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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 POSSIBLE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HUAYI AND THE SHAREHOLDER'S LOAN

THE POSSIBLE ACQUISITION

The Board is pleased to announce that after the Stock Exchange trading hours on 26 February 2016, Guangdong Medi-World, a wholly-owned subsidiary of the Company, has submitted an application to CBEX for the Possible Acquisition of the entire equity interest in Huayi and the Shareholder's Loan from the Vendor through the Tender.

LISTING RULES IMPLICATIONS

The Company is owned as to approximately 36.01% by Sinopharm, which is a substantial shareholder of the Company and a direct wholly-owned subsidiary of the Vendor. Accordingly, the Vendor is a connected person of the Company and the Possible Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios calculated based on the Maximum Bid in accordance with Chapter 14 of the Listing Rules are more than 0.1% but less than 5%, the Possible Acquisition is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under the Listing Rules.

The Board is pleased to announce that after the Stock Exchange trading hours on 26 February 2016, Guangdong Medi-World, a wholly-owned subsidiary of the Company, has submitted an application to CBEX for the participation in the Tender. Details of the Tender are set out below.

THE TENDER

Date of submission of the bidding application

26 February 2016

Parties

- (i) Guangdong Medi-World, a wholly-owned subsidiary of the Company, as the purchaser; and
- (ii) China National Traditional Chinese Medicine Corporation, as the Vendor.

The Company is owned as to approximately 36.01% by Sinopharm, which is a substantial shareholder of the Company and a direct wholly-owned subsidiary of the Vendor. Accordingly, the Vendor is a connected person of the Company and the Possible Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Assets to be acquired

The entire equity interest in Huayi and the Shareholder's Loan. For details of the Huayi Group, please refer to the paragraph headed "Information on the Huayi Group" below. The Shareholder's Loan represents the amount owing by Huayi to the Vendor, which amounted to RMB49,500,000 (equivalent to approximately HK\$59,400,000) as at the date of this announcement.

The bidding procedures

Huayi is being offered for sale by the Vendor through the Tender at CBEX. According to the Tender Notice published by CBEX, a qualified bidder (i) shall be a domestic entity engaged in the medicine industry; (ii) shall have sound financial condition, capability to pay and credibility; and (iii) shall not be a joint bidder. Interested bidders shall submit applications to CBEX for the participation in the Tender from 27 January 2016 to 26 February 2016. Qualified bidders will be notified by CBEX and will be required to pay an earnest money in the amount of RMB24,000,000 (equivalent to approximately HK\$28,800,000) (the "**Earnest Money**") within three Business Days after being notified as a qualified bidder by CBEX.

If there is only one qualified bidder, such qualified bidder shall enter into the Share Transfer Agreement with standard format prescribed by CBEX with the Vendor within three Business Days after being confirmed by CBEX as the purchaser.

If there are more than one qualified bidder, those qualified bidders will be entitled to participate in an online bidding process on a specified date and the successful bidder shall enter into the Share Transfer Agreement with the Vendor within three Business Days after being confirmed by CBEX as the purchaser. The Earnest Money paid by the unsuccessful qualified bidders will be refunded (without interest) within three Business Days.

The Earnest Money paid by the successful bidder will be applied towards the settlement of part of the final bidding price of the Possible Acquisition. The remaining balance of the final bidding price shall be payable in cash within five Business Days after the signing of the Share Transfer Agreement.

The bidding price

According to the Tender Notice, the bidding floor price is RMB81,500,000 (equivalent to approximately HK\$97,800,000). The initial bidding price submitted by Guangdong Medi-World was determined having taken into account the financial position of the Huayi Group (as described in the paragraph headed “Information on the Huayi Group” below), the growth potential of the Huayi Group in terms of its exclusive product listed on the National Essential Drug List (2012 edition) and the synergy that may be created by combining the product offering and capability of the Huayi Group and the Group.

The final bidding price will depend on the results of the online bidding process as mentioned above if there are more than one qualified bidder, in which case Guangdong Medi-World may consider to raise the initial bidding price to a capped amount approved by the Board (the “**Maximum Bid**”).

The Company intends to fund the final bidding price of the Possible Acquisition by the internal resources of the Group.

Completion

If Guangdong Medi-World succeeds in the Tender, completion of the Possible Acquisition will take place in March 2016 and Huayi will become a wholly-owned subsidiary of Guangdong Medi-World. The accounts of the Huayi Group will be consolidated into those of the Group.

Other terms of the Tender

The successful bidder shall undertake that it will (i) retain the employees of Huayi according to their existing employment contracts; (ii) repay the outstanding balance of RMB14,723,466 (equivalent to approximately HK\$17,668,159) due to Beijing Huatai TCM New Technology Development Center within thirty days after the completion of the change of the business registration; and (iii) continue the lease agreement entered into with Beijing Huatai TCM New Technology Development Center in respect of the production facilities of Huayi until the expiry date of 31 December 2020.

INFORMATION ON THE HUAYI GROUP

Huayi is wholly owned by the Vendor which is directly managed by State-owned Assets Supervision and Administration Commission of the State Council. Huayi is principally engaged in the production, sale, research and development of traditional Chinese medicine. It manufactures an exclusive product, Qili Capsule (七厘膠囊), which is listed on the National Essential Drug List (2012 edition).

Huayi holds a 50% interest in Baiqi which is accounted for as a non-wholly owned subsidiary of Huayi. Baiqi is principally engaged in the production, sale, research and development of traditional Chinese medicine. It manufactures an exclusive product, Fufang SangJu Ganmao Capsule (複方桑菊感冒膠囊) and is also one of the two authorized manufacturers to manufacture Xiaoyan Capsule (消炎膠囊) in the PRC.

The original acquisition cost of the Huayi Group to the Vendor was RMB175,500,000 (equivalent to approximately HK\$210,600,000).

The audited consolidated financial information of the Huayi Group under PRC GAAP for each of the two financial years ended 31 December 2014 and 2015 is set out below:

	Year ended 31 December	
	2014	2015
	<i>RMB</i>	<i>RMB</i>
Net loss before taxation and extraordinary items	(3,294,847)	(4,675,971)
Net loss after taxation and extraordinary items	(3,468,329)	(4,693,391)

The Huayi Group has been loss making for the two years ended 31 December 2014 and 2015 due to the suspension of some of the production lines of Baiqi since 2013 to undertake an upgrade to its production facilities in order to apply for the new Good Manufacturing Practice (GMP) certification. The GMP certification was subsequently obtained in January 2015.

The audited consolidated net asset value of the Huayi Group attributable to the shareholders of Huayi as at 31 December 2015 amounted to RMB28,664,169 (equivalent to approximately HK\$34,397,003).

REASONS FOR AND BENEFITS OF THE POSSIBLE ACQUISITION

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. The Group has over 100 products being listed on the National Essential Drug List (2012 edition), 7 of which are exclusive products.

The Huayi Group has accumulated valuable experience, knowledge, technology and expertise in the production of Chinese medicine. The Directors are of the view that the products of the Huayi Group, in particular Qili Capsule and Weimaining Capsule (威麥寧膠囊), are with high growth potential. They believe that the Possible Acquisition would enable the Group to integrate the expertise of the Huayi Group and enhance the Group's product offering particularly those exclusive products on the National Essential Drug List. At the same time, the Huayi Group would be able to take advantage of the Group's procurement capability to lower its cost of materials as well as the Group's well-established customer base, sales force and distribution network to market its products. Coupled with the resumption of the production lines of Baiqi, the Directors believe that the operating efficiency of the Huayi Group will be enhanced and the Huayi Group is expected to contribute positively to the Group following the Possible Acquisition.

The Directors (including the independent non-executive Directors) are of the view that the Possible 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 Possible Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. Mr. Wu Xian, being the Chairman and an executive Director, and Mr. Zhang Jianhui and Mr. Dong Zenghe, being the non-executive Directors, are the directors of the Vendor. They have a material interest in the Possible Acquisition and accordingly have abstained from voting on the board resolution to approve the application for the participation of the Tender and the determination of the Maximum Bid.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated based on the Maximum Bid in accordance with Chapter 14 of the Listing Rules are more than 0.1% but less than 5%, the Possible Acquisition is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under the Listing Rules. Further announcement(s) will be made by the Company to update the shareholders and investors of the Company of the results of the Tender.

DEFINITIONS

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

“Baiqi”	Ji Lin Baiqi Pharmaceutical Co., Ltd. 吉林百琦藥業有限公司, a company incorporated in the PRC with limited liability
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in the PRC are open for business
“CBEX”	China Beijing Equity Exchange

“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)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) 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 a wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huayi”	Huayi Pharmaceutical Co., Ltd. 華頤藥業有限公司 a company incorporated in the PRC with limited liability
“Huayi Group”	Huayi and its subsidiary (i.e. Baiqi)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Possible Acquisition”	the possible acquisition of the entire equity interest in Huayi and the Shareholder’s Loan through the Tender
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Share Transfer Agreement”	the share transfer agreement for the sale and purchase of the entire equity interest in Huayi and the Shareholder’s Loan to be entered into between a successful bidder and the Vendor
“Shareholder’s Loan”	the shareholder’s loan in the amount of RMB49,500,000 (equivalent to approximately HK\$59,400,000) owing by Huayi to the Vendor
“Sinopharm”	Sinopharm Group Hongkong Co., Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Tender”	the public tender held by CBEX in respect of the sale of the entire equity interest in Huayi and the Shareholder’s Loan
“Tender Notice”	the notice published by CBEX in relation to the Tender
“Vendor”	China National Traditional Chinese Medicine Corporation, a company established in the PRC and managed by State-owned Assets Supervision and Administration Commission of the State Council
“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\$1.2. 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, 26 February 2016

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*