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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 –
THE FINANCIAL SERVICES AGREEMENT**

On 26 March 2015, 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 “**Shanghai Pharmaceuticals Group Members**”) with deposit, loan, settlement and other financial services as the China Banking Regulatory Committee (“**CBRC**”) 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 connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules, as well as 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 relevant percentage ratios as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be more than 0.1% but less than 5%. Such services are therefore exempt from independent shareholders’ approval but subject to the relevant reporting, annual review and announcement requirements under the Hong Kong Listing Rules.

* For identification purpose only

In respect of the provision of loan services under the Agreement, such services are being provided by the Finance Company to the Shanghai Pharmaceuticals Group Members on normal commercial terms and no security over the assets of the Shanghai Pharmaceuticals Group Members 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.65(4) of the Hong Kong Listing Rules.

In respect of the provision of settlement and other financial services under the Agreement, the relevant percentage ratios 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 14A of the Hong Kong Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 29 March 2014 and the circular of the Company dated 3 April 2014, in relation to the entry of the Financial Service Framework Agreement by the Company with Shanghai Shangshi and the Finance Company (to be established) and the continuing connected transactions involved. Upon the formal establishment of the Finance Company on 1 September 2014, the Company entered into the Financial Service Agreement with the Finance Company on 16 October 2014, the content of which is in line with that of the original Financial Service Framework Agreement. The Financial Service Agreement will expire on the date on which the Company convenes the 2014 annual general meeting.

FINANCIAL SERVICES AGREEMENT

On 26 March 2015, 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 Shanghai Pharmaceuticals Group Members with deposit, loan, settlement and other financial services as the CBRC may approve.

Annual caps and basis of determination

For the period from the effective date of the Agreement to the date of the 2015 annual general meeting of the Company, the maximum daily balance of deposits of the Shanghai Pharmaceuticals Group Members with the Finance Company shall not exceed RMB1.2 billion.

For the period from the effective date of the Agreement to the date of the 2015 annual general meeting of the Company, the maximum outstanding balance of comprehensive credit facilities provided to the Shanghai Pharmaceuticals Group Members by the Finance Company shall not exceed RMB1.8 billion.

As at 31 December 2014, the maximum daily balance of deposits of the Shanghai Pharmaceuticals Group Members with the Finance Company amounted to RMB220 million, and the maximum outstanding balance of comprehensive credit facilities provided by the Finance Company was RMB400 million, mainly because the Finance Company has only commenced its operation for a short period and it takes certain amount of time for its business to come into full operation. The average deposit balances on the Shanghai Pharmaceuticals Group Members' capital platform were RMB3.98 billion, and the average outstanding balances of the Shanghai Pharmaceuticals Group Members' internal financing were RMB2.35 billion. The above annual caps are determined based of the aforementioned historical figures, while taking into account the Shanghai Pharmaceuticals Group Members' 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 Shanghai Pharmaceuticals Group Members 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: the Finance Company undertakes to offer favourable interest rates for the loans provided to the Shanghai Pharmaceuticals Group Members 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 Shanghai Pharmaceuticals Group Members 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 by the 2014 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 2015 annual general meeting of the Company. Should each party agrees, 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 BENEFIT 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 corporation with the Finance Company, the Company can further strengthen its bargaining power against external banks.

Based on the foregoing, the business corporation 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 group in the People's Republic of China that has leading positions in both pharmaceutical production and distribution. The Company's business covers three major segments, namely pharmaceutical production, pharmaceutical services and pharmaceutical retail. The Company's H shares and A shares are listed on The Stock Exchange of Hong Kong Limited and the Shanghai 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 CBRC 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 into inter-bank borrowing.

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. The connected transaction does not constitute a major asset restructuring under the Administrative Rules Governing Major Asset Restructuring (as amended in 2011), nor does it constitute a notifiable transaction under Chapter 14 of the Hong Kong Listing Rules.

In respect of the provision of deposit services under the Agreement, the relevant percentage ratios as defined under Rule 14.07 of the Hong Kong Listing Rules, calculated on an annual basis, are expected to be more than 0.1% but less than 5%. Such services are therefore exempt from independent shareholders' approval but subject to the relevant reporting, annual review and announcement requirements under 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 Shanghai Pharmaceuticals Group Members on normal commercial terms and no security over the assets of the Shanghai Pharmaceuticals Group Members 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.65(4) of the Hong Kong Listing Rules.

In respect of the provision of settlement and other financial services under the Agreement, the relevant percentage ratios 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 14A of the Hong Kong Listing Rules.

THE APPROVAL PROCEDURES OF THE TRANSACTIONS

The connected transactions were considered and approved at the meeting of the Board of the Company held on 26 March 2014. 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. Four interested directors, namely Mr. Lou Dingbo, Mr. Cho Man, Mr. Hu Fengxiang and Mr. Zhou Jie, voluntarily abstained from voting, and all five disinterested directors voted in favour of the above continuing connected transactions.

The Board, including the independent non-executive directors, is of the view that the above continuing connected transactions will help optimise the Shanghai Pharmaceuticals Group Members 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 do not prejudice the interests of the shareholders, especially the minority shareholders, of the Company.

The above continuing connected transactions will be submitted to the general meeting of the Company for shareholders' approval in accordance with 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 executive committee of the Board, to execute the Agreement and related documents and to subsequently carry out the relevant steps for their implementation.

By order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
LOU Dingbo
Chairman

Shanghai, the PRC, 27 March 2015

As at the date of this announcement, the executive directors of the Company are Mr. LOU Dingbo, Mr. CHO Man and Mr. HU Fengxiang; the non-executive directors are Mr. ZHOU Jie and Mr. JIANG Ming; and the independent non-executive directors are Mr. CHEN Naiwei, Mr. WAN Kam To, Mr. TSE Cho Che, Edward and Mr. LI Zhenfu.