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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

CONTINUING CONNECTED TRANSACTIONS – RENEWAL OF MASTER SALES AGREEMENT

Reference is made to the announcement of the Company dated 1 November 2018, where it was announced that the Company entered into the 2018 Master Sales Agreement with CHL on 1 November 2018, 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 2018 Master Sales Agreement had expired on 31 October 2021, on 22 November 2021, the Company entered into the 2021 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 2021.

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 contemplated under the 2021 Master Sales Agreement 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 highest proposed annual cap for the Transactions is greater than 0.1% but all of them are 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 2018, where it was announced that the Company entered into the 2018 Master Sales Agreement with CHL on 1 November 2018, 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 2018 Master Sales Agreement had expired on 31 October 2021, on 22 November 2021, the Company entered into the 2021 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 2021.

II. 2021 MASTER SALES AGREEMENT

The principal terms of the 2021 Master Sales Agreement are summarised below:

Date	:	1 November 2021
Parties	:	(i) the Company; and (ii) CHL
Term	:	1 November 2021 to 31 October 2024
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 2021 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 2019	For the year ended 31 December 2020	For the ten months ended 31 October 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Approx.)	(Approx.)	(Approx.)
Sales of Pharmaceutical Products	490,228	466,409	437,490

IV. PROPOSED ANNUAL CAPS

It is anticipated that the annual caps for the Transactions contemplated under the 2021 Master Sales Agreement for each of the two months ending 31 December 2021, two years ending 31 December 2023 and ten months ending 31 October 2024 shall be as follows:

	For the two months ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023	For the ten months ending 31 October 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Pharmaceutical Products	120,000	792,000	872,000	800,000

The above annual caps are determined with reference to, among others, (i) the historical amounts for the transactions between the Group and the CHL Group under the 2018 Master Sales Agreement and (ii) the expected level of purchases by the CHL Group taking into account the Group's projected sales volume of its Pharmaceutical Products, the estimated demands from the CHL Group and the anticipated growth of the Group's production capacity.

V. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021 MASTER SALES AGREEMENT

The Company considers that it is in the Company's interests to enter into the 2021 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 finished drug business of the Group will maintain a sustainable growth momentum, with continuous expansion of product portfolio and a more comprehensive market coverage. In order to strive for and to ensure expansion and business growth, it is believed that the 2021 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 2021 Master Sales Agreement (including the proposed annual caps) are fair and reasonable, and the 2021 Master Sales Agreement is on normal commercial terms and entered into in the ordinary and usual course of business of the Group and 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 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 Transactions contemplated under the 2021 Master Sales Agreement 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 highest proposed annual cap for the Transactions is greater than 0.1% but all of them are 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. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao, all being Directors, is indirectly interested in CHL and may be regarded as having a material interest in the 2021 Master Sales Agreement, each of them had abstained from voting on the board resolutions of the Company in respect of the 2021 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 2021 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 holding. The CHL Group is principally engaged in the distribution of pharmaceutical products.

Mr. Cai Dongchen (a substantial shareholder of the Company) indirectly controls the exercise of more than 30% of the voting power at general meetings of CHL. The remaining ultimate beneficial owners of CHL comprise more than 100 management personnel of the Group and CHL Group.

VIII. DEFINITIONS

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

“2018 Master Sales Agreement”	the product master sales agreement dated 1 November 2018 entered into between the Company and CHL as disclosed in the announcement of the Company dated 1 November 2018
“2021 Master Sales Agreement”	the product master sales agreement dated 22 November 2021 entered into between the Company and CHL in relation to the sales of Pharmaceutical Products by the Group to the CHL Group
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CHL”	CSPC Holdings Company Limited (石藥控股集團有限公司), a company established in the PRC
“CHL Group”	CHL and its subsidiaries and associates, 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”
“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
“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 2021 Master Sales Agreement

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

Hong Kong, 22 November 2021

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. ZHANG Cuilong, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Dr. LI Chunlei, Dr. WANG Qingxi, Mr. CHAK Kin Man and Dr. JIANG Hao as executive directors; and Mr. WANG Bo, Mr. CHEN Chuan, Professor WANG Hongguang, Mr. AU Chun Kwok Alan and Mr. LAW Cheuk Kin Stephen as independent non-executive directors.