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CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong)

(Stock code: 1093)

**CONNECTED TRANSACTIONS
LEASE AGREEMENTS**

Reference is made to the announcement of the Company dated 27 June 2016 in relation to the Old Lease Agreements in which it was disclosed, among other things, that (a) CSPC Zhongnuo (a non-wholly owned subsidiary of the Company) and CHL entered into two lease agreements in respect of Premises 1, 2 and 3; and (b) CSPC Ouyi (a wholly owned subsidiary of the Company) and CHL entered into a lease agreement in respect of Premises 4 and 5, all for a term of three years which commenced on 25 June 2016.

The Old Lease Agreements have expired on 24 June 2019. The Board announces that on 25 June 2019, (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 1; (b) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 2 and 3; and (c) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 4 and 5, all for a term of three years commencing on 25 June 2019 and expiring on 24 June 2022.

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 entering into of the New Lease Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the New Lease Agreements on the basis of the estimated value of the right-of-use asset exceeds 0.1% but all of them are less than 5%, the New Lease Agreements and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 27 June 2016 in relation to the Old Lease Agreements in which it was disclosed, among other things, that (a) CSPC Zhongnuo (a non-wholly owned subsidiary of the Company) and CHL entered into two lease agreements in respect of Premises 1, 2 and 3; and (b) CSPC Ouyi (a wholly owned subsidiary of the Company) and CHL entered into a lease agreement in respect of Premises 4 and 5, all for a term of three years which commenced on 25 June 2016 and expired on 24 June 2019.

NEW LEASE AGREEMENTS

On 25 June 2019, (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 1; (b) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 2 and 3; and (c) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 4 and 5, all for a term of three years commencing on on 25 June 2019 and expiring on 24 June 2022.

Details of the New Lease Agreements are as follows:—

Date	Landlord	Tenant	Premises	Term	Rental	Principal Use
1. 25 June 2019	CHL	Hebei Children's Hospital	premises 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 commencing on 25 June 2019	RMB3,751,200 per annum (approximately HK\$4,262,727) payable every three months by four installments of RMB937,800 each	For the operation as a hospital

Date	Landlord	Tenant	Premises	Term	Rental	Principal Use
2. 25 June 2019	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 commencing on 25 June 2019	RMB8,801,400 per annum (approximately HK\$10,001,591) payable every three months by four installments of RMB2,200,350 each	Production of pharmaceutical products
3. 25 June 2019	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 ”), all 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 commencing on 25 June 2019	RMB8,688,700 per annum (approximately HK\$9,873,523) payable every three months by four installments of RMB2,172,175 each	Production of pharmaceutical products

ACCOUNTING IMPLICATION AND TREATMENT UNDER THE LISTING RULES

In accordance with the HKFRS 16 applicable to the Group, the Group will recognize the rental payments to be paid by the Group under the New Lease Agreements as acquisition of right-of-use asset which will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules.

The Board confirms that the rental payable, being RMB21,241,300 (approximately HK\$24,137,841) per annum in aggregate, under the New Lease Agreements was arrived at after arm's length negotiations between the parties and was determined with reference to the market rental of the Premises on an annual basis as set out in the asset valuation reports on rental appraisal prepared by an independent valuation firm.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LEASE AGREEMENTS

As the Old Lease Agreements have expired on 24 June 2019, the New Lease Agreements are entered into for the purpose of renewing the existing leases in respect of (i) Premises 1 for operation of the hospital owned by the Group and (ii) Premises 2, 3, 4 and 5 used for the production of pharmaceutical products. Such renewal of leases will enable the Group to continue to use the Premises for its pharmaceutical products production and hospital operation.

The Directors, including the independent non-executive Directors, believe that the New Lease Agreements were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm's length negotiations between the parties; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in more than 30% of 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 entering into of the New Lease Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the New Lease Agreements on the basis of the estimated value of the right-of-use asset exceeds 0.1% but all of them are less than 5%, the New Lease Agreements and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt 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. Lu Hua and Dr. Li Chunlei, all being Directors, is indirectly interested in CHL and may be regarded as having a material interest in the New Lease Agreements, each of them had abstained from voting on the board resolutions of the Company in respect of the New Lease Agreements. 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 New Lease Agreements.

GENERAL

The Group is principally engaged in the manufacture and sales of pharmaceutical products.

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

DEFINITIONS

Unless otherwise defined, the following expressions have the following meanings in this announcement:

“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CHL”	石藥控股集團有限公司 (CSPC Holdings Company Limited*), a company established in the PRC
“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 thereto 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 Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.), a limited liability company established in the PRC and is a non-wholly owned subsidiary of the Company
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hebei Children’s Hospital”	河北中西醫結合兒童醫院 (Hebei Children’s Hospital of Integrated Traditional Chinese and Western Medicine*), a hospital established in the PRC, and is wholly owned by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) issued by the Hong Kong Institute of Certified Public Accountants from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Lease Agreements”	<ul style="list-style-type: none"> (i) the new lease agreement entered into between Hebei Children’s Hospital (as tenant) and CHL (as landlord) on 25 June 2019 in respect of Premises 1 for a term of three years commencing on 25 June 2019; (ii) the new lease agreement entered into between CSPC Zhongnuo (as tenant) and CHL (as landlord) on 25 June 2019 in respect of Premises 2 and 3 for a term of three years commencing on 25 June 2019; and (iii) the new lease agreement entered into between CSPC Ouyi (as tenant) and CHL (as landlord) on 25 June 2019 in respect of Premises 4 and 5 for a term of three years commencing on 25 June 2019
“Old Lease Agreements”	<ul style="list-style-type: none"> (i) the two 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 which commenced on 25 June 2016; and (ii) the 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 which commenced on 25 June 2016
“Premises”	collectively, Premises 1, 2, 3, 4 and 5
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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, 25 June 2019

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. LU Hua, Dr. LI Chunlei, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Professor LO Yuk Lam, Dr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.

In this announcement, RMB has been converted to HK\$ at the rate of RMB0.88 = 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.