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Vincent Medical Holdings Limited

永勝醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1612)

**EXTENSION AND RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE BAYER SUPPLY AGREEMENT**

THE SUPPLEMENTAL AGREEMENT

Reference is made to the announcements of the Company dated 21 December 2017 and 15 January 2018 in relation to the continuing connected transactions contemplated under the Bayer Supply Agreement.

As the Bayer Supply Agreement is due to expire on 31 December 2019, the Supplemental Agreement dated 20 December 2019 was entered into by the Suppliers and the Bayer Companies to renew the Bayer Supply Agreement, pursuant to which the Suppliers agree to continue to manufacture and supply certain components, assemblies and related services to the Bayer Companies for a further term until 31 July 2022.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Bayer Medical Care holds 19.9% of the shares in VMHK, and therefore it is a connected person of the Company at the subsidiary level. As both Bayer Medical Care and the Bayer Companies are indirect wholly-owned subsidiaries of Bayer AG, the Bayer Companies are the connected persons of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules and the transactions contemplated under the Supplemental Agreement constitute continuing connected transactions of the Company.

As (i) the transactions under the Supplemental Agreement are transactions between the Group and the connected persons at the subsidiary level; (ii) the Board has approved the transactions under the Supplemental Agreement; and (iii) the independent non-executive Directors have confirmed that the terms of the transactions under the Supplemental Agreement are fair and reasonable, the transactions under the Supplemental Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Supplemental Agreement is subject to the reporting, announcement and annual review requirements, but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

THE SUPPLEMENTAL AGREEMENT

In respect of the Bayer Supply Agreement entered into between the Suppliers ^(Note) and the Bayer Companies, pursuant to which the Suppliers would manufacture and supply certain components, assemblies and related services to the Bayer Companies, for a term from 1 August 2013 to 31 December 2019 on the following principal terms:

Principal terms: The Suppliers would manufacture, assemble, test, package and sterilize (where applicable) and sell to the Bayer Companies plastic injection moulded components and assemblies (the "**Products**").

Certain components necessary for the manufacture of the Products (the "**Components**") are provided to the Suppliers from the Bayer Companies.

In consideration for the performance by the Suppliers under the Bayer Supply Agreement, the Bayer Companies agree to lease equipment relating to the manufacture and supply of the Products, such as a syringe assembly line, a packaging line, moulding tools and other equipment and tools needed for the manufacture and supply of the Products (the "**Equipment**"), to the Suppliers. The Suppliers will be responsible for the maintenance and service of the Equipment.

The Bayer Companies will pay and settle the invoices for the Products supplied under the Bayer Supply Agreement within 45 days of each monthly statement.

Note:

VRHK was one of parties entered into the Bayer Supply Agreement on 1 August 2013 and subsequently removed as a party to the Bayer Supply Agreement effective from 7 June 2016 pursuant to the supplemental agreement dated 7 June 2016.

Pricing basis:

The price of each of the Products are agreed on the basis of the Suppliers' cost plus a profit margin, which margin varied and will continue to vary according to the requirements and specifications of each of the Products (the "**Pricing Basis**").

The price of each of the Products is negotiated between the Bayer Companies and the Group on an arm's length basis and determined based on the Pricing Basis, in the ordinary course of business, on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties. When determining the price for each of the Products, the Directors take into account (i) the complexity and technicality of the relevant project; and (ii) the estimated cost to the Group of leasing the Equipment from an independent third party or purchasing the Equipment from an independent third party and amortising the cost of such Equipment over the Equipment's estimated useful life.

Specifically, the price of each of the Products are prepared by the sales teams of the Group and subject to the review and pre-approval of an executive Director (who does not have any material interests in the transactions). The executive Director will compare the gross profit margin of sales to the Bayer Companies to those of sales to other independent third party customers of the OEM business segment, given that the Bayer Companies are the Company's customers of the same business segment. In any event, the profit margin of the transaction under the Bayer Supply Agreement should be no less favourable than those applicable to the sales of other products by the Group to other independent third party customers of the OEM business segment.

The Bayer Companies and the Suppliers acknowledge and agree that the Suppliers are responsible for the sterilization of the Products and that the purchase price includes any sterilisation costs associated with the Products. The Bayer Companies and the Suppliers acknowledge and agree that the Suppliers shall deliver to the Bayer Companies sterilized Products.

Termination:

The Bayer Supply Agreement may be terminated in whole or in part at any time upon 60 days prior written notice by the Bayer Companies to the Suppliers.

As the Bayer Supply Agreement is due to expire on 31 December 2019, the Supplemental Agreement dated 20 December 2019 was entered into by the Suppliers and the Bayer Companies to renew the Bayer Supply Agreement. Pursuant to the Supplemental Agreement, the term of the Bayer Supply Agreement is extended for 2 years and 7 months until 31 July 2022.

Annual Caps and basis of determination

Set out below are the details of (i) the historical aggregate transaction amounts in relation to the Bayer Supply Agreement for each of the two financial years ended 31 December 2018 and the ten months ended 31 October 2019; and (ii) the Annual Caps for each of the three financial years ending 31 December 2022:

	Historical aggregate transaction amounts			Annual Cap		
	For the financial year ended		For the	For the financial year ending		
	31 December		ten months	31 December		
	2017	2018	ended	2020	2021	2022
		31 October	("FY2020")	("FY2021")	("FY2022")	
		2019	HK\$'000	HK\$'000	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Products supplied by the Suppliers to the Bayer Companies	169,032	176,557	141,294	242,000	270,000	176,167
Purchase of the Components from the Bayer Companies	3,094	782	2,719	5,300	5,500	3,383

The Annual Caps for the supply of the Products to the Bayer Companies for each of FY2020, FY2021 and FY2022 were determined based on:

- the expected demand for the Products with reference to the historical transaction value;
- a corresponding year-on-year increase of 12% for the supply of the Products by the Suppliers for each of FY2020, FY2021 and FY2022 to cater for the expected growth of the Group's business; and
- the price increment of the individual price of the Products.

The Annual Caps for the purchase of the Components from the Bayer Companies for each of FY2020, FY2021 and FY2022 were determined based on:

- (a) the expected demand for the Components with reference to the historical transaction value; and
- (b) a corresponding year-on-year increase of 4-5% based on the expected increase in supply of the Products by the Suppliers to the Bayer Companies for each of FY2020, FY2021 and FY2022.

REASONS FOR ENTERING INTO AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT

The Group is principally engaging in the manufacturing and sale of medical devices focusing on respiratory products, imaging contrast media power injector disposables, orthopaedic and rehabilitation products.

Bayer AG and its subsidiaries (including the Bayer Companies) are principally engaged in the (i) supply of prescription drugs for the therapeutic areas of cardiology, oncology, gynecology, hematology & ophthalmology; (ii) marketing of non-prescription and over-the-counter (OTC) products in the dermatology, nutritional supplement, analgesic, digestive health, cold, allergy, sinus and flu categories; (iii) businesses in seeds, crop protection and non-agricultural pest control; and (iv) developing and marketing products and solutions for the prevention and treatment of diseases in companion and farm animals.

In view of the Group's long-term business relationship with the Bayer Companies and given that the manufacture and supply of the Products under the Bayer Supply Agreement is an integral part of the business of the Group, the Directors consider that the Supplemental Agreement is necessary to maintain the stability of the business development of the Group.

DIRECTORS' VIEW ON THE CONTINUING CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) are of the view that the Supplemental Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms and on pricing terms no less favourable to the Company than those provided to independent third parties, and the terms and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the Supplemental Agreement, and hence no Director was required to abstain from voting on the board resolution for approving the Supplemental Agreement.

INTERNAL CONTROL

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Bayer Supply Agreement are subject to the following annual review:

1. each year the independent non-executive Directors must review the subject transactions and confirm in the annual report and accounts that the subject transactions have been entered into:
 - in the ordinary and usual course of business of the Company;
 - on normal commercial terms or better; and
 - according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.
2. each year the auditor of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe the subject transactions:
 - have not been approved by the Board;
 - were not, in all material respects, in accordance with the pricing policies of the Group; and
 - were not entered into, in all material respects, in accordance with the terms of the relevant agreement(s) governing the subject transactions.

In view of the pricing policy and internal control measures above, the Directors are of the view that appropriate measures are in place to ensure that the transactions contemplated under the Bayer Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its minority Shareholders.

LISTING RULES IMPLICATIONS

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As (i) the transactions under the Supplemental Agreement are transactions between the Group and the connected persons at the subsidiary level; (ii) the Board has approved the transactions under the Supplemental Agreement; and (iii) the independent non-executive Directors have confirmed that the terms of the transactions under the Supplemental Agreement are fair and reasonable, the transactions under the Supplemental Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Supplemental Agreement is subject to the reporting, announcement and annual review requirements, but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

DEFINITIONS

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

“Annual Cap(s)”	the maximum aggregate annual transaction values in respect of the continuing connected transactions contemplated under the Supplemental Agreement for FY2020 and FY2021 and FY2022
“Bayer AG”	a company headquartered in Germany and which shares are listed on the stock exchanges in Frankfurt, Berlin, Dusseldorf, Hamburg, Hannover, Stuttgart and Munich in Germany
“Bayer Companies”	collectively, Bayer HealthCare and Imaxeon Pty Ltd., all being indirect wholly-owned subsidiaries of Bayer AG
“Bayer HealthCare”	Bayer HealthCare LLC, a Delaware limited liability company, an indirect wholly-owned subsidiary of Bayer AG
“Bayer Medical Care”	Bayer Medical Care Inc., an indirect wholly-owned subsidiary of Bayer AG
“Bayer Supply Agreement”	the agreement dated 1 August 2013 as amended by the previous supplemental agreements dated 7 June 2016 and 20 December 2017 made by the Suppliers and VRHK (subsequently removed as a party to the agreement effective from 7 June 2016, being the date of the supplemental agreement) and the Bayer Companies in respect of the manufacture and supply of certain components, assemblies and related services to the Bayer Companies by the Suppliers and VRHK until 31 December 2019

“Board”	the board of Directors
“Company”	Vincent Medical Holdings Limited (永勝醫療控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), 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
“Mr. Choi”	Mr. Choi Man Shing, the chairman, executive Director and one of the controlling shareholders of the Company, and the spouse of Ms. Liu
“Ms. Liu”	Ms. Liu Pui Ching, the former non-executive Director and one of the controlling shareholders of the Company, and the spouse of Mr. Choi
“OEM”	original equipment manufacturing
“PRC”	the People’s Republic of China, excluding for the purposes of this announcement only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	being the amendment to the Bayer Supply Agreement to be effective as of 31 December 2019, made between the Suppliers and the Bayer Companies
“Suppliers”	collectively, VMHK and VMDG
“VMDG”	東莞永勝醫療製品有限公司 (translated as “Vincent Medical (Dongguan) Mfg. Co. Ltd.”), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company
“VMHK”	VINCENT MEDICAL MANUFACTURING CO., LIMITED (永勝醫療製品有限公司), a limited company incorporated in Hong Kong and an indirect non-wholly owned subsidiary of the Company
“VRHK”	VINCENT RAYA CO., LIMITED (永勝宏基集團有限公司), a limited company incorporated in Hong Kong and ultimately owned by the controlling shareholders of the Company, Mr. Choi and Ms. Liu
“%”	Percentage or per centum

By Order of the Board
Vincent Medical Holdings Limited
Choi Man Shing
Chairman and Executive Director

Hong Kong, 20 December 2019

As at the date of this announcement, the Board comprises Mr. Choi Man Shing, Mr. To Ki Cheung, Mr. Koh Ming Fai and Mr. Fu Kwok Fu as executive Directors, Mr. Guo Pengcheng as a non-executive Director, and Mr. Mok Kwok Cheung Rupert, Mr. Au Yu Chiu Steven and Prof. Yung Kai Leung as independent non-executive Directors.