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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 1093)

PROPOSED SPIN-OFF AND SEPARATE LISTING OF CSPC XNW GROUP ON THE SHENZHEN STOCK EXCHANGE

Reference is made to the announcement of the Company dated 18 April 2017 in relation to a possible spin-off and separate listing of CSPC XNW Group on a stock exchange in the PRC.

The Board announces that CSPC XNW, an indirect wholly-owned subsidiary of the Company, submitted an application to the CSRC for the Proposed A Share Listing on the ChiNext of the SZSE on 21 December 2017, and received the notice of acceptance of such application from the CSRC on 27 December 2017. It is expected that CSPC XNW will remain as an indirect subsidiary of the Company immediately after completion of the Proposed A Share Listing.

It is currently expected that the Proposed Spin-off will involve an offer for subscription by way of an initial public offering of new shares of CSPC XNW on SZSE, representing 25% of the enlarged issued share capital of CSPC XNW immediately upon completion of the Proposed A Share Listing. Such offering will constitute a deemed disposal by the Company of its interest in CSPC XNW under Rule 14.29 of the Listing Rules. As it is currently expected that all the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the proposed offering will be less than 5%, the Proposed Spin-off will not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules and will not be subject to the announcement or shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. Further, the Company has also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Paragraph 3(f) of Practice Note 15 of the Listing Rules.

Shareholders and potential investors should note that, the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the SZSE. Accordingly, Shareholders and potential investors should be aware that, the Company does not guarantee that the Proposed Spin-off will materialize, nor the timing thereof. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

Reference is made to the announcement of the Company dated 18 April 2017 in relation to a possible spin-off and separate listing of CSPC XNW Group on a stock exchange in the PRC.

The Board announces that CSPC XNW submitted an application to the CSRC for the Proposed A Share Listing on the ChiNext of the SZSE on 21 December 2017, and received the notice of acceptance of such application from the CSRC on 27 December 2017.

The Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

THE PROPOSED SPIN-OFF

The Company will seek a separate listing of the shares of CSPC XNW to be listed on SZSE by way of A shares. It is expected that the Proposed Spin-off will involve an offer for subscription by way of an initial public offering of new shares of CSPC XNW on SZSE, representing 25% of the enlarged issued share capital of CSPC XNW immediately upon completion of the Proposed A Share Listing.

Currently, the Company holds the entire equity interest of CSPC XNW. Upon completion of the Proposed A Share Listing, the equity interest of the Company in CSPC XNW is expected to decrease to 75%. As such, it is expected that CSPC XNW will remain as an indirect subsidiary of the Company immediately after completion of the Proposed A Share Listing.

The Proposed Spin-off is conditional upon, among other things, the approval of the CSRC and the SZSE to the Proposed A Share Listing and completion of the offering of the A shares. Further announcements in connection with the Proposed Spin-off will be made by the Company as and when appropriate.

INFORMATION ON THE GROUP AND THE CSPC XNW GROUP

The Group is principally engaged in the development, manufacture, marketing and sales of medicines and pharmaceutical related products. The Group has two major business segments, namely, finished drugs and bulk drugs.

CSPC XNW is a company limited by shares established under the laws of the PRC and is indirectly wholly-owned by the Company through its wholly-owned subsidiary, CSPC NBP Pharmaceutical Co., Ltd.* (石藥集團恩必普藥業有限公司).

The CSPC XNW Group is principally engaged in the manufacture and sales of caffeine (food additives in bulk powder form) and vitamin C health supplement and beverage products (the “**XNW Business**”).

After completion of the Proposed Spin-off, the Parent Group will continue to carry out their existing principal businesses, namely, the development, manufacture, marketing and sales of medicines and pharmaceutical related products particularly on finished drugs and bulk drugs (other than the XNW Business).

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Directors consider that the Proposed Spin-off will be commercially beneficial to both the Company and CSPC XNW for the reasons below:

(i) **Enhances access to capital markets for the CSPC XNW Group and increases financing flexibility:**

Following completion of the Proposed Spin-off, the Parent Group and the CSPC XNW Group will have separate fund raising platforms in the capital markets, which will increase financing flexibility for both entities. This flexibility will allow CSPC XNW to independently raise capital to support its growth in the PRC capital market. A separate listing of CSPC XNW will also provide clarity of credit profile of the CSPC XNW Group for rating agencies and financial institutions that wish to analyse the credibility of the CSPC XNW Group for the purposes of any financing transactions with the CSPC XNW Group.

(ii) **Enhances the development of health supplement products business:**

The net proceeds of the Share Offer will be mainly used in the development of the Company’s health supplement products business segment, and hence enhancing the market size and growth potential of the Company in this business segment which will be in the interest of the Shareholders as a whole.

(iii) **Creates or unlocks value for Shareholders by better identifying and establishing the value of CSPC XNW:**

A separate listing of the XNW Business will better identify and establish the fair value of the XNW Business, which is favourable to increasing the value of CSPC XNW. Since CSPC XNW will remain as an indirect subsidiary of the Company after completion of the Proposed Spin-off, the Company will benefit directly from CSPC XNW's growth (including the growth in value of the shares of CSPC XNW), and the present value of the shares of the Company will also be enhanced and increased which is beneficial to the Shareholders as a whole.

LISTING RULES IMPLICATION

As the equity interest of the Company in CSPC XNW is expected to decrease from 100% to 75% upon completion of the Proposed A Share Listing, the Proposed Spin-off will constitute a deemed disposal of the Company under Chapter 14 of the Listing Rules.

It is currently expected that the Proposed Spin-off will involve an offer for subscription by way of an initial public offering of new shares of CSPC XNW in the PRC, and such offering will constitute a deemed disposal by the Company of its interest in CSPC XNW under Rule 14.29 of the Listing Rules. As it is currently expected that all the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the proposed offering will be less than 5%, the Proposed Spin-off will not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules and will not be subject to the announcement or shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has submitted a proposal in relation the Proposed Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PRACTICE NOTE 15 OF THE LISTING RULES

Paragraph 3(f) of Practice Note 15 of the Listing Rules requires a listed company contemplating a spin-off to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in the spun-off entity, either by way of a distribution in specie of existing shares in the spun-off entity or by way of preferred application in any offering of existing or new shares in the spun-off entity.

However, as advised by the PRC legal advisers of CSPC XNW, according to the relevant laws and regulations of the PRC, foreign natural persons, legal persons and institutions are not permitted to invest in A shares of a company to be listed on the SZSE at initial public offering unless they are (i) qualified foreign institutional investors; (ii) Renminbi qualified foreign institutional investors; (iii) foreign strategic investors that are approved by the relevant authority in the PRC; (iv) foreign natural persons with the right of permanent residence in the PRC; (v) residents of Hong Kong, Macau and Taiwan who work and live in the PRC or (vi) other investors that are approved by the relevant authority in the PRC ((i) to (vi) are collectively referred to as "**Qualified Investors**").

Further, according to the Implementing Measures of the Shenzhen Stock Exchange for the Shenzhen-Hong Kong Stock Connect《深圳證券交易所深港通業務實施辦法》issued by the SZSE, the eligible stocks for the Shenzhen-Hong Kong Stock Connect include (1) all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have an average daily market capitalisation of not less than RMB6 billion in the 6 months prior to the date of the periodic adjustment of the relevant index (or if the stock is listed within the 6 months prior to the date of the periodic adjustment of the relevant index, its average daily market capitalisation in the period since it was listed shall not be less than RMB6 billion), and (2) all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except (a) stocks which are under risk alert (i.e. ST, *ST stocks); (b) stocks which are suspended from listing; (c) stocks which are under delisting arrangement; (d) stocks which are not traded in RMB (i.e. B shares); and (e) stocks which the SZSE determines are under special circumstances. As the Shenzhen-Hong Kong Stock Connect does not support initial public offerings of A shares, Shareholders cannot participate in subscription of the issue of the initial public offering of stocks of CSPC XNW through the Shenzhen-Hong Kong Stock Connect.

Given the above PRC legal impediments, it will be impractical and/or unduly burdensome for the Company to inquire into every existing Shareholder to ascertain each of their qualifications for the assured entitlements of shares of CSPC XNW. Moreover, for those Shareholders who are not Qualified Investors yet, it is unlikely that all, if any, of them will apply for and will be approved as Qualified Investors under the relevant PRC laws and regulations. In order to comply with the relevant PRC laws and regulations, it is also impossible for the Company to provide assured entitlement of CSPC XNW's shares to those Shareholders who are not Qualified Investors.

Paragraph 3(f) of Practice Note 15 of the Listing Rules also provides that minority Shareholders may by resolution in general meeting resolve to waive the assured entitlement. However, even if the minority Shareholders do not approve the waiver of assured entitlement at a general meeting, the above-mentioned legal restrictions could not be overridden. Compliance with the assured entitlement requirement would not be for the benefit of the Company and the Shareholders if such arrangement cannot be applied to all the Shareholders on an equal basis.

Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Paragraph 3(f) of Practice Note 15 of the Listing Rules.

Having considered the above as well as the reasons for and the benefits of the Proposed Spin-off, the Board is of the view that the Proposed Spin-off and the non-provision of an assured entitlement in relation to the Proposed Spin-off are fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Shareholders and potential investors should note that, the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the SZSE. Accordingly, Shareholders and potential investors should be aware that, the Company does not guarantee that the Proposed Spin-off will materialize, nor the timing thereof. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“A shares”	ordinary share(s) denominated in RMB of a company listed on a stock exchange in the PRC
“Board”	the board of Directors
“Company”	CSPC Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1093)
“CSPC XNW”	CSPC Innovation Pharmaceutical Co., Ltd.* (石藥集團新諾威製藥股份有限公司), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“CSPC XNW Group”	CSPC XNW and its subsidiaries
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Group”	the Group excluding the CSPC XNW Group
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan

“Proposed A Share Listing”	the proposed listing of the A shares of CSPC XNW on the ChiNext of the SZSE
“Proposed Spin-off”	the proposed spin-off and separate listing of the CSPC XNW Group on the ChiNext of the SZSE
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Share Offer”	the proposed initial public offering of the A shares of CSPC XNW in connection with the Proposed A Share Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed in the Listing Rules
“SZSE”	the Shenzhen Stock Exchange
“%”	per cent

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

Hong Kong, 27 December 2017

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. WANG Jinxu, Mr. WANG Zhenguo, Mr. LU Hua, Mr. Li Chunlei 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, Mr. LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.

* *For identification purpose only*