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石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

CONTINUING CONNECTED TRANSACTION REVISION OF ANNUAL CAP

On 24 April 2020, the Board resolved to revise the annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020 from RMB26,815,100 to RMB196,520,000. The other annual caps as stated in the Company's announcements dated 25 April 2018 and 30 September 2019 remain unchanged.

As Sichuan Kelun is a substantial shareholder of the Company, it is a connected person of the Company. The purchase of materials by the Company from Sichuan Kelun under the Master Sale and Purchase Agreement (under the revised annual cap for the year ending 31 December 2020) constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the revised annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020 is higher than 0.1% but less than 5% on an annual basis, the revision of such annual cap is subject to the reporting, annual review and announcement requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

INTRODUCTION

Reference is made to the Company's announcements dated 25 April 2018 and 30 September 2019 ("Announcements"). On 24 April 2020, the Board resolved to revise the annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020 from RMB26,815,100 to RMB196,520,000. The other annual caps (as revised from time to time) as stated in the Announcements remain unchanged.

THE MASTER SALE AND PURCHASE AGREEMENT AND PRICING POLICY

As stated in the Announcements, the principal terms of the Master Sale and Purchase Agreement are set out as follows:

- Date : 25 April 2018
- Parties : (a) the Company
(b) Sichuan Kelun
- Term : From 1 January 2018 to 31 December 2020
- Pricing policy : (a) The unit prices of the Materials A purchased by the Company are calculated based on the prevailing market prices from time to time as determined by reference to at least two contemporaneous transactions with other unrelated third-party suppliers for similar materials in similar quantities and specifications to ensure that such prices and terms for Materials A to be offered by the Kelun Group are no less favourable to the Company than those offered by other unrelated third-party suppliers;
- (b) The unit prices of the Materials B purchased by the Kelun Group shall be determined by reference to the price lists of the relevant materials adopted by the Company and generally applicable to all customers of the Company at the material time, which will be formulated with reference to the following factors:
- (i) the prices of the corresponding types of the Materials B,
 - (ii) the Company's production costs;
 - (iii) the volume of the purchase orders;
 - (iv) the requested packaging requirements; and
 - (v) any other factors affecting the Materials B's prices.
- Further, the unit prices and other terms of the sales of Materials B to the Kelun Group shall be, from the Company's perspective, no less favourable than those offered to other unrelated third-party purchasers by the Company at the material time.
- Payment terms : (a) Payments in respect of the Materials A purchased by the Company will be made upon the receipt of the relevant Materials A by the Company;
- (b) Payment in respect of the Materials B purchased by the Kelun Group will be made upon the receipt of the relevant Materials B by the Kelun Group.

THE REVISED ANNUAL CAP AND THE BASIS OF DETERMINATION

The annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020 has been revised from RMB26,815,100 to RMB196,520,000. The other annual caps (revised from time to time) as stated in the Announcements remain unchanged.

The aggregate amount of purchases paid by the Company under the Master Sale and Purchase Agreement for each of the two years ended 31 December 2018 and 2019 and the three months ended 31 March 2020 were RMB5,551,000, RMB18,504,000 and RMB13,652,000, respectively.

During 2020, Sichuan Kelun has been able to provide Materials A to the Company at more competitive prices compared to prevailing market prices, for more types of materials and at volumes larger than originally anticipated in 2018 upon entering into the Master Sale and Purchase Agreement. Following negotiations and discussions between the parties, and having considered the market conditions regarding Materials A as required by the Company and the Company's production demand for Materials A as expected in 2020, the Company has revised its purchase plan for the year ending 31 December 2020 in respect of purchases from Sichuan Kelun and revised the annual cap for purchases by the Company from Sichuan Kelun for the year ending 31 December 2020. The revised annual cap has been determined with reference to the terms of the Master Sale and Purchase Agreement, dealings between the parties in 2018, 2019 and during 2020 so far, and the estimated reduction in the amount of purchases by the Company from other suppliers for the year ending 31 December 2020.

REASONS FOR AND BENEFITS OF REVISING THE ANNUAL CAP FOR PURCHASES BY THE COMPANY FROM SICHUAN KELUN FOR THE YEAR ENDING 31 DECEMBER 2020

It is in the interests of the Company to purchase materials from Sichuan Kelun as the prices are more competitive compared to the prices offered by other suppliers. The Master Sale and Purchase Agreement does not limit the types of materials or products to be purchased by the Company from Sichuan Kelun or by Sichuan Kelun from the Company. During 2020, Sichuan Kelun, owing to recent changes to its production scale and offering of materials, has been able to provide more types and larger quantities of materials to the Company than as anticipated in 2018 upon entering into the Master Sale and Purchase Agreement. The revised annual cap for purchases by the Company from Sichuan Kelun for the year ending 31 December 2020 under the Master Sale and Purchase Agreement has the benefit of enhancing stable and reliable supply of relevant materials necessary for the manufacturing of products of the Company at favourable and competitive prices under the current market conditions.

The Directors (including the independent non-executive Directors) consider that the terms of the Master Sale and Purchase Agreement have been arrived after arm's length negotiations between the parties, are fair and reasonable and the transactions contemplated thereunder (and the revised annual cap for purchases by the Company from Sichuan Kelun for the year ending 31 December 2020) are entered into in the ordinary and usual course of business of the Company on normal commercial terms and in the interests of the Company and its shareholders as a whole.

The Company is following closely the market conditions of materials used by the Company in its production. For the year ended 31 December 2018 and the year ended 31 December 2019, the aggregate amount of purchases made by the Company under the Master Sale and Purchase Agreement in each year did not exceed the respective annual cap for purchases by the Company. As at the date of this announcement, the aggregate amount of purchases made by the Company under the Master Sale and Purchase Agreement in 2020 has not exceeded the original annual cap of RMB26,815,100 for purchases by the Company for 2020.

INTERNAL CONTROLS FOR THE COMPANY'S CONTINUING CONNECTED TRANSACTION

In order to ensure that the pricing policy and the proposed annual caps as contained in the Master Sale and Purchase Agreement are complied with, the Company has adopted the following measures:

- (i) for the purchase of Materials A, the Company would solicit at least two contemporaneous quotations from unrelated third-party suppliers for similar products or substitutes in similar quantities for the purpose of ensuring that the prices and terms for the Materials A to be offered by Kelun Group to the Company will be, from the Company's perspective, no less favourable to the Company than those offered by other unrelated third-party suppliers to the Company for similar products or substitutes of comparable nature and quality; and
- (ii) for the sale of Materials B by the Company, the relevant personnel of the Company will keep track of the transaction record on the sale of Materials B to other unrelated third-party purchasers for the purpose of ensuring that the prices and terms for the Materials B will be comparable to, from the Company's perspective, or no less favourable than the fair market prices and terms for Materials B or similar materials offered to independent third-party purchasers by the Company.

The Company will continue to closely monitor the implementation of the Master Sale and Purchase Agreement and take prompt actions to make necessary disclosures and obtain independent shareholders approval in the event that any adjustment to the annual caps becomes foreseeable. The Company's external auditors will review the continuing connected transactions under the Master Sale and Purchase Agreement annually to check and confirm (among others) whether the pricing policy have been adhered to, whether the continuing connected transactions were conducted in accordance with the Master Sale and Purchase Agreement and whether the relevant caps have been exceeded.

The independent non-executive Directors will review the continuing connected transactions under the Master Sale and Purchase Agreement annually to check and confirm whether such continuing connected transactions have been conducted in the ordinary and usual course of business of the Company, on normal commercial terms, in accordance with the Master Sale and Purchase Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policy set out in the Master Sale and Purchase Agreement.

INFORMATION ABOUT THE PARTIES

The Company is principally engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceuticals products and medical materials.

Sichuan Kelun is a substantial shareholder of the Company. The Kelun Group is principally engaged in the research, development, manufacturing and selling of various pharmaceutical products and materials.

LISTING RULES IMPLICATIONS

Sichuan Kelun is a substantial shareholder of the Company, which is therefore considered as a connected person of the Company under Chapter 14A of the Listing Rules. The transactions under the Master Sale and Purchase Agreement between the Company and Sichuan Kelun (and the revised annual cap for purchases by the Company from Sichuan Kelun for the year ending 31 December 2020) will therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the revised annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020 is higher than 0.1% but less than 5% on an annual basis, the revision of such annual cap is subject to the reporting, annual review and announcement requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

As Mr. Feng Hao, a non-executive Director of the Company, is the deputy general manager and the secretary to the board of directors of Sichuan Kelun, Mr. Feng Hao is deemed or may be perceived to have a material interest in the transactions contemplated under the Master Sale and Purchase Agreement. Accordingly, Mr. Feng Hao had abstained from voting on the resolution in connection with the revision of the annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ending 31 December 2020. Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, none of the other Directors have material interest in the transactions contemplated under the Master Sale and Purchase Agreement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“Board”	the board of Directors
“Company”	SSY Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Kelun Group”	Sichuan Kelun together with its subsidiaries including but not limited to Sichuan Xin Kai Yuan Pharmaceutical Company Limited*, Heilongjiang Kelun Pharmaceutical Packaging Company Limited*, Sichuan Kelun Pharmaceutical Trading Company Limited*, Guangdong Dongyue Kelun Pharmaceutical Company Limited*, Chongzhou Junjian Plastic Company Limited*, Guangxi Kelun Pharmaceutical Company Limited* and Wunan Kelun Pharmaceutical Company Limited*
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Sale and Purchase Agreement”	the Master Sale and Purchase Agreement dated 25 April 2018 entered between the Company and Sichuan Kelun for the sale and purchase of the Materials A and Materials B
“Materials A”	Raw materials used for manufacturing of products of the Company and its subsidiaries including but not limited to Dextran 40, infusion glass bottles, plastic tapes for pharmaceutical packaging, aseptic bag and Erythromycin thiocyanate
“Materials B”	Pharmaceutical raw materials and finished products including but not limited to co-extrusion films, synthetic polyisoprene liners, rubber stoppers for antibiotics, hydroxyethyl starch, infusions solutions and various types of capsules and tablet patent drugs

“PRC”	the People’s Republic of China (for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of HK\$0.02 each of the Company
“shareholders”	holders of the Shares
“Sichuan Kelun”	四川科倫藥業股份有限公司 (Sichuan Kelun Pharmaceutical Company Limited*), a limited liability company established in the PRC and a substantial shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

By Order of the Board
Chow Hing Yeung
Company Secretary

Hong Kong, 24 April 2020

As at the date of this announcement, the Board comprises Mr. Qu Jiguang, Mr. Wang Xianjun and Mr. Su Xuejun as executive Directors, Mr. Feng Hao as non-executive Director and Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non-executive Directors.

* *for identification purpose only*