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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

CONNECTED TRANSACTION DISPOSAL OF 49.5% EQUITY INTEREST IN JOINT VENTURE COMPANY

CONTINUING CONNECTED TRANSACTIONS MASTER PURCHASE AGREEMENT

THE DISPOSAL

On 30 April 2021, CSPC Zhongnuo (as vendor), a non-wholly owned subsidiary of the Company, entered into the Equity Transfer Agreement with CHL (as purchaser) in relation to the sale and purchase of 49.5% equity interest in CSPC ZCPL at a consideration of RMB34,650,000. Upon completion of the Disposal, the Group will cease to have any interest in CSPC ZCPL. As at 30 April 2021, CSPC ZCPL was indebted to CSPC Zhongnuo and other members of the Group loans (together with interests accrued thereon and relevant taxes) in an aggregate amount of RMB556,602,376.90 (i.e. the Loans). Pursuant to the Equity Transfer Agreement, CHL will also provide a loan in the amount of RMB556,602,376.90 to CSPC ZCPL which shall be applied to fully repay the Loans.

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 Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 0.1% but all of them are less than 5%, the Disposal is 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.

THE MASTER PURCHASE AGREEMENT

Upon completion of the Disposal, the equity interest of CSPC ZCPL will be owned as to 50.5% by CHL and thus CSPC ZCPL will become an associate of a substantial shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Certain ongoing transactions between CSPC ZCPL (and/or its subsidiaries) and the Group after completion of the Disposal will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Therefore, on 30 April 2021, the Company entered into the Master Purchase Agreement with CHL in relation to the Group's purchase of medicines, raw materials, equipment, low-cost consumables and other products required for its business from the CHL Group (which will include CSPC ZCPL (and/or its subsidiaries) upon completion of the Disposal) for the period from 1 May 2021 up to 31 December 2021 (both days inclusive).

As CHL is a connected person of the Company as mentioned above, the Master Purchase Agreement and the transactions contemplated thereunder will 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 set for transactions contemplated under the Master Purchase Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the Master Purchase 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.

(1) THE DISPOSAL

The principal terms of the Equity Transfer Agreement are summarised below:

Date : 30 April 2021

Parties : (i) CSPC Zhongnuo, a non-wholly owned subsidiary of the Company, as vendor

(ii) CHL, a connected person of the Company, as purchaser

Subject Matter : CSPC Zhongnuo has agreed to sell and CHL has agreed to purchase 49.5% equity interest in CSPC ZCPL.

Consideration : The consideration payable by CHL to CSPC Zhongnuo for the Disposal is RMB34,650,000, of which, 50% shall be paid in cash within 7 days from the date of the Equity Transfer Agreement and the remaining 50% shall be paid in cash within 30 days from the date of the Equity Transfer Agreement. In addition, CHL shall within 30 days from the date of the Equity Transfer Agreement pay a sum of RMB556,602,376.90 to CSPC ZCPL (as a loan) which shall be applied by CSPC ZCPL to fully repay the Loans.

The consideration for the Disposal was arrived at after arm's length negotiations between the parties having taking into account a valuation on the market value of 100% equity interest of CSPC ZCPL as at 31 March 2021 by an independent valuer in the PRC at approximately RMB 69,631,200.

Completion : The registration procedures in the PRC in relation to the equity transfer shall be completed within 30 days from the date of signing of the Equity Transfer Agreement.

Information about CSPC ZCPL

CSPC ZCPL is a limited liability company established under the laws of the PRC and is owned as to 49.5% by CSPC Zhongnuo, 49.5% by Huaao (a third party independent of the Company and its connected persons) and 1% by CHL. CSPC ZCPL is principally engaged in storage, sourcing, distribution and apartment leasing. As at the date of this announcement, the registered and paid-up capital of CSPC ZCPL is RMB50,000,000, of which, RMB24,750,000 (representing 49.5% of the total paid-up capital) was contributed by CSPC Zhongnuo, RMB24,750,000 (representing 49.5% of the total paid-up capital) was contributed by Huaao and the remaining RMB500,000 (representing 1% of the total paid-up capital) was contributed by CHL. Upon completion of the Disposal, the Group will cease to hold any equity interest in CSPC ZCPL.

Based on the audited accounts of CSPC ZCPL prepared in accordance with the PRC GAAP, (i) the audited net asset value of CSPC ZCPL as at 31 December 2020 was approximately RMB53,044,117; and (ii) the audited net profit or loss (before and after taxation) of CSPC ZCPL for the two years ended 31 December 2020 were as follows:

	2020 (RMB) (Audited)	2019 <i>(RMB)</i> (Audited)
Net profit (loss) before taxation	(9,072,367)	12,465,950
Net profit (loss) after taxation	(10,447,047)	8,577,695

Reasons for and benefits of the Disposal

The profit level of the current business of CSPC ZCPL is not high, and its future strategic positions will be focusing on third-party logistics, high-end hospitals and apartment leasing, etc., the payback period of which is relatively long and do not match with the development direction of the Group (being innovative medicines). The Disposal can allow the Group to recover the Loans and focus its resources on the business of research and development and sales of innovative medicines.

Financial effects of the Disposal

The actual financial effects of the Disposal will be determined when the net gain on the Disposal, taking into account the relevant transaction expenses and charges (including taxes) in connection with the Disposal, can be determined after completion of the Disposal. The Group currently expects to record a gain (before tax) of approximately RMB16 million as a result of the Disposal.

Use of Proceeds

The proceeds from the Disposal of approximately RMB591,252,376.90 (including the amount of the Loans to be repaid by CSPC ZCPL) will, after deducting all relevant expenses, charges and taxes be used for the general working capital of the Group.

The Board's view

The Directors (including the independent non-executive Directors) are of the view that the Disposal is on normal commercial terms agreed after arm's length negotiations between the parties (though not entered into in the ordinary and usual course of business of the Group); and is 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 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 Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 0.1% but all of them are less than 5%, the Disposal is 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 Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu and Dr. Li Chunlei, all being Directors, are indirectly interested in CHL and may be regarded as having a material interest in the Equity Transfer Agreement, each of them had abstained from voting on the board resolution of the Company in respect of the Equity Transfer Agreement. Save as disclosed above, none of the other Directors have a material interest in the transactions contemplated under the Equity Transfer Agreement.

(2) THE MASTER PURCHASE AGREEMENT

Upon completion of the Disposal, the equity interest of CSPC ZCPL will be owned as to 50.5% by CHL and thus CSPC ZCPL will become an associate of Mr. Cai Dongchen, being a substantial shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Certain ongoing transactions between CSPC ZCPL and the Group after completion of the Disposal will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Therefore, on 30 April 2021, the Company entered into the Master Purchase Agreement with CHL in relation to the Group's purchase of medicines, raw materials, equipment, low-cost consumables and other products required for its business from the CHL Group (which will include CSPC ZCPL (and/or its subsidiaries) upon completion of the Disposal) for the period from 1 May 2021 up to 31 December 2021 (both days inclusive).

The principal terms of the Master Purchase Agreement are summarized as follows:

Date	:	30 April 2021
Parties	:	(a) CHL; and (b) the Company
Period	:	1 May 2021 up to 31 December 2021 (both days inclusive)
Subject matter	:	Purchase of medicines, raw materials, equipment, low-cost consumables and other products by the Group from the CHL Group
Pricing Basis and Payment Terms	:	The relevant member(s) of the Group and the relevant member(s) of the CHL Group will enter into separate contract(s) with respect to the individual transactions contemplated under the Master Purchase Agreement in accordance with the principal terms set out therein.

The terms, including the pricing and payment terms, will be arrived at after arm's length negotiations between the parties on a transaction-by-transaction basis, and on normal commercial terms and terms no less favourable than those available to independent third parties from the CHL Group, and with reference to the prevailing market price.

Historical Figures

The aggregate historical transaction amounts of the purchases of medicines, raw materials, equipment, low-cost consumables and other products by the Group from the CHL Group and CSPC ZCPL (together with its subsidiaries) for the financial year ended 31 December 2020 and the period from 1 January 2021 up to the date of this announcement are set out below:

For the year ended 31 December 2020 <i>(excluding value added tax)</i> <i>(approximately)</i>	For the period from 1 January 2021 up to the date of this announcement <i>(excluding value added tax)</i> <i>(approximately)</i>
RMB631,785,000 <i>(Note 1)</i>	RMB126,130,000 <i>(Note 2)</i>

Note 1: Approximately RMB21,807,000 is attributable to the transactions between the Group and the CHL Group (excluding CSPC ZCPL and its subsidiaries which are not connected persons of the Company prior to completion of the Disposal).

Note 2: Approximately RMB5,395,000 is attributable to the transactions between the Group and the CHL Group (excluding CSPC ZCPL and its subsidiaries which are not connected persons of the Company prior to completion of the Disposal).

The Annual Cap

The aggregate transaction amount of the purchases by the Group from the CHL Group (including CSPC ZCPL and its subsidiaries upon completion of the Disposal) pursuant to the Master Purchase Agreement for the period from 1 May 2021 up to and including 31 December 2021 shall not exceed RMB110,290,000 (excluding value added tax).

The above annual cap is determined with reference to (i) the estimated quantity and pricing (based on prevailing market price) of the products that may be acquired by the Group pursuant to the Master Purchase Agreement and (ii) the historical transaction amounts.

Reasons for and Benefits of Entering into the Master Purchase Agreement

Certain members of the CHL Group are engaged in distribution and wholesale of medicines and sourcing of supply for raw materials. The Board considers that the entering into of the Mater Purchase Agreement would enable the Group to have a reliable source of medicine supply for its hospital business and raw material supply for its production.

Board's view

The Directors (including the independent non-executive Directors) are of the opinion that the Master Purchase 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 Implications

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in 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 Master Purchase Agreement and the transactions contemplated thereunder will 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 set for the transactions contemplated under the Master Purchase Agreement, would exceed 0.1% but all of them are less than 5%. Accordingly, the Master Purchase 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.

Given that each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu and Dr. Li Chunlei, all being Directors, are indirectly interested in CHL and may be regarded as having a material interest in the Master Purchase Agreement, each of them had abstained from voting on the board resolution of the Company in respect of the Master Purchase Agreement. Save as disclosed above, none of the other Directors had a material interest in the transactions contemplated under the Master Purchase Agreement.

General Information

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

CSPC Zhongnuo is principally engaged in manufacturing and sale of pharmaceutical products. CPSC Zhongnuo is owned as to (i) 99.393% by the Group; (ii) 0.413% by CHL; and (iii) 0.194% by 石家莊發展投資有限責任公司 (Shijiazhuang Development Investment Co. Ltd.*). 石家莊發展投資有限責任公司 is ultimately owned by 石家莊市發展和改革委員會 (Shijiazhuang Development and Reform Commission*), a local governmental authority in Shijiazhuang, the PRC, the principal activities of which include funds management for key construction projects of the municipal government and management of national debts.

The principal activity of CHL is investment holding. 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.

CSPC ZCPL is principally engaged in storage, wholesale of chemical products and medicines and apartment leasing. CSPC ZCPL is held as to 49.5% by CSPC Zhongnuo, 49.5% by Huaao which is ultimately owned by Zhang Sheting* (張舍庭) and Zhang Hua* (張華) and 1% by CHL.

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
“CHL Group”	CHL and its subsidiaries (which will include CSPC ZCPL and/or its subsidiaries upon completion of the Disposal) and associates from time to time
“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 Zhongnuo”	石藥集團中諾藥業(石家莊)有限公司 (CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd*), a sino-foreign equity joint venture with limited liability established in the PRC and a non-whollyowned subsidiary of the Company
“CSPC ZCPL”	石藥集團中誠醫藥物流有限公司 (CSPC Zhongcheng Pharmaceutical Logistic Co., Ltd.*), a limited liability company established in the PRC
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of 49.95% equity interest in CSPC ZCPL by CSPC Zhongnuo to CHL pursuant to the Equity Transfer Agreement

“Equity Transfer Agreement”	the equity transfer agreement entered into between CSPC Zhongnuo (as vendor) and CHL (as purchaser) in relation to the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Huaao”	石家莊華奧化工有限公司 (Shijiazhuang Huaao Chemical Co., Ltd*), a limited liability company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loans”	the loans (together with interests accrued thereon and relevant taxes) in the aggregate amount of RMB556,602,376.90 owing by CSCP ZCPL to CSPC Zhongnuo and other members of the Group
“Master Purchase Agreement”	the master agreement dated 30 April 2021 entered into between the Company and CHL setting out the general terms and conditions for the purchase of medicines, raw materials, equipment, low-cost consumables and other products by the Group from the CHL Group which covers a period from 1 May 2021 up to 31 December 2021 (both days inclusive)
“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
“PRC GAAP”	the Generally Accepted Accounting Principles of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“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, 30 April 2021

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, Mr. CHAK Kin Man and Dr. JIANG Hao as executive directors; and Mr. WANG Bo, Mr. CHEN Chuan, Prof. WANG Hongguang, Mr. AU Chun Kwok Alan and Mr. LAW Cheuk Kin Stephen as independent non-executive directors.