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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 TRANSACTIONS LEASE AGREEMENTS

Reference is made to the announcement of the Company dated 25 June 2019 in relation to the Old Lease Agreements in which it was disclosed, among other things, that (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 1; (b) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 3, 4 and 6; and (c) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 2 and 5, all for a term of three years which commenced on 25 June 2019.

The Old Lease Agreements have expired on 24 June 2022. The Board announces that on 24 June 2022, (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 1; (b) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 2, 3 and 4; and (c) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 5 and 6, all for a term of three years commencing on 25 June 2022 and expiring on 24 June 2025.

Certain members of the Group, namely, CSPC NBP, CSPC Zhongnuo and CSPC Zhongqi have been occupying Premises 7, 8 and 9 respectively owned by Zhongcheng Logistics pursuant to various one-off lease agreements (with fixed terms and fixed rents) entered into between them and Zhongcheng Logistics back in 2020 when Zhongcheng Logistics was not a connected person of the Company. As the relevant lease agreements will expire on 30 June 2022, new lease agreements have been entered into by the relevant members of the Group and Zhongcheng Logistics for their renewal. On 24 June 2022, (a) CSPC NBP (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 7; (b) CSPC Zhongnuo (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 8; and (c) CSPC Zhongqi (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 9, all for a term of three years commencing on 1 July 2022 and expiring on 30 June 2025.

As disclosed in the published annual reports of the Company for the past years, on 20 July 2002, CSPC Zhongnuo entered into a lease agreement with CHL to lease certain premises (i.e. Premises 10) for a term of 20 years subject to rental adjustment every three years. As the lease will expire on 19 July 2022, CSPC Zhongnuo (as tenant) and CHL (as landlord) also entered into a new lease agreement on 24 June 2022 in respect of Premises 10, for a term of three years commencing on 20 July 2022 and expiring on 19 July 2025.

CHL is an associate of Mr. Cai Dongchen, a director and a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Since Zhongcheng Logistics is a wholly-owned subsidiary of CHL, Zhongcheng Logistics is also 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 or more 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 aggregate of the estimated present value of the right-of-use assets, exceed(s) 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 25 June 2019 in relation to the Old Lease Agreements in which it was disclosed, among other things, that (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 1; (b) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 3, 4 and 6; and (c) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a lease agreement in respect of Premises 2 and 5, all for a term of three years which commenced on 25 June 2019.

NEW LEASE AGREEMENTS

The Old Lease Agreements have expired on 24 June 2022. The Board announces that on 24 June 2022, (a) Hebei Children's Hospital (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 1; (b) CSPC Ouyi (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 2, 3 and 4; and (c) CSPC Zhongnuo (as tenant) and CHL (as landlord) entered into a new lease agreement in respect of Premises 5 and 6, all for a term of three years commencing on 25 June 2022 and expiring on 24 June 2025.

Certain members of the Group, namely, CSPC NBP, CSPC Zhongnuo and CSPC Zhongqi have been occupying Premises 7, 8 and 9 respectively owned by Zhongcheng Logistics pursuant to various one-off lease agreements (with fixed terms and fixed rents) entered into between them and Zhongcheng Logistics back in 2020 when Zhongcheng Logistics was not a connected person of the Company. As the relevant lease agreements will expire on 30 June 2022, new lease agreements have been entered into by the relevant members of the Group and Zhongcheng Logistics for their renewal. On 24 June 2022, (a) CSPC NBP (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 7; (b) CSPC Zhongnuo (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 8; and (c) CSPC Zhongqi (as tenant) and Zhongcheng Logistics (as landlord) entered into a new lease agreement in respect of Premises 9, all for a term of three years commencing on 1 July 2022 and expiring on 30 June 2025.

As disclosed in the published annual reports of the Company for the past years, on 20 July 2002, CSPC Zhongnuo entered into a lease agreement with CHL to lease certain premises (i.e. Premises 10) for a term of 20 years subject to rental adjustment every three years. As the lease will expire on 19 July 2022, CSPC Zhongnuo (as tenant) and CHL (as landlord) also entered into a new lease agreement on 24 June 2022 in respect of Premises 10, for a term of three years commencing on 20 July 2022 and expiring on 19 July 2025.

Details of the New Lease Agreements are as follows:—

| | Date | Landlord | Tenant | Premises | Term | Rental | Principal Use |
|----|--------------|----------|---------------------------|---|--|--|---------------------------------------|
| 1. | 24 June 2022 | CHL | Hebei Children's Hospital | premises with a gross floor area of 51,381.5 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 2022 | RMB19,037,800 per annum payable every three months by four installments of RMB4,759,450 each per year | For the operation as a hospital |
| 2. | 24 June 2022 | CHL | CSPC Ouyi | premises with a gross floor area of 12,838.5 sq.m. ("Premises 2"), premises with a gross floor area of 2,557 sq.m. ("Premises 3"), and premises with a gross floor area of 8,441 sq.m. ("Premises 4"), 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 2022 | RMB7,985,228 per annum, of which, RMB4,300,898 for Premises 2, RMB856,595 for Premises 3 and RMB2,827,735 for Premises 4 respectively, payable every three months by four installments of RMB1,996,307 each per year | Production of pharmaceutical products |

| | Date | Landlord | Tenant | Premises | Term | Rental | Principal Use |
|----|-----------------|-------------------------|------------------|---|--|--|---------------------------------------|
| 3. | 24 June 2022 | CHL | CSPC Zhongnuo | premises with a gross floor area of 14,077 sq.m. (“ Premises 5 ”) and premises with a gross floor area of 15,573 sq.m. (“ Premises 6 ”), 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 2022 | RMB 9,932,750 per annum, of which, RMB4,715,795 for Premises 5 and RMB5,216,955 for Premises 6 respectively, payable every three months by four installments of RMB2,483,187.5 each per year | Production of pharmaceutical products |
| 4. | 24 June 2022 | Zhongcheng Logistics | CSPC NBP | premises with a gross floor area of 47,471.94 sq.m. located at 中國河北省石家莊市高新區裕華東路345號 (No. 345 Yuhua East Road, High-tech Zone, Shijiazhuang City, Hebei Province, the PRC*) (“ Premises 7 ”) | Three years commencing on 1 July 2022 | RMB27,771,100 per annum payable every three months by four installments of RMB6,942,775 each per year | Office |

| | Date | Landlord | Tenant | Premises | Term | Rental | Principal Use |
|----|-----------------|-------------------------|------------------|--|--|--|---------------------------------------|
| 5. | 24 June 2022 | Zhongcheng Logistics | CSPC Zhongnuo | premises with a gross floor area of 8,002.85 sq.m. located at 中國河北省石家莊市高新區淮河道188號 (No. 188 Huaihe Avenue, High-tech Zone, Shijiazhuang City, Hebei Province, the PRC*) (“ Premises 8 ”) | Three years commencing on 1 July 2022 | RMB1,608,600 per annum payable every three months by four installments of RMB402,150 each per year | Production of pharmaceutical products |
| 6. | 24 June 2022 | Zhongcheng Logistics | CSPC Zhongqi | apartments with a gross floor area of 10,088.52 sq.m. located at 中國河北省石家莊市高新區裕華東路345號 (No. 345 Yuhua East Road, High-tech Zone, Shijiazhuang City, Hebei Province, the PRC*) (“ Premises 9 ”) | Three years commencing on 1 July 2022 | RMB5,649,600 per annum payable every three months by four installments of RMB1,412,400 each per year | Staff accommodation |
| 7. | 24 June 2022 | CHL | CSPC Zhongnuo | premises with a gross floor area of 17,474.56 sq.m. located at 中國河北省石家莊市橋西區新石中路6號 (No. 6 Xinshi Middle Road, Qiaoxi District, Shijiazhuang City, Hebei Province, the PRC*) (“ Premises 10 ”) | Three years commencing on 20 July 2022 | RMB6,059,300 per annum payable every three months by four installments of RMB1,514,825 each per year | Office |

ACCOUNTING IMPLICATION AND TREATMENT UNDER THE LISTING RULES

In accordance with the HKFRS 16 applicable to the Group, the Group will recognize in its consolidated statement of financial position the rental payments payable by the Group under the New Lease Agreements (being fixed payments) as acquisition of right-of-use assets taking into account the relevant present value of the fixed rental payments, which will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules.

The value of the right-of-use assets under each of the New Lease Agreements is estimated to be approximately RMB53,852,000 (in respect of Premises 1), RMB12,166,000 (in respect of Premises 2), RMB2,423,000 (in respect of Premises 3), RMB7,999,000 (in respect of Premises 4), RMB13,340,000 (in respect of Premises 5), RMB14,757,000 (in respect of Premises 6), RMB78,556,000 (in respect of Premises 7), RMB4,550,000 (in respect of Premises 8), RMB15,981,000 (in respect of Premises 9) and RMB17,140,000 (in respect of Premises 10), being the estimated present value of the total rental payments payable in respect of the relevant Premises throughout the term under the relevant New Lease Agreement in accordance with HKFRS 16.

As one or more 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 aggregate of the estimated present value of the right-of-use assets mentioned above (i.e. approximately RMB220,764,000), exceed(s) 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.

The Board confirms that the rental payable under each of the New Lease Agreements in respect of each Premises was arrived at after arm's length negotiations between the parties and was determined with reference to the market rental of each Premises on an annual basis as set out in the relevant asset valuation report on rental appraisal prepared by an independent valuation firm in respect of each Premises with a valuation date falling in May 2022. The rental payments will be made by the Group out of its internal resources.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LEASE AGREEMENTS

The New Lease Agreements have been entered into for the purpose of securing the use of the Premises in order to maintain the smooth and uninterrupted operations of the Group in Shijiazhuang, including the operations of the children's hospital owned by the Group and the production facilities of the Group, as well as the Group's office and staff accommodations in Shijiazhuang.

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 director and 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. Further, since Zhongcheng Logistics is a wholly-owned subsidiary of CHL, Zhongcheng Logistics is also 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 or more 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 aggregate of the estimated present value of the right-of-use assets, exceed(s) 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. Li Chunlei and Dr. Jiang Hao, 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 CSPC NBP, CSPC Ouyi and CSPC Zhongnuo is manufacture and sales of pharmaceutical products.

The principal business activity of CSPC Zhongqi is research and development of pharmaceutical products.

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

The principal business activity of CHL is investment holdings. The CHL Group is principally engaged in the distribution of pharmaceutical products.

Zhongcheng Logistics is a wholly-owned subsidiary of CHL. The principal business activity of Zhongcheng Logistics is storage, wholesales of chemical products and medicines and leasing.

Mr. Cai Dongchen (a director and 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 Group.

DEFINITIONS

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

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| “associate” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors |
| “CHL” | CSPC Holdings Company Limited (石藥控股集團有限公司), a company established in the PRC |
| “CHL Group” | CHL and its subsidiaries and associates |
| “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 NBP” | CSPC NBP Pharmaceutical Co., Ltd (石藥集團恩必普藥業有限公司), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company |
| “CSPC Ouyi” | CSPC Ouyi Pharmaceutical Co., Ltd. (石藥集團歐意藥業有限公司), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company |
| “CSPC Zhongnuo” | CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. (石藥集團中諾藥業(石家莊)有限公司), a limited liability company established in the PRC and is a non-wholly owned subsidiary of the Company |
| “CSPC Zhongqi” | CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd (石藥集團中奇製藥技術(石家莊)有限公司), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company |

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| “Directors” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Hebei Children’s Hospital” | Hebei Children’s Hospital of Integrated Traditional Chinese and Western Medicine (河北中西醫結合兒童醫院), a hospital established in the PRC and is wholly-owned by the Company |
| “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 Agreement(s)” | <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 24 June 2022 in respect of Premises 1 for a term of three years commencing on 25 June 2022; (ii) the new lease agreement entered into between CSPC Ouyi (as tenant) and CHL (as landlord) on 24 June 2022 in respect of Premises 2, 3 and 4 for a term of three years commencing on 25 June 2022; (iii) the new lease agreement entered into between CSPC Zhongnuo (as tenant) and CHL (as landlord) on 24 June 2022 in respect of Premises 5 and 6 for a term of three years commencing on 25 June 2022; (iv) the new lease agreement entered into between CSPC NBP (as tenant) and Zhongcheng Logistics (as landlord) on 24 June 2022 in respect of Premises 7, for a term of three years commencing on 1 July 2022; (v) the new lease agreement entered into between CSPC Zhongnuo (as tenant) and Zhongcheng Logistics (as landlord) on 24 June 2022 in respect of Premises 8, for a term of three years commencing on 1 July 2022; |

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|---------------------------|--|
| | (vi) the new lease agreement entered into between CSPC Zhongqi (as tenant) and Zhongcheng Logistics (as landlord) on 24 June 2022 in respect of Premises 9, for a term of three years commencing on 1 July 2022; and |
| | (vii) the new lease agreement entered into between CSPC Zhongnuo (as tenant) and CHL (as landlord) on 24 June 2022 in respect of Premises 10, for a term of three years commencing on 20 July 2022. |
| “Old Lease Agreements” | (i) the 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 which commenced on 25 June 2019; |
| | (ii) the lease agreement entered into between CSPC Ouyi (as tenant) and CHL (as landlord) on 25 June 2019 in respect of Premises 3, 4 and 6 for a term of three years which commenced on 25 June 2019; and |
| | (iii) the lease agreement entered into between CSPC Zhongnuo (as tenant) and CHL (as landlord) on 25 June 2019 in respect of Premises 2 and 5 for a term of three years which commenced on 25 June 2019. |
| “Premises” | collectively, Premises 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 |
| “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 |
| “substantial shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Zhongcheng Logistics” | CSPC Zhongcheng Pharmaceutical Logistics Co., Limited* (石藥集團中誠醫藥物流有限公司), a limited liability company established in the PRC and is a wholly-owned subsidiary of CHL |

“0%”

per cent

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

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

Hong Kong, 24 June 2022

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, Mr. LAW Cheuk Kin Stephen and Ms. WU Guizhen as independent non-executive directors.