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, 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.

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 PBOC and is subject to various laws and regulations including relevant provisions of depositing sufficient capital reserve.

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

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;
- (2) the Group has adopted and implemented comprehensive internal policies on monitoring the loan services provided by the Finance Company to make sure the actual transaction amount does not exceed the annual cap for the loan services under the Financial Services Agreement and the audit committee of the Board and various internal departments of the Company, including but not limited to the finance and legal departments, are jointly responsible for evaluating the terms under the Financial Services Agreement and in particular, the annual caps and the transaction amount; and

(3) to ensure that the interest rates for the loans provided by the Finance Company are not higher than (a) those published by the People's Bank of China; (b) those offered by other major commercial banks in China in the same period, or (c) those offered by the Finance Company to third parties for the same type of loans, the financial department of the Company will pre-consult the Finance Company and ask for a written confirmation about the interest rates to be provided by the Finance Company and will compare with the interest rates published by other major commercial banks and the People's Bank of China through public channel.

The Board considers the above methods and procedures constitute necessary components of an internal control system, in which the head of the financial department is in charge of the abovementioned measures, which can form a clear confirmation process and reviewing system and ensure that the transactions will be executed in compliance with the pricing policies stipulated in the Financial Services Agreement, and explore the best price of such services available to the Company. Therefore, the Board is of the view that the Group has put appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the Financial Services Agreement, and safeguard the interests of the 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 28 March 2024. All eight 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 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 deposit services under the Financial Services Agreement 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. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong, have 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 will be 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.

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 7 June 2024, which will be more than 15 business days after publication of this announcement so as to allow sufficient time for the preparation of certain information for inclusion in the circular.

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
“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 (listed on the Shanghai Stock Exchange with stock code 601607.SH and 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 shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Existing 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 NAFR 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 proposed to be entered into between the Company and Finance Company in respect of the Finance Company’s provision of deposit services, loan services and other financial services, 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
“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. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“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.*
YANG Qiuhua
Chairman

Shanghai, the PRC, 28 March 2024

As of the date of this announcement, the executive Directors of the Company are Mr. YANG Qiuhua, Mr. SHEN Bo, Mr. LI Yongzhong and Mr. DONG Ming; the non-executive Directors is Mr. CHEN Fashu; and the independent non-executive Directors are Mr. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong.

** For identification purpose only*