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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
RENEWAL OF STEAM SUPPLY AGREEMENT**

Reference is made to the announcement of the Company dated 13 June 2016 in which it was disclosed, among other things, that Shengxue (an indirect wholly owned subsidiary of the Company) entered into the Old Shengxue Steam Supply Agreement with Hebei Hongyuan in relation to the purchase of steam by Shengxue from Hebei Hongyuan for a term of three years which commenced on 13 June 2016. On 12 July 2019, Shengxue entered into the New Shengxue Steam Supply Agreement with Hebei Hongyuan to renew the Old Shengxue Steam Supply Agreement, which covers a period of three years from 13 June 2019 to 12 June 2022 (both days inclusive).

Reference is also made to the announcement of the Company dated 29 August 2017 in which it was disclosed that CSPC XNW (another indirect wholly owned subsidiary of the Company) entered into the XNW Steam Supply Agreement with Hebei Hongyuan in relation to the purchase of steam by CSPC XNW from Hebei Hongyuan for a term of three years which commenced on 29 August 2017.

Hebei Hongyuan 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 Shengxue Steam Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the highest annual cap under the New Shengxue Steam Supply Agreement, when calculated on a standalone basis, are all less than 0.1%. The New Shengxue Steam Supply Agreement and the transactions contemplated thereunder are therefore de minimis transactions under Chapter 14A.76(1)(a) of the Listing Rules on a standalone basis. Whereas the highest applicable percentage ratio in respect of the annual caps under the New Shengxue Steam Supply Agreement, if required to be aggregated with the annual caps under the XNW Steam Supply Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the New Shengxue Steam Supply Agreement (if required to be aggregated with the XNW Steam Supply Agreement) will be 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.

INTRODUCTION

Reference is made to the announcement of the Company dated 13 June 2016 in which it was disclosed, among other things, that Shengxue entered into the Old Shengxue Steam Supply Agreement with Hebei Hongyuan in relation to the purchase of steam by Shengxue from Hebei Hongyuan for a term of three years which commenced on 13 June 2016.

As Shengxue will continue to purchase steam from Hebei Hongyuan in its ordinary course of business, on 12 July 2019, Shengxue entered into the New Shengxue Steam Supply Agreement with Hebei Hongyuan to renew the Old Shengxue Steam Supply Agreement which had expired on 12 June 2019.

NEW SHENGXUE STEAM SUPPLY AGREEMENT

The principal terms of the New Shengxue Steam Supply Agreement are summarized as follows:

Date	: 12 July 2019
Parties	: (a) Shengxue; and (b) Hebei Hongyuan
Period	: 13 June 2019 to 12 June 2022
Subject matter	: Purchase of steam by Shengxue from Hebei Hongyuan
Price	: RMB196 per ton (including value-added tax of 9%), subject to adjustment(s) mentioned below, if any

Pricing Basis and Payment Terms

: The price was arrived at after arm's length negotiations between the parties^(Note) determined on the basis of normal commercial terms and terms (including pricing) no less favourable than those available to independent third parties from Hebei Hongyuan.

(Note: Pursuant to the "Notice on Pricing Catalogue of Hebei Province" (Ji Jia Zheng Diao [2018] No. 42) (關於印發《河北省定價目錄》的通知(冀價政調(2018)42號)) issued by the Office of Hebei Price Bureau (河北省物價局) on 9 April 2018, the pricing of industrial steam is no longer subject to the reference price set by the relevant government departments and therefore the parties are free to negotiate on the pricing.)

In the event that (i) the price needs to be adjusted upwards or downwards having taken into account the market price and/or the price charged to independent third parties by Hebei Hongyuan from time to time for provision of steam and/or the production cost of Hebei Hongyuan and/or changes in the value-added tax rate; or (ii) the price is subject to any restrictions of, or needs to be amended or replaced by virtue of any notices, approvals or other documents issued by the relevant government department, the parties shall further negotiate in relation to the range of adjustment to the price payable by Shengxue to Hebei Hongyuan for the provision of steam under the New Shengxue Steam Supply Agreement.

The purchase price shall be payable monthly in arrears before the 15th day of the next calendar month by Shengxue to Hebei Hongyuan unless otherwise agreed.

Historical Figures

The historical transaction amounts paid by Shengxue to Hebei Hongyuan for the supply of steam under the Old Shengxue Steam Supply Agreement for the period from 13 June 2016 to 31 December 2016, the two years ended 31 December 2017 and 2018 and the period from 1 January 2019 to 12 June 2019 are set out below:

For the period from 13 June 2016 to 31 December 2016 (excluding value added tax)	For the year ended 31 December 2017 (excluding value added tax)	For the year ended 31 December 2018 (excluding value added tax)	For the period from 1 January 2019 to 12 June 2019 (excluding value added tax)
RMB 4,265,168	RMB 7,566,606	RMB13,537,566	RMB5,523,283

Proposed Annual Caps

It is anticipated that the amount payable by Shengxue to Hebei Hongyuan under the New Shengxue Steam Supply Agreement for the period from 13 June 2019 to 31 December 2019, the two years ending 31 December 2020 and 2021 and the period from 1 January 2022 to 12 June 2022 will not exceed the following cap amounts respectively:

For the period from 13 June 2019 to 31 December 2019 <i>(excluding value added tax)</i>	For the year ending 31 December 2020 <i>(excluding value added tax)</i>	For the year ending 31 December 2021 <i>(excluding value added tax)</i>	For the period from 1 January 2022 to 12 June 2022 <i>(excluding value added tax)</i>
RMB8,000,000 (approximately HK\$9,091,000)	RMB16,246,000 (approximately HK\$18,461,000)	RMB17,871,000 (approximately HK\$20,308,000)	RMB9,010,000 (approximately HK\$10,239,000)

The above annual caps are determined with reference to (i) the estimated quantity and unit price of steam required by Shengxue from Hebei Hongyuan, (ii) the historical transaction amounts, (iii) the estimated potential growth in future demand for steam and potential increase in production capacity, and (iv) inflation factor, respectively.

Reasons for and Benefits of Entering into the New Shengxue Steam Supply Agreement

Hebei Hongyuan has been supplying steam to Shengxue for its production since 2002. The production base of Shengxue is located in close proximity to that of Hebei Hongyuan which allows Hebei Hongyuan to deliver the steam in a stable and transportation-efficient manner that fits the future operational need of Shengxue.

The Directors (including the independent non-executive Directors) are of the opinion that the New Shengxue Steam Supply Agreement was 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 IMPLICATION

Mr. Cai Dongchen, a substantial shareholder of the Company, indirectly controls the exercise of more than 30% of the voting power at general meetings of Hebei Hongyuan through a series of corporations. Therefore, Hebei Hongyuan 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 Shengxue Steam Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the highest annual cap under the New Shengxue Steam Supply Agreement, when calculated on a standalone basis, are all less than 0.1%. The New Shengxue Steam Supply Agreement and the transactions contemplated thereunder are therefore de minimis transactions under Chapter 14A.76(1)(a) of the Listing Rules on a standalone basis. Whereas the highest applicable percentage ratio in respect of the annual caps under the New Shengxue Steam Supply Agreement, if required to be aggregated with the annual caps under the XNW Steam Supply Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the New Shengxue Steam Supply Agreement (if required to be aggregated with the XNW Steam Supply Agreement) will be 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.

As at the date of this announcement, Hebei Hongyuan is controlled as to 40% by CHL. 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 Shengxue Steam Supply Agreement, each of them had abstained from voting on the board resolution of the Company in respect of the New Shengxue Steam Supply Agreement. Other than the aforementioned, none of the other Directors has a material interest in the transactions contemplated under the New Shengxue Steam Supply Agreement.

GENERAL INFORMATION

The Group is principally engaged in the manufacture and sale of pharmaceutical products. Shengxue is principally engaged in the manufacture and sale of products processed from corn, such as dextrose, starch, starch sugar, sorbitol and xylitol.

Hebei Hongyuan is principally engaged in the provision of heat and steam supply in Pharmaceutical Industrial Zone, Luancheng Area, Shijiazhuang City, Hebei Province, the PRC* (河北省石家莊市欒城區醫藥工業區).

DEFINITIONS

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

“associate”	has the meaning ascribed to it 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 of Hong Kong Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSPC XNW”	石藥集團新諾威製藥股份有限公司 (CSPC Innovation Pharmaceutical Co., Ltd.*), an indirect wholly owned subsidiary of the Company and its shares are listed on the ChiNext of Shenzhen Stock Exchange (Stock Code: 300765)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hebei Hongyuan”	河北宏源熱電有限責任公司 (Hebei Hongyuan Re Dian Limited Liability Company*), a limited liability company established in the PRC and a company controlled as to 40% by CHL
“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
“New Shengxue Steam Supply Agreement”	the master steam supply agreement dated 12 July 2019 entered into between Shengxue and Hebei Hongyuan setting out the general terms for the purchase of steam by Shengxue from Hebei Hongyuan which covers a period of three years from 13 June 2019 to 12 June 2022 (both days inclusive)

“Old Shengxue Steam Supply Agreement”	the master steam supply agreement dated 13 June 2016 entered into between Shengxue and Hebei Hongyuan setting out the general terms for the purchase of steam by Shengxue from Hebei Hongyuan for a term which commenced from 13 June 2016 and expired on 12 June 2019
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shengxue”	石藥集團聖雪葡萄糖有限責任公司 (CSPC Shengxue Glucose Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly owned subsidiary of the Company
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“XNW Steam Supply Agreement”	the master steam supply agreement dated 29 August 2017 entered into between CSPC XNW and Hebei Hongyuan setting out the general terms for the purchase of steam by CSPC XNW from Hebei Hongyuan for a term of three years which commenced from 29 August 2017 and will expire on 28 August 2020
“%”	per cent.

* *For identification purposes only*

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

Hong Kong, 12 July 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.