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CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED

中國中藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 31% EQUITY INTEREST IN GUIZHOU ZHONGTAI BIOLOGICAL TECHNOLOGY COMPANY LIMITED

THE AGREEMENT

On 27 January 2015, Guangdong Medi-World, the Other Vendor and the Purchaser entered into the Agreement, pursuant to which Guangdong Medi-World and the Other Vendor have agreed to sell 31% and 49% equity interest in the Target respectively and the Purchaser has agreed to acquire in aggregate 80% equity interest in the Target for an aggregate consideration of RMB360.0 million (equivalent to approximately HK\$450.0 million), of which RMB139.5 million (equivalent to approximately HK\$174.4 million) is attributable to the Sale Interest A and RMB220.5 million (equivalent to approximately HK\$275.6 million) is attributable to the Sale Interest B.

LISTING RULES IMPLICATIONS

As the Purchaser is a wholly-owned subsidiary of CNPGC, which is in turn the holding company of Sinopharm, the controlling Shareholder, the Vendor is regarded as a connected person (as defined under the Listing Rules) of the Company. The entering into of the Agreement therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 0.1% but less than 5%, the Agreement is only subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that on 27 January 2015, Guangdong Medi-World, a wholly-owned subsidiary of the Company, the Other Vendor and the Purchaser entered into the Agreement pursuant to which the Vendors shall sell and the Purchaser shall acquire the Sale Interests, representing in aggregate 80% equity interest in the Target. Details of the Agreement are set out below.

THE AGREEMENT

Date

27 January 2015

Parties

- (i) Guangdong Medi-World, a wholly-owned subsidiary of the Company, being the vendor of the Sale Interest A;
- (ii) the Other Vendor, being the vendor of the Sale Interest B; and
- (iii) the Purchaser.

The Purchaser is a company established in the PRC with limited liability and is principally engaged in the research and development, manufacture and sale of biological products. It is wholly owned by CNPGC, which is the holding company of Sinopharm. Sinopharm is the controlling Shareholder holding 1,016,023,044 Shares, representing approximately 40.10% of the issued share capital of the Company as at the date of this announcement. The Purchaser is therefore a connected person (as defined under the Listing Rules) of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) the Other Vendor is principally engaged in investment holding; and (ii) save for being a substantial shareholder of the Target, the Other Vendor and its ultimate beneficial owner(s) are third party independent of the Company and its connected persons (as defined under the Listing Rules).

Assets to be disposed

Pursuant to the Agreement, the Vendors shall sell and the Purchaser shall acquire the Sale Interests, which comprise the Sale Interest A to be sold by Guangdong Medi-World and the Sale Interest B to be sold by the Other Vendor and represent in aggregate 80% equity interest in the Target. Further information of the Target Group are set out in the section headed "Information on the Target Group" below.

Pursuant to the Agreement, the Sale Interests shall be acquired by the Purchaser together with all rights and benefits attached to the Sale Interests as of 31 October 2014.

Consideration

Pursuant to the Agreement, the aggregate consideration for the Sale Interests is RMB360.0 million (equivalent to approximately HK\$450.0 million), of which RMB139.5 million (equivalent to approximately HK\$174.4 million) is attributable to the Sale Interest A and RMB220.5 million (equivalent to approximately HK\$275.6 million) is attributable to the Sale Interest B. The consideration for the Sale Interests was determined after arm's length negotiations among the parties to the Agreement with reference to the unaudited consolidated net asset value of the Target Group as at 31 December 2014 and the pricing multiples of recent transactions involving acquisitions of companies engaged in the manufacture of blood products in the PRC.

The consideration for the Sale Interests is payable by the Purchaser to the Vendors in cash in the following manner:

- (i) as to RMB108 million (equivalent to approximately HK\$135 million) shall be payable within ten Business Days after the satisfaction of the following conditions:
 - (a) the Agreement having become effective; and
 - (b) the China Food and Drug Administration (“CFDA”) having returned or re-issued the relevant Medicine Good Manufacturing Practice Certificate (the “GMP Certificate”) to the Target Group;
- (ii) as to RMB216 million (equivalent to approximately HK\$270 million) shall be payable within ten Business Days after the satisfaction of the following conditions:
 - (a) all conditions set out in (i) above having been satisfied;
 - (b) the changes in shareholders of the Target having been registered with the relevant industry and commerce authority in the PRC (the “Business Registrations”) and the documents certifying completion of such Business Registrations having been produced to the Purchaser;
 - (c) the Target having completed the restructuring of its senior management including board composition and supervisors pursuant to the Agreement, such changes having been filed or registered with the relevant industry and commerce authority in the PRC and the documents certifying completion of such filing or registration having been produced to the Purchaser;
 - (d) the parties to the Agreement having completed the handover of corporate documents of the Target within three Business Days after the completion of the Business Registrations in (ii) (b) above; and
 - (e) the Target having completed all change of qualifications and certificates and the change of the legal representative to a person nominated by the Purchaser; and

(iii) as to the balance of RMB36 million (equivalent to approximately HK\$45 million) shall be payable within ten Business Days after the satisfaction of the following conditions:

- (a) all conditions set out in (ii) above having been satisfied; and
- (b) there being no occurrence of exceptional events which would result in a reduction in the net asset value of the Target Group from that as at Completion or the Target Group being unable to conduct its normal business during the period from the date of Completion until six months thereafter.

The consideration shall be adjusted downwards in the event that certain contingent events occur before Completion, such as the tax authority requesting for payment of additional tax, the land administration bureau requesting for payment of additional land premium, the imposition of penalties by government authorities, seizure of assets of the Target Group by the court in the PRC, breach of agreements or litigations and the incurrence of undisclosed liabilities. In the event of occurrence of such contingent events, the losses incurred by the Target Group shall be deducted from the consideration.

The consideration shall be apportioned between Guangdong Medi-World and the Other Vendor in proportion to the percentage of the Sale Interests being sold.

Effective date of the Agreement

The Agreement will become effective upon satisfaction of the following conditions:

- (i) the Agreement having been duly executed by the Vendors and the Purchaser; and
- (ii) CNPGC having approved the Agreement.

Completion

Completion will take place on the day on which the Business Registrations are completed.

Upon Completion, the Group will continue to hold 20% equity interest in the Target (the “**Remaining Interest**”). All members of the Target Group will cease to be subsidiaries of the Company and the Target will become an associate of the Company.

Following Completion, the board of directors of the Target shall comprise five members, four of whom shall be nominated by the Purchaser and one of whom shall be nominated by Guangdong Medi-World. The supervisory committee shall comprise three members, two of whom shall be nominated by the Purchaser (including the supervisor nominated by staff) and one of whom shall be nominated by Guangdong Medi-World.

Right to dispose of the Remaining Interest

Pursuant to the Agreement, in the event that the Target Group obtains the relevant approval and license for four additional plasma collection stations, Guangdong Medi-World shall have the right to request the Purchaser to acquire the Remaining Interest held by Guangdong Medi-World at a consideration to be determined and agreed between the parties with reference to the valuation to be prepared by a valuer jointly appointed by Guangdong Medi-World and the Purchaser. The Company shall make further announcement(s) as and when appropriate and in compliance with the Listing Rules when the terms of the disposal of the Remaining Interest are determined.

Termination

The Agreement may be terminated by:

- (i) mutual agreement among the parties to the Agreement;
- (ii) the Vendors jointly or the Purchaser if the Agreement has not become effective within five months from the date of the Agreement; or
- (iii) the Purchaser if the Business Registrations are not completed within three months after the later of (a) the Agreement having become effective; and (b) the CFDA having returned or re-issued the GMP Certificate to the Target Group.

If the Business Registrations are not completed by 31 October 2015, the Purchaser may request to perform an audit on the Target Group, re-assess the value of the Target Group and conduct further due diligence on the Target Group for the purpose of revising the consideration for the Disposal if necessary. The Purchaser may terminate the Agreement if the Vendors do not cooperate with the aforesaid requests of the Purchaser.

Upon termination of the Agreement, the Vendors shall return any portion of the consideration already paid by the Purchaser (including interest) within 20 Business Days of termination.

INFORMATION ON THE TARGET GROUP

As at the date of the Agreement, the issued share capital of the Target is owned as to 51% by Guangdong Medi-World and as to 49% by the Other Vendor. The Target Group is principally engaged in the research and development, production and sales of plasma-based biopharmaceutical products in PRC. The Target Group also wholly owns two licensed companies which are principally engaged in plasma collection in Jiangxi Province of the PRC. The products of the Target Group are mainly supplied to hospitals and inoculation centres in the PRC.

The Target Group originally held certain operating licenses including medicine production certificate and medicine GMP certificates for engaging in plasma-based biopharmaceutical products business in the PRC. According to the GMP Management Regulations, the Target Group shall perform media fill test at least twice a year. However, due to the suspension of production for the purpose of installing new equipment in the second half of 2014, the Target Group only performed the required test once in 2014. As a result, the Target Group's GMP Certificate for engaging in plasma-based biopharmaceutical products business in the PRC has been revoked by the CFDA in January 2015. With a view to rectifying the situation, the Target is in the course of performing the required test and aims to apply to the CFDA for the GMP Certificate as soon as practicable. The Target Group does not foresee any difficulties in obtaining the GMP Certificate.

Set out below is the unaudited consolidated financial information of the Target Group for each of the two years ended 31 December 2013 and 2014:

	For the year ended 31 December			
	2014		2013	
	<i>Equivalent to approximately</i>		<i>Equivalent to approximately</i>	
	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
Profit before taxation	86	108	844	1,055
Profit after taxation	86	108	844	1,055

The unaudited consolidated net asset value of the Target Group as at 31 December 2014 amounted to approximately RMB91.2 million (equivalent to approximately HK\$114.0 million).

REASONS FOR THE DISPOSAL

The principal business activities of the Group are the manufacture and sale of traditional Chinese medicine and pharmaceutical products in the PRC with a focus on respiratory system drugs, nasal preparations, cerebro-cardiovascular drugs, rheumatic diseases and bone injury drugs, and orthopaedic drugs. A number of its products are listed on the new edition of National Essential Drugs List and/or the National Drugs List for Basic Medical Insurance in the PRC, some of which are exclusively produced by the Group.

As the principal products of the Target Group are not in line with those of the Group which are traditional Chinese medicine and pharmaceutical products, the Directors consider it an opportune time to dispose of the Sale Interest A and thus allowing the Group to dedicate more resources to and focus on the development of traditional Chinese medicine and pharmaceutical products business.

The Group expects to realise an unaudited gain on the Disposal and loss of control of a subsidiary of approximately RMB76.5 million (equivalent to approximately HK\$95.6 million), being (i) the sum of the consideration for the Sale Interest A of RMB139.5 million (equivalent to approximately HK\$174.4 million) and the fair value of the Remaining Interest of RMB90 million (equivalent to approximately HK\$112.5 million) implied by the consideration for the Sale Interest A; and (ii) deducted by the Group's original acquisition cost of RMB153 million (equivalent to approximately HK\$191.3 million) for the Sale Interest A and the Remaining Interest. Shareholders should note that the actual gain or loss on the Disposal to be recorded by the Company will depend on the financial position of the Target Group as at the date of Completion and may be different from the above estimation. The proceeds from the Disposal, net of expenses directly attributable thereto, are estimated to be RMB139.2 million (equivalent to approximately HK\$174.0 million). The Company currently intends to apply the proceeds from the Disposal to fund part of the consideration for the proposed acquisition of approximately 81.48% of the registered capital of 江陰天江藥業有限公司 (Jiangyin Tianjiang Pharmaceutical Co. Ltd.*), details of which are disclosed in a separate announcement of the Company dated 27 January 2015, or failing which to apply as general working capital for the principal business of the Group.

The Directors (including the independent non-executive Directors) consider that, the Disposal, although not in the ordinary and usual course of business of the Group, is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the Purchaser is a wholly-owned subsidiary of CNPGC, which is in turn the holding company of Sinopharm, the controlling Shareholder, the Vendor is regarded as a connected person (as defined under the Listing Rules) of the Company. The entering into of the Agreement therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 0.1% but less than 5%, the Agreement is only subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As CNPGC has a material interest in the transactions contemplated under the Agreement, those Directors who hold positions in CNPGC (namely Mr. Wu Xian, Mr. Liu Cunzhou, Mr. Zhang Jianhui, Mr. Dong Zenghe and Mr. Zhao Dongji) have abstained from voting on the Board resolution for approving the Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“Agreement”	the agreement dated 27 January 2015 entered into between the Vendors and the Purchaser in relation to the Disposal
“Board”	the board of Directors
“Business Day(s)”	any day(s) other than a Saturday, Sunday or statutory holiday
“CNPGC”	China National Pharmaceutical Group Corporation (中國醫藥集團總公司), a state-owned enterprise established in the PRC and the ultimate holding company of Sinopharm
“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 Disposal in accordance with the terms of the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Interests by the Vendors to the Purchaser pursuant to the Agreement
“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 a 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
“Other Vendor”	a company established in the PRC with limited liability and the vendor of the Sale Interest B under the Agreement
“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”	中國生物技術股份有限公司 (China Biotechnology Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of CNPGC

“Sale Interest A”	31% equity interest in the Target held by Guangdong Medi-World
“Sale Interest B”	49% equity interest in the Target held by the Other Vendor
“Sale Interests”	collectively, the Sale Interest A and the Sale Interest B
“Shareholder(s)”	the holder(s) of the issued ordinary shares in the share capital of the Company
“Sinopharm”	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”	貴州中泰生物科技有限公司 (Guizhou Zhongtai Biological Technology Company Limited*), a company established in the PRC with limited liability and an indirect 51%-owned subsidiary of the Company as at the date of the Agreement
“Target Group”	the Target and its subsidiaries
“Vendors”	collectively, Guangdong Medi-World and the Other Vendor
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

For illustration purpose only, amounts in RMB in this announcement have been translated into HK\$ at the rate of RMB1 = HK\$1.25. 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, 27 January 2015

As at the date of this announcement, the Board comprises eleven Directors, of which Mr. WU Xian, Mr. YANG Bin and Mr. WANG Xiaochun are executive Directors; Mr. LIU Cunzhou, Mr. ZHANG Jianhui, Mr. DONG Zenghe and Mr. ZHAO Dongji 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