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CSPC

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
LEASE AGREEMENTS**

On 27 June 2016, (a) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into two new lease agreements in respect of Premises 1, 2 and 3 for a term of three years commenced on 25 June 2016; and (b) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 4 and 5 for a term of three years commenced on 25 June 2016.

As at the date of this announcement, 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 New Lease Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As some of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the aggregate annual caps under the New Lease Agreements are more than 0.1% but all of them are less than 5%, the New Lease Agreements and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 25 June 2013, in which it was disclosed, among other things, that CSPC Zhongnuo (a non wholly-owned subsidiary of the Company) and CHL entered into the Old Lease Agreements in respect of Premises 1, 2 and 4 for a term of three years commenced on 25 June 2013 and expired on 24 June 2016.

NEW LEASE AGREEMENTS

On 27 June 2016, (a) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into two new lease agreements in respect of Premises 1, 2 and 3 for a term of three years commenced on 25 June 2016; and (b) CSPC Ouyi (as tenant) (a wholly-owned subsidiary of the Company) and CHL (as landlord) entered into a new lease agreement in respect of Premises 4 and 5 for a term of three years commenced on 25 June 2016.

	Date	Landlord	Tenant	Premises	Term	Rental	Principal Use
1	27 June 2016	CHL	CSPC Zhongnuo	several factory buildings with a gross floor area of 22,462.32 sq.m. located at 中國河北省石家莊市橋西區工農路188號 (No. 188 Gongnong Road, Qiaoxi District, Shijiazhuang City, Hebei Province, the PRC*) (“Premises 1”)	Three years commenced on 25 June 2016	RMB2,066,500 (approximately HK\$2,445,600) per annum payable monthly by twelve installments of RMB172,208 each	For the production of finished drug products
2	27 June 2016	CHL	CSPC Zhongnuo	a factory building with a gross floor area of 12,838.5 sq.m. (“Premises 2”) and a factory building with a gross floor area of 14,077 sq.m. (“Premises 3”), both located at 中國河北省石家莊經濟技術開發區揚子路與塔西大街交叉口 (Interchange of Yangzi Road and Ta Xi Street, Shijiazhuang Economic and Technological Development Zone, Hebei Province, the PRC*)	Three years commenced on 25 June 2016	RMB8,209,200 (approximately HK\$9,715,000) per annum payable monthly by twelve installments of RMB684,100 each	For the production of finished drug products

Date	Landlord	Tenant	Premises	Term	Rental	Principal Use
3. 27 June 2016	CHL	CSPC Ouyi	a factory building with a gross floor area of 2,557 sq.m. (“Premises 4”) and two factory buildings with a gross floor area of 24,014 sq.m. (“Premises 5”), both located at 中國河北省石家莊經濟技術開發區揚子路與塔西大街交叉口 (Interchange of Yangzi Road and Ta Xi Street, Shijiazhuang Economic and Technological Development Zone, Hebei Province, the PRC*)	Three years commenced on 25 June 2016	RMB8,104,200 (approximately HK\$9,590,800) per annum payable monthly by twelve installments of RMB675,350 each	For the production of finished drug products

The Board confirms that the rental payable, being RMB18,379,900 per annum in aggregate, under the New Lease Agreements was arrived at after due negotiation between the parties on an arm’s length basis and was determined with reference to the market rental on an annual basis of Premises 1, 2, 3, 4 and 5 as at 14 June 2016 as set out in the asset valuation reports on rental appraisal dated 19 June 2016 prepared by Hebei Ruian Real Estate Appraisal Co., Ltd., an independent valuation firm.

ANNUAL CAPS

Historical Figures

The historical amounts of rental paid under the Old Lease Agreements in respect of Premises 1, 2 and 4 for the period from 25 June 2013 to 31 December 2013, the two years ended 31 December 2014 and 2015 and the period from 1 January 2016 to 24 June 2016 were:

For the period from 25 June 2013 to 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2015	For the period from 1 January 2016 to 24 June 2016
RMB4,325,585	RMB8,372,100	RMB8,372,100	RMB4,046,515

Annual Caps for the New Lease Agreements

Based on the aggregate rental payable by CSPC Zhongnuo and CSPC Ouyi to CHL under the New Lease Agreements, the aggregate annual caps of the New Lease Agreements for the period from 25 June 2016 to 31 December 2016, the two years ending 31 December 2017 and 2018 and the period from 1 January 2019 to 24 June 2019 will be as follows:

For the period from 25 June 2016 to 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018	For the period from 1 January 2019 to 24 June 2019
RMB9,496,282 (approximately HK\$11,238,200)	RMB18,379,900 (approximately HK\$21,751,400)	RMB18,379,900 (approximately HK\$21,751,400)	RMB8,883,618 (approximately HK\$10,513,200)

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LEASE AGREEMENTS

Premises 1, 2 and 4 had been used for production of finished drug products by the Group. By entering into the New Lease Agreements, the Group will be able to continue using Premises 1, 2 and 4 for its finished drug products production, and to cope with its business expansion with the new leases of Premises 3 and 5.

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the transactions contemplated under the New Lease Agreements are fair and reasonable, and the transactions contemplated under the New Lease Agreements are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As at the date of this announcement, CHL is a wholly-owned subsidiary of MTL. MGGL is wholly-owned by MTL and is a substantial shareholder of the Company holding approximately 17.90% of the total number of issued shares of the Company as at the date of this announcement. 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 New Lease Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As some of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the aggregate annual caps under the New Lease Agreements are more than 0.1% but all of them are less than 5%, the New Lease Agreements and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua is indirectly interested in MTL, each of them was required to abstain from and did abstain from voting on the board resolution of the Company in respect of the New Lease Agreements. Other than the aforementioned, none of the other Directors has a material interest in the transactions contemplated under the New Lease Agreements.

GENERAL INFORMATION

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sales of pharmaceutical products.

The principal activity of CHL is investment holding. The subsidiaries of CHL are principally engaged in the manufacture, sales and distribution of pharmaceutical products.

DEFINITIONS

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

“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*), a company established in the PRC and wholly-owned by MTL
“Company”	CSPC 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
“connected person”	has the meaning ascribed to it under the Listing Rules
“CSPC Ouyi”	石藥集團歐意藥業有限公司 (CSPC Ouyi Pharmaceutical Co., Ltd.*), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company
“CSPC Zhongnuo”	石藥集團中諾藥業(石家莊)有限公司 (CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.*), a limited liability company established in the PRC and a non wholly-owned subsidiary of the Company
“Director(s)”	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
“MGGL”	Massive Giant Group Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“MTL”	Massive Top Limited, a company incorporated in Hong Kong with limited liability
“New Lease Agreements”	(i) the two new lease agreements entered into between CSPC Zhongnuo (as tenant) and CHL (as landlord) on 27 June 2016 in respect of Premises 1, 2 and 3 for a term of three years commenced on 25 June 2016; and (ii) the new lease agreement entered into between CSPC Ouyi (as tenant) and CHL (as landlord) on 27 June 2016 in respect of Premises 4 and 5 for a term of three years commenced on 25 June 2016
“Old Lease Agreements”	the two previous lease agreements entered into between CSPC Zhongnuo and CHL on 25 June 2013 in respect of Premises 1, 2 and 4 for a term of three years commenced on 25 June 2013
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metre
“%”	per cent

* *The English names are for identification purpose only.*

By order of the Board
CSPC Pharmaceutical Group Limited
Cai Dongchen
Chairman

Hong Kong, 27 June 2016

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

In this announcement, RMB has been converted to HK\$ at the rate of RMB0.845 = HK\$1 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.