

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.



CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 1093)

CONTINUING CONNECTED TRANSACTION – RENEWAL OF MASTER SALES AGREEMENT

Reference is made to the announcement of the Company dated 1 November 2015, where it was announced that the Company entered into the 2015 Master Sales Agreement with CHL on 1 November 2015, pursuant to which, among others, the Company agreed to supply, and to procure its subsidiaries to supply, Pharmaceutical Products to the CHL Group. As the 2015 Master Sales Agreement had expired on 31 October 2018, on 1 November 2018, the Company entered into the 2018 Master Sales Agreement with CHL, pursuant to which the Company agrees to supply, and to procure its subsidiaries to supply, Pharmaceutical Products to the CHL Group for a period of three years commencing from 1 November 2018.

CHL is an associate of Mr. Cai Dongchen, a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) calculated pursuant to Chapter 14 of the Listing Rules in respect of the annual caps for the Transactions are greater than 0.1% but less than 5%, the Transactions constitute continuing connected transactions of the Company, which are subject to the reporting, annual review and announcements requirements but are exempted from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

I. INTRODUCTION

Reference is made to the announcement of the Company dated 1 November 2015, where it was announced that the Company entered into the 2015 Master Sales Agreement with CHL on 1 November 2015, pursuant to which, among others, the Company agreed to supply, and to procure its subsidiaries to supply, Pharmaceutical Products to the CHL Group. As the 2015 Master Sales Agreement had expired on 31 October 2018, on 1 November 2018, the Company entered into the 2018 Master Sales Agreement with CHL, pursuant to which the Company agrees to supply, and to procure its subsidiaries to supply, Pharmaceutical Products to the CHL Group for a period of three years commencing from 1 November 2018.

II. 2018 MASTER SALES AGREEMENT

The principal terms of the 2018 Master Sales Agreement are summarised below:

Date	:	1 November 2018
Parties	:	(i) the Company; and (ii) CHL
Term	:	1 November 2018 to 31 October 2021
Transaction nature	:	The Company agrees to supply, and procure its subsidiaries to supply, Pharmaceutical Products to the CHL Group. The relevant Group Company and the relevant CHL Group Company will enter into separate sales agreement for each Transaction in accordance with the principal terms set out in the 2018 Master Sales Agreement.
Pricing basis and general principles for sales	:	The unit price of the Pharmaceutical Products and the terms (including the payment terms) of the Transactions shall be determined by arm's length negotiation between the relevant Group Company and the relevant CHL Group Company with reference to the then prevailing market prices of comparable products and on general commercial terms which are no less favourable to the Group than those offered by the Group to independent third parties. The selling price charged by any Group Company for the Pharmaceutical Products to any CHL Group Company shall not be lower than such prevailing market prices.

Where no comparable market prices are available, the unit price of the Pharmaceutical Products shall be no less favourable to the Group than those offered by the Group to independent third parties for comparable type of products.

The Group will regularly review, monitor and benchmark the market price of pharmaceutical products. The Group will compare the selling price of the Pharmaceutical Products with the set benchmark before the approval of separate sales agreement between members of the Group and members of the CHL Group to ensure that the relevant Group Company will only conduct the Transactions in the interest of the Group. The Board considers that the said methods and procedures can ensure that the Transactions be conducted on normal commercial terms and not prejudicial to the interests of the Company and its shareholders.

III. HISTORICAL FIGURES

The historical amounts paid by the CHL Group to the Group for the Pharmaceutical Products were as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the nine months ended 30 September 2018
	'000	'000	'000
	(Approx.)	(Approx.)	(Approx.)
Sales of Pharmaceutical Products	RMB311,226 (approximately HK\$361,891)	RMB360,760 (approximately HK\$414,667)	RMB278,421 (approximately HK\$316,388)

Note: RMB has been converted to HK\$ at the rate of RMB0.86 = HK\$1.00 for the year ended 31 December 2016, RMB0.87 = HK\$1.00 for the year ended 31 December 2017, and RMB0.88 = HK\$1.00 for the nine months ended 30 September 2018.

IV. PROPOSED ANNUAL CAPS

It is anticipated that the annual caps for the Transactions contemplated under the 2018 Master Sales Agreement for each of the two months ending 31 December 2018, two years ending 31 December 2020 and ten months ending 31 October 2021 shall be as follows:

	For the two months ending 31 December 2018 '000	For the year ending 31 December 2019 '000	For the year ending 31 December 2020 '000	For the ten months ending 31 October 2021 '000
Sales of Pharmaceutical Products	RMB120,000 (approximately HK\$136,364)	RMB493,000 (approximately HK\$560,227)	RMB567,000 (approximately HK\$644,318)	RMB543,000 (approximately HK\$617,045)

Note: RMB has been converted to HK\$ at the rate of RMB0.88 = HK\$1.00.

The above annual caps are determined with reference to, among others, the historical amounts for similar transactions between the Group and the CHL Group and the expected growth in business between the Group and the CHL Group.

V. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2018 MASTER SALES AGREEMENT

The Company considers that it is in the Company's interests to enter into the 2018 Master Sales Agreement as the Group can sell its Pharmaceutical Products via the CHL Group and increase the sales revenue of the Group.

It is expected that the innovative drug business of the Group will maintain a strong growth momentum, with continuous expansion of market share and a stronger presence and coverage in the high-end market. In order to strive for and to ensure expansion and business growth, it is believed that the 2018 Master Sales Agreement will benefit the Group from its sales network whereby the Group will be able to maintain and expand its long-term business relationship with the CHL Group.

The Directors, including the independent non-executive Directors, believe that terms of the Transactions are fair and reasonable, and the Transactions 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 its shareholders as a whole.

VI. IMPLICATIONS UNDER THE LISTING RULES

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in more than 30% of CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the 2018 Master Sales Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) calculated pursuant to Chapter 14 of the Listing Rules in respect of the annual caps for the Transactions are greater than 0.1% but less than 5%, the Transactions constitute continuing connected transactions of the Company, which are subject to the reporting, annual review and announcements requirements but are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that each of Mr. Cai Dongchen, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Hua, Dr. Li Chunlei and Mr. Zhang Cuilong, all being Directors, is indirectly interested in CHL and may be regarded as having a material interest in the 2018 Master Sales Agreement, each of them had abstained from voting on the board resolutions of the Company in respect of the 2018 Master Sales Agreement. Save as disclosed in this announcement, none of the Directors was required to abstain from voting on the board resolutions of the Company in respect of the 2018 Master Sales Agreement.

VII. GENERAL

The Group is principally engaged in the manufacture and sales of pharmaceutical products.

The principal business activity of CHL is investment holdings. The CHL Group is principally engaged in the manufacture, sales and distribution of pharmaceutical products.

VIII. DEFINITIONS

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

“2015 Master Sales Agreement”	the product master sales agreement dated 1 November 2015 entered into between the Company and CHL as disclosed in the announcement of the Company dated 1 November 2015
“2018 Master Sales Agreement”	the product master sales agreement dated 1 November 2018 entered into between the Company and CHL in relation to the sales of Pharmaceutical Products by the Group to the CHL Group

“Board”	the board of Directors
“CHL”	石藥控股集團有限公司(CSPC Holdings Company Limited*) (formerly known as 石藥集團有限責任公司 (Shijiazhuang Pharmaceutical Group Company Limited*, “SPG”)), a company established in the PRC
“CHL Group”	CHL and its subsidiaries, and any one of them is referred to as the “CHL Group Company”
“Company”	CSPC Pharmaceutical Group Limited (石藥集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries, and any one of them is referred to as the “Group Company”
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Pharmaceutical Products”	pharmaceutical products (including raw material and finished drugs)
“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Transactions” the sale of Pharmaceutical Products by the Group to the CHL Group
as contemplated under the 2018 Master Sales Agreement

* *For identification purpose only*

In this announcement, RMB has been converted to HK\$ for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

By Order of the Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 1 November 2018

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. LU Hua, Dr. LI Chunlei, Mr. ZHANG Cuilong, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Professor LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.