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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 29 August 2017 in which it was disclosed, among other things, that CSPC XNW (an indirect non-wholly owned subsidiary of the Company) entered into the Old 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 and expired on 28 August 2020. On 28 August 2020, CSPC XNW entered into the New XNW Steam Supply Agreement with Hebei Hongyuan in relation to the purchase of steam for a period from 29 August 2020 to 31 December 2020 (both days inclusive).

Reference is also made to the announcement of the Company dated 12 July 2019 in which it was disclosed, among other things, that Shengxue (an indirect wholly-owned subsidiary of the Company) entered into the 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 from 13 June 2019 to 12 June 2022 (both days inclusive).

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 XNW 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 annual cap under the New XNW Steam Supply Agreement, when calculated on a standalone basis, are all less than 0.1%. The New XNW 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 cap under the New XNW Steam Supply Agreement, if required to be aggregated with the relevant annual cap under the Shengxue Steam Supply Agreement and the actual transaction amount incurred for the period from 1 January 2020 to 28 August 2020 under the Old XNW Steam Supply Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the New XNW Steam Supply Agreement (if required to be aggregated with the Shengxue Steam Supply Agreement and the Old XNW Steam 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 29 August 2017 in which it was disclosed, among other things, that CSPC XNW (an indirect wholly-owned subsidiary of the Company) entered into the Old 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 and expired on 28 August 2020.

As CSPC XNW will continue to purchase steam from Hebei Hongyuan in its ordinary course of business in the remaining months of 2020, on 28 August 2020, CSPC XNW entered into the New XNW Steam Supply Agreement with Hebei Hongyuan in relation to the purchase of steam for a period from 29 August 2020 to 31 December 2020 (both days inclusive).

NEW XNW STEAM SUPPLY AGREEMENT

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

Date	:	28 August 2020
Parties	:	(a) CSPC XNW; and (b) Hebei Hongyuan
Period	:	29 August 2020 to 31 December 2020
Subject matter	:	Purchase of steam by CSPC XNW from Hebei Hongyuan

Price : RMB178 per ton (including the 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 and with reference to the prevailing market price. The Company has reviewed samples of invoices issued by Hebei Hongyuan to independent third parties in relation to the supply of steam, and noted that the terms offered by Hebei Hongyuan to CSPC XNW were similar and not less favorable than terms offered to the independent third parties.

(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 price payable by CSPC XNW to Hebei Hongyuan for the provision of steam under the New XNW Steam Supply Agreement.

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

Historical Figures

The historical transaction amounts paid by CSPC XNW to Hebei Hongyuan for the purchase of steam under the Old XNW Steam Supply Agreement for the period from 29 August 2017 to 31 December 2017, the two years ended 31 December 2018 and 2019 and the period from 1 January 2020 to 28 August 2020 are set out below:

For the period from 29 August 2017 to 31 December 2017 <i>(excluding value added tax)</i> <i>(approximately)</i>	For the year ended 31 December 2018 <i>(excluding value added tax)</i> <i>(approximately)</i>	For the year ended 31 December 2019 <i>(excluding value added tax)</i> <i>(approximately)</i>	For the period from 1 January 2020 to 28 August 2020 <i>(excluding value added tax)</i> <i>(approximately)</i>
RMB 5,124,300	RMB15,953,000	RMB14,301,000	RMB9,350,000

Proposed Annual Cap

It is anticipated that the amount payable by CSPC XNW to Hebei Hongyuan under the New XNW Steam Supply Agreement for the period from 29 August 2020 to 31 December 2020 will not exceed the following amount:—

For the period from 29 August 2020 to 31 December 2020 <i>(excluding value added tax)</i>	RMB 6,200,000
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The above annual cap is determined with reference to (i) the estimated maximum transaction amount for the whole year of 2020 approved by the board of directors of CSPC XNW for the purchase of steam from Hebei Hongyuan (being RMB18,500,000) calculated on a pro rata basis, (ii) the estimated quantity and unit price of steam required by CSPC XNW from Hebei Hongyuan, (iii) the historical transaction amounts, (iv) the estimated potential growth in future demand for steam and potential increase in production capacity, and (v) inflation factor and price volatility of the reference price of the steam, respectively.

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

CSPC XNW is principally engaged in the manufacture and sale of, among others, bulk caffeine products in the Luancheng County where Hebei Hongyuan operates. The production base of CSPC XNW 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 CSPC XNW.

The Directors (including the independent non-executive Directors) are of the opinion that the New XNW 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 XNW Steam Supply Agreement and the transactions contemplated thereunder constitute 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 annual cap under the New XNW Steam Supply Agreement, when calculated on a standalone basis, are all less than 0.1%. The New XNW 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 cap under the New XNW Steam Supply Agreement, if required to be aggregated with the relevant annual cap under the Shengxue Steam Supply Agreement and the actual transaction amount incurred for the period from 1 January 2020 to 28 August 2020 under the Old XNW Steam Supply Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the New XNW Steam Supply Agreement (if required to be aggregated with the Shengxue Steam Supply Agreement and the Old XNW Steam 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 Zhenguang, Mr. Pan Weidong, Mr. Wang Huaiyu and Dr. Li Chunlei, all being Directors, is indirectly interested in CHL and may be regarded as having a material interest in the New XNW Steam Supply Agreement, each of them had abstained from voting on the board resolution of the Company in respect of the New XNW Steam Supply Agreement. Other than the aforementioned, none of the other Directors has a material interest in the transactions contemplated under the New XNW Steam Supply Agreement.

GENERAL INFORMATION

The Group is principally engaged in the manufacture and sale of pharmaceutical products. CSPC XNW is principally engaged in the manufacture and sales of caffeine (food additives and bulk drugs) and vitamin C health supplement and beverage products. As at the date of this announcement, CSPC XNW is held as to 74.02% by CSPC NBP Pharmaceutical Co., Ltd. and 0.98% by CPSC Ouyi Pharmaceutical Co., Ltd., both being indirect wholly-owned subsidiaries of the Company and principally engage in manufacture and sales of pharmaceutical products.

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). Hebei Hongyuan is controlled as to 40% by CHL, 48.43% by 石家莊市欒城區國控投資開發有限公司 and 11.57% by 欒城縣熱電廠. 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 CHL. The remaining ultimate beneficial owners of CHL comprise more than 100 management personnel of the Group and CHL. 石家莊市欒城區國控投資開發有限公司 is principally engaged in investment holding and it is ultimately owned by 石家莊市欒城區財政局. As far as can be ascertained by the Company, 欒城縣熱電廠 is a project unit controlled by 石家莊市欒城區人民政府.

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.*), a 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
“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 XNW Steam Supply Agreement”	the master steam supply agreement dated 28 August 2020 entered into between CSPC XNW and Hebei Hongyuan, setting out the general terms and conditions for the purchase of steam by CSPC XNW from Hebei Hongyuan which covers a period from 29 August 2020 to 31 December 2020 (both days inclusive)
“Old 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 and conditions for the purchase of steam by CSPC XNW from Hebei Hongyuan for a term of three years which commenced from 29 August 2017 and expired on 28 August 2020
“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
“Shengxue Steam Supply Agreement”	the master steam supply agreement dated 13 July 2019 entered into between Shengxue and Hebei Hongyuan setting out the general terms and conditions 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)

“substantial shareholder” has the meaning ascribed to it under the Listing Rules

“%” per cent.

* *For identification purpose only*

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

Hong Kong, 28 August 2020

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. 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.