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CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED
中國中藥有限公司

(formerly known as “Winteam Pharmaceutical Group Limited 盈天醫藥集團有限公司”)
(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

**CONNECTED TRANSACTIONS IN RELATION TO
RESEARCH AND DEVELOPMENT OF DRUGS**

On 23 December 2013, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into the R&D Agreements with SIPI and SPERC respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC (as the case may be) for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB129.1 million (equivalent to approximately HK\$165.2 million).

Each of SIPI and SPERC is a connected person (as defined under the Listing Rules) of the Company and the R&D Agreements constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. The applicable percentage ratios (as defined under the Listing Rules) in respect of the total maximum fee payable under the R&D Agreements, on a stand-alone and an aggregate basis, are less than 5%. Accordingly, the R&D Agreements are subject to the reporting and announcement requirement but are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that on 23 December 2013, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into the R&D Agreements with SIPI and SPERC respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC (as the case may be) for the provision to Guangdong Medi-World of the research and development of certain drugs. Details of the R&D Agreements are set out below.

R&D AGREEMENT 1

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SIPI.

Effective period

From 23 December 2013 to 31 December 2030

Subject matter

Pursuant to R&D Agreement 1, SIPI shall conduct research and development on a new drug in accordance with the relevant technical parameters for a fee of not more than RMB111 million (equivalent to approximately HK\$142.1 million) as described below. The patent of the new drug will be jointly owned by Guangdong Medi-World and SIPI but the right to use the patent and the approval of production of the new drug will be solely owned by Guangdong Medi-World. Guangdong Medi-World shall obtain the approval of clinical trial and the approval of production for the new drug.

Consideration

The fee payable to SIPI will comprise:

- (i) an upfront sum of RMB11,000,000 (equivalent to approximately HK\$14.1 million) payable in the following manner:
 - (a) RMB6,000,000 (equivalent to approximately HK\$7.7 million) within 15 days of the signing of R&D Agreement 1;
 - (b) RMB2,000,000 (equivalent to approximately HK\$2.6 million) within 15 days of the acceptance of clinical trial application;
 - (c) RMB1,000,000 (equivalent to approximately HK\$1.3 million) within 15 days of obtaining the approval of clinical trial;
 - (d) RMB2,000,000 (equivalent to approximately HK\$2.6 million) within 15 days of obtaining the approval of production; and

- (ii) a sum of not more than RMB10 million (equivalent to HK\$12.8 million) per annum payable for a period of ten years from the year of commencement of sale provided that the actual sum payable each year shall be calculated based on 1% of the sales amount derived from the new drug for the relevant year. If the actual 1% annual sum derived from the sale of the new drug exceeds RMB10 million, the Company will comply with the applicable regulatory requirements, including but not limited to the Listing Rules, as and when appropriate. In the event that the Company fails to comply with all such applicable regulatory requirements, the maximum annual sum shall remain as RMB10 million.

The maximum fee payable by Guangdong Medi-World under R&D Agreement 1 amounts to RMB111 million (equivalent to approximately HK\$142.1 million).

R&D AGREEMENT 2

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SPERC.

Effective period

From 23 December 2013 to 23 December 2023

Subject matter

Pursuant to R&D Agreement 2, SPERC shall conduct research and development on a controlled-release chemical drug in accordance with the relevant technical parameters and Guangdong Medi-World shall obtain the approval of clinical trial and the approval of production for the drug. The approval of production of the drug will be solely owned by Guangdong Medi-World.

Consideration

Guangdong Medi-World shall pay to SPERC a fee of RMB5,500,000 (equivalent to approximately HK\$7.0 million) in the following manner:

- (i) RMB1,650,000 (equivalent to approximately HK\$2.1 million) within one month of the effective date of R&D Agreement 2;

- (ii) RMB1,650,000 (equivalent to approximately HK\$2.1 million) upon handover of all technical documents and being ready for the on-site inspection by CFDA;
- (iii) RMB1,650,000 (equivalent to approximately HK\$2.1 million) within ten days of the acceptance of clinical trial application; and
- (iv) RMB550,000 (equivalent to approximately HK\$0.7 million) within ten days of the obtaining the approval of production from CFDA.

R&D AGREEMENT 3

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SIPI.

Effective period

From 23 December 2013 to 30 October 2014

Subject matter

Pursuant to R&D Agreement 3, SIPI shall assist Guangdong Medi-World in conducting research on Yu Ping Feng Granule (玉屏風顆粒) which is an existing product of the Group.

Consideration

Guangdong Medi-World shall pay to SIPI a fee of RMB1,270,000 (equivalent to approximately HK\$1.6 million) in the following manner:

- (i) RMB650,000 (equivalent to approximately HK\$0.8 million) within one week of the signing of R&D Agreement 3;
- (ii) RMB500,000 (equivalent to approximately HK\$0.6 million) after the provision of the interim research report; and
- (iii) RMB120,000 (equivalent to approximately HK\$0.2 million) within one week of the provision of the final research report.

R&D AGREEMENT 4

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SPERC.

Effective period

From 23 December 2013 to the date of obtaining the approval of production from CFDA

Subject matter

Pursuant to R&D Agreement 4, SPERC shall conduct research and development on a chemical drug in accordance with the relevant technical parameters and Guangdong Medi-World shall obtain the approval of clinical trial and the approval of production for the drug. The approval of production of the drug will be solely owned by Guangdong Medi-World.

Consideration

Guangdong Medi-World shall pay to SPERC a fee of RMB5,700,000 (equivalent to approximately HK\$7.3 million) in the following manner:

- (i) RMB1,710,000 (equivalent to approximately HK\$2.2 million) within ten days of the effective date of R&D Agreement 4;
- (ii) RMB1,710,000 (equivalent to approximately HK\$2.2 million) within ten days of the completion of the laboratory test;
- (iii) RMB1,710,000 (equivalent to approximately HK\$2.2 million) within ten days of completion of on-site inspection and acceptance of clinical trial application by the provincial CFDA;
- (iv) RMB285,000 (equivalent to approximately HK\$0.4 million) within ten days of the obtaining the approval of clinical trial; and
- (v) RMB285,000 (equivalent to approximately HK\$0.4 million) within ten days of the obtaining the approval of production.

R&D AGREEMENT 5

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SPERC.

Effective period

From 23 December 2013 to 23 December 2023

Subject matter

Pursuant to R&D Agreement 5, SPERC shall conduct research and development on a chemical drug in accordance with the relevant technical parameters and Guangdong Medi-World will obtain the approval of clinical trial for the drug. The patent, if any, will be jointly owned by Guangdong Medi-World and SPERC but the right to use the patent will be solely owned by Guangdong Medi-World.

Consideration

Guangdong Medi-World shall pay to SPERC a fee of RMB4,200,000 (equivalent to approximately HK\$5.4 million) in the following manner:

- (i) RMB1,260,000 (equivalent to approximately HK\$1.6 million) within ten days of the effective date of R&D Agreement 5;
- (ii) RMB1,260,000 (equivalent to approximately HK\$1.6 million) within ten days of the completion of the workshop test;
- (iii) RMB1,260,000 (equivalent to approximately HK\$1.6 million) within ten days of the acceptance of clinical trial application; and
- (iv) RMB420,000 (equivalent to approximately HK\$0.5 million) within ten days of the obtaining the approval of clinical trial.

R&D AGREEMENT 6

Date

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SIPI.

Effective period

From 23 December 2013 to 31 December 2016

Subject matter

Pursuant to R&D Agreement 6, SIPI shall conduct research and development on a new dosage form of Yu Ping Feng Granule (玉屏風顆粒) and Guangdong Medi-World shall obtain the approval of production. The approval of production of the new dosage form will be solely owned by Guangdong Medi-World.

Consideration

Guangdong Medi-World shall pay to SIPI a fee of RMB600,000 (equivalent to approximately HK\$0.8 million) in the following manner:

- (i) RMB300,000 (equivalent to approximately HK\$0.4 million) within two weeks of the signing of R&D Agreement 6;
- (ii) RMB100,000 (equivalent to approximately HK\$0.1 million) within two weeks of the provision of the workshop test report;
- (iii) RMB100,000 (equivalent to approximately HK\$0.1 million) within two weeks of the provision of all research results; and
- (iv) RMB100,000 (equivalent to approximately HK\$0.1 million) within two weeks of the obtaining the approval of production.

R&D AGREEMENT 7**Date**

23 December 2013

Parties

- (i) Guangdong Medi-World; and
- (ii) SIPI.

Effective period

From 23 December 2013 to 31 December 2030

Subject matter

Pursuant to R&D Agreement 7, SIPI shall assist Guangdong Medi-World in conducting research and development on the effect of a Chinese herb extract.

Consideration

Guangdong Medi-World shall pay to SIPI a fee of RMB800,000 (equivalent to approximately HK\$1.0 million) in the following manner:

- (i) RMB600,000 (equivalent to approximately HK\$0.8 million) within 15 days of the signing of R&D Agreement 7;
- (ii) RMB100,000 (equivalent to approximately HK\$0.1 million) after completion of the workshop test; and
- (iii) RMB100,000 (equivalent to approximately HK\$0.1 million) after the provision of all research results.

Basis of consideration

The fee payable under each of R&D Agreements 2 to 7 has been determined after arm's length negotiations between Guangdong Medi-World and SIPI and SPERC with reference to the estimated direct costs attributable to the relevant research and development project, including but not limited to the costs for raw materials and test materials, utilities, purchase and maintenance of equipment, staff salaries and consultation fees.

The fee payable under R&D Agreement 1 (comprising the upfront sum and the 1% annual sum) have been determined between Guangdong Medi-World and SIPI with reference to the estimated direct costs attributable to the research and development project and the risks to be undertaken at each stage of the project. The Group aims to limit its capital exposure in the early stage of the project in order to reduce the risk of investing in unsuccessful research and development of new drug.

REASONS FOR ENTERING INTO THE R&D AGREEMENTS

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are the manufacture and sale of Chinese medicine and pharmaceutical products in the PRC.

SIPI is a research institute under China State Institute of Pharmaceutical Industry (國家醫藥工業研究院) which is a member of the CNPGC Group. It is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is a company subordinated to China State Institute of Pharmaceutical Industry and is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development. Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the R&D Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry, which is a member of the CNPGC Group. CNPGC is the ultimate holding company of Sinopharm Group Hongkong Co., Limited which is in turn the controlling Shareholder beneficially interested in 1,141,023,044 Shares as at the date of this announcement, representing approximately 45.03% of the total issued share capital of the Company. Accordingly, each of SIPI and SPERC is a connected person (as defined under the Listing Rules) of the Company and the R&D Agreements constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. The applicable percentage ratios (as defined under the Listing Rules) in respect of the total maximum fee payable under the R&D Agreements, on a stand-alone and an aggregate basis, are less than 5%. Accordingly, the R&D Agreements are subject to the reporting and announcement requirement but are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wu Xian, Mr. Dong Zenghe and Mr. Zhao Dongji (all being senior management of China National Corp. of Traditional & Herbal Medicine, a subsidiary of CNPGC), Mr. She Lulin and Mr. Liu Cunzhou (both being senior management of CNPGC), Mr. Zhou Bajun and Mr. Xie Rong (both being independent non-executive directors of Sinopharm Group Co. Ltd., a subsidiary of CNPGC) are deemed to have a material interest in the R&D Agreements and had abstained from voting on the Board resolution approving the R&D Agreements.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

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| “Board” | the board of Directors |
| “CFDA” | China Food and Drug Administration (國家食品藥品監督管理總局) |
| “CNPGC” | China National Pharmaceutical Group Corporation (中國醫藥集團總公司), a state-owned enterprise established in the PRC |
| “CNPGC Group” | CNPGC and its subsidiaries |
| “Company” | China Traditional Chinese Medicine Co. Limited 中國中藥有限公司, 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) |
| “Directors” | directors of the Company |
| “Group” | the Company and its subsidiaries |
| “Guangdong Medi-World” | 廣東環球製藥有限公司 (Guangdong Medi-World Pharmaceutical Company Limited*), a company established in the PRC and an indirect wholly-owned subsidiary of the Company |
| “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, Macau Special Administrative Region and Taiwan |
| “R&D Agreement 1” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SIPI in relation to the research and development on a new drug |
| “R&D Agreement 2” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SPERC in relation to the research and development on a controlled-release chemical drug |

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| “R&D Agreement 3” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SIPI in relation to the research on Yu Ping Feng Granule (玉屏風顆粒) |
| “R&D Agreement 4” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SPERC in relation to the research and development on a chemical drug |
| “R&D Agreement 5” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SPERC in relation to the research and development on a chemical drug |
| “R&D Agreement 6” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SIPI in relation to the research and development on a new dosage form of Yu Ping Feng Granule (玉屏風顆粒) |
| “R&D Agreement 7” | the agreement dated 23 December 2013 entered into between Guangdong Medi-World and SIPI in relation to the research on a Chinese herb extract |
| “R&D Agreements” | collectively R&D Agreement 1, R&D Agreement 2, R&D Agreement 3, R&D Agreement 4, R&D Agreement 5, R&D Agreement 6 and R&D Agreement 7 |
| “Share(s)” | ordinary shares of HK\$0.1 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of the issued Share(s) |
| “SIPI” | 上海醫藥工業研究院 (Shanghai Institute of Pharmaceutical Industry) |
| “SPERC” | 上海現代藥物製劑工程研究中心有限公司 (Shanghai Pharmaceutical Engineering Research Centre Co., Ltd.*) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “%” | per cent. |

Unless the context requires otherwise, amounts denominated in RMB have been converted into HK\$ at an exchange rate of RMB1: HK\$1.28 for the purpose of illustration only. No representation is made that any amount in HK\$ or RMB could have been or could be converted at the relevant dates 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, 23 December 2013

As at the date of this announcement, the Board comprises ten Directors, of which Mr. WU Xian, Mr. YANG Bin and Mr. WANG Xiaochun are executive Directors; Mr. SHE Lulin, Mr. LIU Cunzhou, Mr. DONG Zenghe and Mr. ZHAO Dongji are non-executive Directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. FANG Shuting and Mr. Yu Tze Shan Hailson are independent non-executive Directors.

* *for identification purpose only*