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**国药集团**  
**SINOPHARM**

**CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED**  
**中國中藥控股有限公司**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 570)**

**CONNECTED TRANSACTION IN RELATION TO  
INVESTMENT IN 51.00% EQUITY INTEREST IN  
SINOPHARM ZHONGLIAN PHARMACEUTICAL GROUP CO., LTD**

**THE INVESTMENT**

The Board is pleased to announce that after the Stock Exchange trading hours on 20 July 2018, the Purchaser (an 87.3%-owned subsidiary of the Company), the Vendor, Shyndec, Guanggu and the Target entered into the Agreement pursuant to which (i) the Purchaser has agreed to acquire the Sale Interest from the Vendor at the consideration of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million); and (ii) the Purchaser has agreed to make capital contribution of approximately RMB260.0 million (equivalent to approximately HK\$301.6 million) into the Target. Immediately after Completion, the Purchaser will hold 51% of the equity interest in the Target.

**LISTING RULES IMPLICATIONS**

The Vendor is the holding company of Sinopharm Hong Kong, which is the controlling Shareholder holding 1,614,313,642 Shares, representing approximately 32.06% of the total issued Shares as at the date of the Agreement. The Target is 96.95%-owned by Shyndec which in turn is ultimately controlled by CNPGC, the ultimate controlling Shareholder. Accordingly, the Vendor and the Target are connected persons of the Company.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Transfer and the Capital Increase exceed 0.1% but are less than 5%, the Share Transfer and the Capital Increase are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Board is pleased to announce that after the Stock Exchange trading hours on 20 July 2018, the Purchaser (an 87.3%-owned subsidiary of the Company), the Vendor, Shyndec, Guanggu and the Target entered into the Agreement pursuant to which (i) the Purchaser has agreed to acquire the Sale Interest from the Vendor at the consideration of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million); and (ii) the Purchaser has agreed to make capital contribution of approximately RMB260.0 million (equivalent to approximately HK\$301.6 million) into the Target. Immediately after Completion, the Purchaser will hold 51% of the equity interest in the Target. Details of the Agreement are set out below.

## **THE AGREEMENT**

### **Date**

20 July 2018

### **Parties**

- (i) The Purchaser;
- (ii) the Vendor;
- (iii) Shyndec;
- (iv) Guanggu; and
- (v) the Target.

The Vendor is the holding company of Sinopharm Hong Kong, which is the controlling Shareholder holding 1,614,313,642 Shares, representing approximately 32.06% of the total issued Shares as at the date of the Agreement. The Target is currently owned as to approximately 0.71%, 96.95% and 2.34% by the Vendor, Shyndec and Guanggu respectively. Shyndec is ultimately controlled by CNPGC, the ultimate controlling Shareholder. Accordingly, the Vendor and the Target are connected persons of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) the Vendor is principally engaged in manufacture, sale and distribution of TCM products; (ii) Shyndec is principally engaged in developing, manufacturing and selling chemical raw material of medicine, chemical drugs, biologics and TCM finished drugs; (iii) Guanggu is principally engaged in investment and fund management; (iv) the Target is principally engaged in manufacturing and selling chemical drugs and TCM finished drugs; and (v) Guanggu is a third party independent of the Company and its connected persons.

### **The Equity Transfer and the Capital Increase**

Pursuant to the Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to dispose of the Sale Interest at the consideration of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million). The Sale Interest represent approximately 0.71% of the equity interest in the Target as at the date of the Agreement. In addition, the Purchaser has agreed to make capital contribution of approximately RMB260.0 million (equivalent to approximately HK\$301.6 million) into the Target.

Immediately after Completion of the investment, the Purchaser will hold 51% equity interest in the Target. Set out below is a table illustrating the effect of the Equity Transfer and the Capital Increase on the shareholding structure of the Target.

	<b>% of equity interest in the Target as at the date of the Agreement</b>	<b>% of equity interest in the Target immediately after the Equity Transfer but before the Capital Increase</b>	<b>% of equity interest in the Target immediately after the Equity Transfer and the Capital Increase</b>
Shyndec	96.95	96.95	47.85
Guanggu	2.34	2.34	1.15
The Vendor	0.71	—	—
The Purchaser	—	0.71	51.00
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>

### **Consideration**

The consideration for the Equity Transfer of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million) shall be payable by the Purchaser to the Vendor in cash within 5 Business Days from the date of the Agreement. The capital contribution for the Capital Increase of approximately RMB260.0 million (equivalent to approximately HK\$301.6 million) shall be satisfied by the Purchaser in cash within 30 Business Days from the date of Completion.

The Group intends to finance the consideration for the Equity Transfer and the capital contribution for the Capital Increase with its internal resources.

The consideration for the Equity Transfer and the capital contribution for the Capital Increase were determined after taking into account the valuation of the 100% equity interest in the Target which was based on the financial position of the Target as at 31 May 2018, and the positive prospects of the Target as described in the section headed “Reasons for the Equity Transfer and Capital Increase” below. The valuation of the Target was prepared by an independent professional valuer based on market approach adopting price-to-book as valuation multiple.

### **Conditions precedent**

Completion is conditional upon the fulfilment of the following conditions:

- (i) the passing of resolution by the shareholders of the Target to approve the transactions under the Agreement;

- (ii) all undertakings given or made by the Target as set out in the Agreement remaining true and accurate in all material respects as at the date of Completion; and
- (iii) there being no material change in the operation, financial position, shareholdings or other conditions outside normal business of the Target as disclosed by the Vendor and the Target, unless being waived in written confirmation by the Purchaser.

## **Completion**

The parties to the Agreement shall complete the registration of change in shareholders of the Target at the competent industry and commerce authority within 15 Business Days after all conditions of the Agreement are satisfied. Completion shall take place on the date on which the change of industrial and commercial registration is completed.

Upon Completion, the Purchaser will hold 51% equity interest in the Target and the Target will become an indirect non-wholly owned subsidiary of the Company. Its results, assets and liabilities will be consolidated into the financial statements of the Company.

## **Nomination of directors, supervisors and senior management**

A shareholder's meeting of the Target shall be convened as soon as practicable after the date of Agreement for the formation of the board of directors and a supervisory board. The board of directors of the Target shall comprise five directors, three of them shall be nominated by the Purchaser while the other two shall be nominated by Shyndec. The chairman shall be nominated by the Purchaser.

The supervisory board of the Target shall comprise three supervisors. Each of the Purchaser and Shyndec shall be entitled to nominate one supervisor while the remaining supervisor shall be a staff representative supervisor of the Target. The chairman of the supervisory board shall be nominated by Shyndec.

The Purchaser is also entitled to nominate the general manager and chief financial officer of the Target.

## **INFORMATION ON THE TARGET**

The Target is a company established in the PRC in 1998 with limited liability. It is principally engaged in the manufacture and sale of TCM and pharmaceutical products, and core business is TCM finished drugs. Its production base is located in Wuhan, Hubei Province, with a site area of approximately 266 mu. As at the end of 2017, the Target and its subsidiaries has obtained the approval to produce 344 drug products, including approximately 90 products under production, and possesses 7 TCM exclusive products. Among them, four were included in the national medical insurance catalogue and three were included in the provincial medical insurance catalogue. Carapacis Trionycis Bdus (鳖甲煎丸) and JinYE Baidu Granules (金葉敗毒顆粒) are the top selling products of the Target Group, which are used to treat pulmonary fibrosis and cold fever respectively, and have good market recognition. The two varieties are currently applying the National 13th Five-Year Major Scientific Research Project. The sale terminals of the Target Group's products are mainly medical institutions, and also cover OTC retail terminals.

The investment cost of the Vendor, Shyndec and Guanggu in the Target (representing their capital contribution in the Target) was approximately RMB3.8 million (equivalent to approximately HK\$4.4 million, approximately RMB345.9 million (equivalent to approximately HK\$401.2 million), and approximately RMB 12.5 million (equivalent to approximately HK\$14.5 million) respectively.

A summary of the financial information of the Target Group prepared in accordance with International Financial Reporting Standards is set out below:

	<b>For the year ended 31 December 2017</b> <i>(RMB'000)</i> (unaudited)	<b>For the year ended 31 December 2016</b> <i>(RMB'000)</i> (audited)
Revenue	257,861	204,460
Loss before tax	45,412	62,693
Loss after tax	46,181	63,189
		<b>As at 31 May 2018</b> <i>(RMB'000)</i> (unaudited)
Net assets		179,822

During the year ended 31 December 2017, the Target Group recorded loss after tax of RMB46.2 million (2016: RMB63.2 million) while the gross profit of the Target Group was RMB103.9 million (2016: RMB73.9 million). The net loss was mainly due to (i) large distribution and selling expenses of approximately RMB99.7 million (2016: approximately RMB90.5 million); (ii) finance costs of RMB17.8 million (2016: RMB18.9 million) mainly from secured bank borrowings related to the construction of new production plant.

## **REASONS FOR THE EQUITY TRANSFER AND CAPITAL INCREASE**

The principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

The concentrated TCM granules business is a major revenue, profit contributor and growth engine of the Group. The Acquisition will create synergic effects in the Group's finished drugs business and granules business. As announced by the Hubei Economy and Information Technology Commission, Health and Family Planning Commission of Hubei Province and Hubei CFDA in September 2017, the Target will become one of the six enterprises with provincial pilot license to develop, manufacture and use concentrated TCM granules in Hubei Province and the Target is currently in the process of on-site inspection of the Hubei CFDA. Once the final approval is obtained, the Target Group will focus on developing the concentrated TCM granules business while steadily promoting its finished drugs business. The Target plans to use approximately RMB60 million to establish a new production line for granule

extraction and production and approximately RMB200 million to repay borrowings to lower the debt level thereby improving its financial results. As the Group's subsidiary producing concentrated TCM granules in Hubei Province in the future, the Target Group will help expand the Group's market share in concentrated TCM granule business in Hubei Province. Moreover, the Target Group's development range of TCM varieties will be a great complement to the Group's existing product varieties. In the future, the Target Group will continue to develop the TCM business. Together with the Group's promotion experience in the TCM segment, the Target Group's TCM sales model will be improved, such as strengthening its academic promotion, repositioning its product and exploring its product value. It is suggested that the Target Group's market coverage will be rapidly expanded in the next few years. At the same time, with the Group's large-scale procurement of TCM raw materials, the Target Group will be able to reduce the procurement cost of raw materials of the Target Group and increase the level of gross profit.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Acquisition, though not in the ordinary and usual course of business of the Group, is in line with the Group's business plan and are of the opinion that the terms of the Acquisition are on normal commercial terms, fair and reasonable in the interests of the Company and its shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

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As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Transfer and the Capital Increase exceed 0.1% but are less than 5%, the Share Transfer and the Capital Increase are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The following Directors hold the following positions in the CNPGC Group or Shyndec:

- (i) Mr. Wu Xian is the director, general manager and secretary of the Party Committee of the Vendor;
- (ii) Mr. Zhao Dongji is the deputy general manager and secretary to the board of directors of the Vendor;
- (iii) Ms. Huang He is the operations director and the manager of human resources department of the Vendor;
- (iv) Mr. Liu Cunzhou is the director of Shyndec;
- (v) Mr. Yang Shanhua is the chairman of the Vendor and the chief accountant of the CNPGC group; and
- (vi) Ms. Tang Hua is the financial controller and the manager of finance department of the Vendor.

The above Directors are regarded as having a material interest in the Agreement by virtue of their positions held in the CNPGC Group or Shyndec. Each of them had abstained from voting at the Board meeting on the relevant resolution for approving the Agreement.

## DEFINITIONS

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

“Acquisition”	the Equity Transfer and the Capital Increase pursuant to the terms and conditions of the Agreement
“Agreement”	the equity transfer and capital increase agreement dated 20 July 2018 entered into among the Purchaser, the Vendor, Shyndec, Guanggu and the Target
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday and Sunday) on which commercial banks in Hong Kong and the PRC are open for general business
“Capital Increase”	the capital injection by the Purchaser into the Target pursuant to the Agreement
“CFDA”	China Food and Drug Administration
“CNPGC”	China National Pharmaceutical Group Corporation (中國醫藥集團有限公司), a state-owned enterprise established in the PRC
“CNPGC Group”	CNPGC and its subsidiaries
“Company”	China Traditional Chinese Medicine Co. Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 570)
“Completion”	completion of the Acquisition pursuant to the terms and conditions of the Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Equity Transfer”	the transfer of the Sale Interest from the Vendor to the Purchaser pursuant to the Agreement



“Group”	the Company and its subsidiaries
“Guanggu”	武漢光谷產業投資有限公司 (Wuhan Guanggu Industry Investment Co., Limited*), a company established in the PRC with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Jiangyin Tianjiang Pharmaceutical Co., Ltd. (江陰天江藥業有限公司), a company established in the PRC with limited liability and an 87.3%-owned subsidiary of the Company
“Sale Interest”	approximately 0.71% equity interest in the Target to be transferred by the Vendor to the Purchaser pursuant to the Agreement
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shyndec”	Shanghai Shyndec Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司), a company established in the PRC with limited liability
“Sinopharm Hong Kong”	Sinopharm Group Hongkong Co., Limited (國藥集團香港有限公司), a company incorporated in Hong Kong with limited liability and the controlling Shareholder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. (國藥集團中聯藥業有限公司), a company established in the PRC with limited liability
“Target Group”	the Target together with its subsidiaries
“TCM”	traditional Chinese medicine
“Vendor”	China National Traditional & Herbal Medicine Co., Ltd, a company established in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong



“RMB”

Renminbi, the lawful currency of the PRC

“%”

per cent.

*For illustration purpose only, amounts in RMB in this announcement have been translated into HK\$ at the rate of RMB1 = HK\$1.16. No representation is made that any amounts in HK\$ and RMB have been or could be converted at the above rate or at any other rates or at all.*

By order of the Board

**China Traditional Chinese Medicine Co. Limited**

**WU Xian**

*Chairman*

Hong Kong, 20 July 2018

*As at the date of this announcement, the Board comprises twelve Directors, of which Mr. WU Xian, Mr. WANG Xiaochun, Mr. ZHAO Dongji and Ms. HUANG He are executive Directors; Mr. LIU Cunzhou, Mr. YANG Shanhua, Ms. TANG Hua and Mr. KUI Kaipin are non-executive Directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. YU Tze Shan Hailson and Mr. LO Wing Yat are independent non-executive Directors.*

\* *For identification purpose only*