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華潤醫藥集團有限公司

China Resources Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3320)

CONTINUING CONNECTED TRANSACTIONS SALES FRAMEWORK AGREEMENT 2019

Reference is made to the announcements of the Company dated 12 May 2017 and 2 June 2017 in relation to, among other things, the Sales Framework Agreement 2017.

On 31 December 2018, the Company has entered into the Sales Framework Agreement 2019 with CR Health for a term commencing on 1 January 2019 and ending on 31 December 2020. The Sales Framework Agreement 2017 will expire and cease to have effect on 1 January 2019.

As at the date of this announcement, CRH, being a controlling shareholder of the Company, holds 100% interest in CR Health. Accordingly, CR Health is a connected person of the Company and the transactions contemplated under the Sales Framework Agreement 2019 constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the annual caps for the sale of medical and pharmaceutical products and consumables to CR Health, its associates and/or the hospitals managed by CR Health and/or its associates exceed 0.1% but are less than 5%, the continuing connected transactions contemplated under the Sales Framework Agreement 2019 are only subject to reporting, announcement and annual review requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcements of the Company dated 12 May 2017 and 2 June 2017 in relation to, among other things, the Sales Framework Agreement 2017.

On 31 December 2018, the Company has entered into the Sales Framework Agreement 2019 with CR Health for a term commencing on 1 January 2019 and ending on 31 December 2020, pursuant to which the Group may from time to time supply medical and pharmaceutical products and consumables, including prescription medicines and over-the-counter (OTC) drugs to CR Health, its associates and/or the hospitals that are managed by CR Health and/or its associates. The Sales Framework Agreement 2017 will expire and cease to have effect on 1 January 2019.

THE SALES FRAMEWORK AGREEMENT 2019

Principal Terms

The principal terms of the Sales Framework Agreement 2019 are set out as follows:

(1) *Date*

31 December 2018

(2) *Parties*

(a) CR Health; and

(b) The Company

(3) *Term*

From 1 January 2019 to 31 December 2020

(4) *Scope*

Pursuant to the Sales Framework Agreement 2019, the Group may from time to time supply medical and pharmaceutical products and consumables, including prescription medicines and over-the-counter (OTC) drugs to CR Health, its associates and/or the hospitals that are managed by CR Health and/or its associates.

(5) *Pricing basis and pricing policies*

The price of the medical and pharmaceutical products and consumables supplied under the Sales Framework Agreement 2019 shall be determined in accordance with the applicable prescribed price or guided price of that product fixed by the PRC regulators, if applicable. If there is no such prescribed price or guided price for the particular product, the price shall be determined based on the then prevailing market price and arm's length negotiation between the parties.

In accordance with the relevant guiding opinions and implementation notice issued by the PRC regulators in 2015, the procurement of pharmaceutical products by public hospitals and medical institutions in the PRC is subject to a centralized tendering process.

Accordingly, the Group's sale of medical and pharmaceutical products and consumables to CR Health, its associates and/or the hospitals managed by CR Health and/or its associates is also subject to such centralized tendering system in the PRC and, the Group, similar to other independent third party suppliers, is required to go through the selection and approval procedures adopted by CR Health and its associates as well as the commercial negotiation process in order to become their suppliers. The parties also negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Health, its associates and/or the hospitals managed by CR Health and/or its associates in the ordinary and usual course of business.

The centralized tendering process generally operates as follows:

- (i) Public hospitals and medical institutions in different provinces and cities in the PRC will submit the types of medical and pharmaceutical products and consumables (except for decoction pieces) required in their ordinary course of business to the centralized procurement platform in the relevant province or region, where the suppliers will submit their bidding prices in respect of the relevant products and consumables;
- (ii) The relevant governmental authority will then determine the selling price of a particular medical and pharmaceutical product or consumable in the relevant province or region by taking into consideration mainly the bidding prices and quality of the product or consumable offered by different suppliers, and from which supplier(s) the hospitals and medical institutions in that province or region may purchase the product or consumable at such selling price; and
- (iii) Due to the nature and operation of the above-mentioned centralized tendering process, the selling price for the same type of product or consumable may vary across different provinces and regions.

After completion of the above-mentioned centralized tendering process and commercial negotiation, the Group will supply its medical and pharmaceutical products and consumables to, CR Health, its associates and/or the hospitals managed by CR Health and/or its associates on the agreed terms and conditions upon receiving purchase orders specifying the brand, volume and types of products and consumables.

Historical amounts

The approximate historical amounts of the relevant sales by the Group to CR Health and/or its associates for the year ended 31 December 2017 and the eleven months ended 30 November 2018 are RMB723.3 million (equivalent to approximately HK\$815.6 million) and RMB612.5 million (equivalent to approximately HK\$690.7 million), respectively.

Annual Caps and Basis of Determination

The proposed annual amounts receivable by the Group from CR Health, its associates and/or hospitals managed by CR Health and/or its associates for the Group's sales of medical and pharmaceutical products and consumables during the term of the Sales Framework Agreement 2019 are as follows:

	For the years ending 31 December			
	2019		2020	
	<i>RMB</i> <i>(million)</i>	<i>HK\$</i> <i>(million)</i>	<i>RMB</i> <i>(million)</i>	<i>HK\$</i> <i>(million)</i>
Sales of medical and pharmaceutical products and consumables	1,300.0	1,465.9	1,300.0	1,465.9

In determining the proposed annual caps for the transactions contemplated under the Sales Framework Agreement 2019, the Company has considered, among others, the following key factors:

- (a) historical amounts of the sales of medical and pharmaceutical products by the Group to CR Health and/or its associates; and
- (b) the expected increase in the demand for the Group's medical and pharmaceutical products and consumables, taking into account the overall growing market demand for medical and pharmaceutical products and consumables in the PRC and the substantial growth in transaction volume between the Group and CR Health and its associates. With the deepening national pharmaceutical reform in the PRC and driven by factors such as the aging population, rise in healthcare awareness and popularization of general hospital services in the PRC, it is expected that the market demand for medical and pharmaceutical products and consumables in the PRC will continue to grow.

REASONS AND BENEFITS OF THE TRANSACTIONS

CR Health and/or its associates are engaged in hospital investment and operation management. It is necessary for CR Health, its associates and the hospitals managed by CR Health and/or its associates to procure suitable medical and pharmaceutical products and consumables in their ordinary and usual course of business.

The Group, similar to other independent third party suppliers, is required to go through the selection and approval procedures adopted by CR Health and its associates as well as the commercial negotiation process in order to become their suppliers. The parties negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Health, its associates and/or the hospitals managed by CR Health and/or its associates in the ordinary and usual course of business.

The Board (including the independent non-executive Directors) consider that the Sales Framework Agreement 2019 was negotiated on an arm's length basis based on normal commercial terms and in the ordinary and usual course of business of the Group, and the relevant terms and annual caps thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CRH, being a controlling shareholder of the Company, holds 100% interest in CR Health. Accordingly, CR Health is a connected person of the Company and the transactions contemplated under the Sales Framework Agreement 2019 constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the annual caps for the sale of medical and pharmaceutical products and consumables to CR Health, its associates and/or the hospitals managed by CR Health and/or its associates exceed 0.1% but are less than 5%, the continuing connected transactions contemplated under the Sales Framework Agreement 2019 are only subject to reporting, announcement and annual review requirements but are exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Sales Framework Agreement 2019 and the transactions (including the relevant annual caps) contemplated thereunder, and none of the Directors has abstained from voting on the relevant Board resolutions approving the Sales Framework Agreement 2019.

INFORMATION OF THE PARTIES

CR Health

CR Health is principally engaged in hospital investment and operation management.

The Group

The Group's core business encompasses research and development, manufacturing, distribution and retail of an extensive range of pharmaceutical and other healthcare products.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	China Resources Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 3320);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“CR Health”	China Resources Healthcare Group Limited (華潤健康集團有限公司, formerly known as 華潤醫療集團有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CRH;

“CRH”	China Resources (Holdings) Company Limited (華潤(集團)有限公司), a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“PRC”	the People’s Republic of China, for the purposes of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi Yuan, the lawful currency of the PRC;
“Sales Framework Agreement 2017”	the sales framework agreement dated 12 May 2017 entered into between the Company and CR Health;
“Sales Framework Agreement 2019”	the sales framework agreement dated 31 December 2018 entered into between the Company and CR Health; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

For the purposes of this announcement and illustration only, conversions of RMB into HK\$ are based on the approximate exchange rate of RMB1.00 to HK\$1.12762. No representation is made that any amount in HK\$ or RMB could have been or could be converted at the above rate or at any other rates.

By order of the Board
China Resources Pharmaceutical Group Limited
WANG Chuncheng
Executive Director

Shenzhen, 31 December 2018

As of the date of this announcement, the Board comprises Mr. FU Yuning as chairman and non-executive Director, Mr. WANG Chuncheng and Mr. LI Guohui as executive Directors, Mr. CHEN Rong, Mr. YU Zhongliang, Mr. WANG Shouye and Mr. LU Ruizhi as non-executive Directors, Mdm. SHING Mo Han Yvonne, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian as independent non-executive Directors.