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國藥控股股份有限公司

SINOPHARM GROUP CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

(Stock Code: 01099)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY BY ISSUE OF DOMESTIC SHARES UNDER GENERAL MANDATE

INTRODUCTION

The Board is pleased to announce that on 11 July 2018, the Company and CNPGC entered into the Asset Purchase Agreement, pursuant to which the Company agreed to acquire, and CNPGC agreed to sell the Target Assets, being the 60% equity interest in the Target Company held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 Domestic Shares by the Company to CNPGC under General Mandate at the issue price of RMB24.97 per Consideration Share. Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, CNPGC is the ultimate controlling shareholder of the Company and thus a connected person of the Company as defined under the Hong Kong Listing Rules. According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Acquisition shall be aggregated with the Previous Transaction. As the highest of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) is higher than 5% but less than 25%, the Acquisition constitutes discloseable transaction and connected transaction of the Company under the Hong Kong Listing Rules. Therefore, the Acquisition is subject to (i) the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

EXTRAORDINARY GENERAL MEETING

The Company will convene an extraordinary general meeting for the purpose of, among other things, obtaining the Independent Shareholders' approval for the Asset Purchase Agreement as well as the transactions contemplated thereunder. CNPGC and its associates will abstain from voting on the relevant resolution at the extraordinary general meeting.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin, has been established by the Company to advise the Independent Shareholders on the Asset Purchase Agreement and the transactions contemplated thereunder. Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) the details of the proposed Acquisition; (ii) a letter from the Independent Board Committee to the Independent Shareholders; and (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the notice convening the extraordinary general meeting of the Company, will be despatched to the Shareholders on or around 1 August 2018.

INTRODUCTION

The Board is pleased to announce that on 11 July 2018, the Company and CNPGC entered into the Asset Purchase Agreement, pursuant to which the Company agreed to acquire, and CNPGC agreed to sell the Target Assets, being the 60% equity interest in the Target Company held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 Domestic Shares by the Company to CNPGC under General Mandate at the issue price of RMB24.97 per Consideration Share. Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company.

THE ASSET PURCHASE AGREEMENT

The major terms of the Asset Purchase Agreement are as follows:

Date:	11 July 2018
Parties:	(i) the Company (as the buyer) (i) CNPGC (as the seller)
Target Assets:	60% equity interest in the Target Company, being China National Scientific Instruments and Materials Co., Ltd., held by CNPGC
Consideration:	The consideration for the acquisition of the Target Assets is RMB5,107,890,720, which will be satisfied by issue of Consideration Shares by the Company to CNPGC. The consideration was determined by the Company and CNPGC after arm's length negotiations with reference to the valuation of the Target Assets as at the Valuation Benchmark Date, being RMB5,107,890,720.

The valuation is prepared by the Independent Valuer based on income approach, which involves the calculation of discounted cash flow, and is therefore regarded as a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. The Company will make further announcement(s) in respect of the profit forecast within fifteen (15) business days after the publication of this announcement pursuant to Rule 14.60A and Rule 14.62 of the Hong Kong Listing Rules.

Issue Price of the Consideration Shares:

The Consideration Shares will be issued by the Company to CNPGC at the issue price of RMB24.97 per Consideration Share, which is determined after arm's length negotiations between the Company and CNPGC with reference to the recent share prices of the Company, the valuation of the Company and the Target Assets and the expected future development of the Target Company. The issue price is subject to the approval by Competent State-owned Assets Supervision and Administration Authority.

If, during the period from the Price Determination Date to the registration date of the Consideration Shares, the Company makes any distribution, converts capital reserve into share capital, issues new shares, allots shares or carries out any other ex-rights or ex-dividends activities, corresponding adjustments shall be made to the issue price as follows:

Assuming P_0 is the pre-adjustment issue price, N is the number of bonus shares or converted shares for each share, K is the number of new shares issued or allocated for each share, A is the price per share for new share issuance or allocation, D is the amount of cash dividend per share, and P_1 is the post-adjustment issue price (rounded off to the nearest hundredths place):

(a) In the case of grant of bonus share, or conversion of capital reserve into share capital: $P_1 = P_0 / (1+N)$

(b) In the case of issue of new shares or allotment of shares: $P_1 = (P_0 + A \times K) / (1+K)$

In the case of both (a) and (b): $P_1 = (P_0 + A \times K) / (1+N+K)$

(c) In the case of distribution of cash dividend: $P_1 = P_0 - D$

In the case of both (a), (b) and (c): $P_1 = (P_0 - D + A \times K) / (1+N+K)$

Issue of Consideration

Within thirty (30) Working Days upon the Closing Date or at such

Shares: other time as determined by the parties, the Company shall register the Consideration Shares under the name of CNPGC in accordance with the procedures prescribed by applicable laws.

The Consideration Shares shall rank pari passu with the Domestic Shares in issue at the date of the issue of Consideration Shares, and shall be entitled to all the dividends, bonus shares or other distributions the record dates of which are the dates of the issue of Consideration Shares or any dates thereafter.

Closing: The Closing shall take place within twenty (20) Working Days upon the Asset Purchase Agreement becoming effective or on such other date as determined by the parties, i.e. the Target Assets shall be registered under the name of the Company in accordance with the procedures prescribed by applicable laws and such share transfer shall be registered with the AIC.

Effectiveness: The Asset Purchase Agreement shall take effect upon the fulfilment date of all the following conditions:

- (i) the signing of the Asset Purchase Agreement by the legal representatives or authorized representatives of the parties and the affixing of seals thereto;
- (ii) the approval of the Acquisition by the Competent State-owned Assets Supervision and Administration Authority; and
- (iii) the consideration and approval of the Asset Purchase Agreement by the independent shareholders of the Company at a general meeting in accordance with the Hong Kong Listing Rules.

Other terms: If Competent State-owned Assets Supervision and Administration Authority, the Hong Kong Stock Exchange or other competent regulatory authorities have any requirements on the Acquisition, the Company and CNPGC agreed to make reasonable efforts to make corresponding adjustment to the Acquisition, including but not limited to the consideration and the number of Consideration Shares to be issued. In the event that the Company and CNPGC fail to agree on the adjustment proposals determined in accordance with the requirements of the regulatory authorities within twenty (20) Working Days from the date when the above regulatory authorities make relevant requirements, any of party shall be entitled to unilaterally terminate the Asset Purchase Agreement by written notice within ten (10) Working Days from the expiration of the above period.

CONSIDERATION SHARES AND ISSUE PRICE

The 204,561,102 Consideration Shares represent: (i) approximately 12.99% of the total Domestic Shares in issue and approximately 7.39% of the total Shares in issue as at the date of this announcement; and (ii) approximately 11.50% of the total Domestic Shares in issue and approximately 6.88% of the total Shares in issue as enlarged by the issue of the Consideration Shares (assuming no other changes made to the issued share capital of the Company between the date of this announcement and the date of issue of the Consideration Shares).

The issue price of RMB24.97 per Consideration Share (equivalent to approximately HK\$29.59 per Consideration Share calculated based on the Exchange Rate) represents: (i) a discount of approximately 5.6% to the closing price of HK\$31.35 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date; (ii) a discount of approximately 3.0% to the average closing price of HK\$30.52 per H Share as quoted on the Hong Kong Stock Exchange for the five (5) consecutive trading days immediately preceding the Price Determination Date; (iii) a discount of approximately 4.5% to the average closing price of HK\$30.98 per H Share as quoted on the Hong Kong Stock Exchange for the ten (10) consecutive trading days immediately preceding the Price Determination Date; and (iv) a discount of approximately 8.0% to the average closing price of HK\$32.16 per H Share as quoted on the Hong Kong Stock Exchange for the twenty (20) consecutive trading days immediately preceding the Price Determination Date.

GENERAL MANDATE

The Consideration Shares will be issued pursuant to the General Mandate. The maximum number of Domestic Shares that can be issued under the General Mandate is 314,856,869. As at the date of this announcement, (i) no Domestic Shares have been issued pursuant to the General Mandate; and (ii) the General Mandate is sufficient for the issue of the Consideration Shares.

EFFECT OF THE COMPLETION OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company: (i) as at the date of this announcement; and (ii) immediately after the issue of the Consideration Shares, assuming there is no other change in the shareholding structure of the Company between the date of this announcement and the date of issue of the Consideration Shares.

Shareholders	As at the date of this announcement		Immediately after the issue of the Consideration Shares	
	<i>Number of Shares held</i>	<i>Approximate percentage of issued share capital (%)</i>	<i>Number of Shares held</i>	<i>Approximate percentage of issued share capital (%)</i>
Substantial Shareholders				
Sinopharm Industrial	1,571,555,953	56.79	1,571,555,953	52.88

Investment Co., Ltd. (“Sinopharm Investment”)				
CNPGC	2,728,396	0.10	207,289,498	6.98
Public Shareholders	1,192,810,740	43.11	1,192,810,740	40.14
Total	2,767,095,089	100	2,971,656,191	100

Note: Sinopharm Investment is held as to 49% by Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and 51% by CNPGC.

INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company incorporated in the PRC. The Target Company and its subsidiaries are principally engaged in medical devices distribution business.

The audited consolidated total assets and net assets of the Target Company as at 31 December 2017 prepared in accordance with the Accounting Standards for Business Enterprises were RMB21,190,742,683.90 and RMB6,677,538,796.92, respectively. The consolidated financial information of the Target Company for the three financial years ended 31 December 2017 prepared in accordance with the Accounting Standards for Business Enterprises were as follows:

	For the year ended 31 December 2015 <i>(RMB)</i> <i>(audited)</i>	For the year ended 31 December 2016 <i>(RMB)</i> <i>(audited)</i>	For the year ended 31 December 2017 <i>(RMB)</i> <i>(audited)</i>
Operating revenue	16,257,185,950.93	22,376,966,021.30	30,708,427,878.29
Gross profit	1,803,893,170.73	2,433,200,546.28	3,090,921,405.30
Net profit (before taxation)	579,305,671.84	802,723,686.04	1,055,089,515.67
Net profit (after taxation)	445,271,735.43	583,101,920.17	798,096,726.48
Net profit attributable to owners of parent company	287,346,130.88	327,894,607.68	488,783,595.78

REASONS FOR AND BENEFITS OF ENTERING INTO THE ASSET PURCHASE AGREEMENT

Chinese medical device industry is in a period of rapid development that offers plenty of opportunities. The Acquisition will help further enhance the Company's competitiveness in medical device industry, combine the Target Company's superior product structure and business models with the Company's existing national distribution network, further expand the Company's share in the medical device distribution market and strengthen the Company's comprehensive service capability in healthcare industry, as an important part of the Company's overall strategy for the future. As such, the Directors (excluding the independent non-executive Directors, whose view on the Asset Purchase Agreement and the transactions contemplated thereunder will be set out in the letter from the Independent Board Committee contained in the circular to be despatched to the Shareholders) are of the view that the Asset Purchase Agreement was entered into on normal commercial terms, and although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, CNPGC is the ultimate controlling shareholder of the Company and thus a connected person of the Company as defined under the Hong Kong Listing Rules. According to Rule 14.22 and Rule 14A.81 of the Hong Kong Listing Rules, the Acquisition shall be aggregated with the Previous Transaction. As the highest of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) is higher than 5% but less than 25%, the Acquisition constitutes discloseable transaction and connected transaction of the Company under the Hong Kong Listing Rules. Therefore, the Acquisition is subject to (i) the requirements applicable to discloseable transactions under Chapter 14 of the Hong Kong Listing Rules; and (ii) the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The following Directors, being Mr. She Lulin, Mr. Deng Jindong, Mr. Ma Ping and Ms. Rong Yan, are also directors or senior management of CNPGC. Therefore, they are deemed to have material interest in the transactions contemplated under the Asset Purchase Agreement, and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

GENERAL INFORMATION ON THE PARTIES

The Company

The Company is principally engaged in the distribution of pharmaceutical and healthcare products, operation of retail pharmacies and chemical reagents manufacturing.

CNPGC

CNPGC is a wholly state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company, which is principally engaged in the research and development, production, sale and wholesale of pharmaceutical products and biological products, etc.

EXTRAORDINARY GENERAL MEETING

The Company will convene an extraordinary general meeting for the purpose of, among other things, obtaining the Independent Shareholders' approval for the Asset Purchase Agreement as well as the transactions contemplated thereunder. CNPGC and its associates will abstain from voting on the relevant resolution at the extraordinary general meeting.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin, has been established by the Company to advise the Independent Shareholders on the Asset Purchase Agreement and the transactions contemplated thereunder. Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) the details of the proposed Acquisition; (ii) a letter from the Independent Board Committee to the Independent Shareholders; and (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the notice convening the extraordinary general meeting of the Company, will be despatched to the Shareholders on or around 1 August 2018.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

“Acquisition”	means the acquisition of the Target Assets by the Company from CNPGC in accordance with the terms and conditions of the Asset Purchase Agreement
“AIC”	means the applicable administration for industry and commerce
“Asset Purchase Agreement”	means the agreement on asset purchase by issue of shares dated 11 July 2018 entered into between the Company and CNPGC, pursuant to which the Company agreed to purchase the Target Assets from CNPGC by issue of Consideration Shares
“Board”	means the board of directors of the Company
“Closing”	means the register of the Target Assets under the name of the Company and the completion of the registration of share transfer with AIC
“Closing Date”	means the date on which the registration of the share transfer in relation to the Target Assets with AIC is completed
“CNPGC”	means China National Pharmaceutical Group Co., Ltd. (中

國醫藥集團有限公司), a state wholly-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company

“Company”	means Sinopharm Group Co. Ltd., (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed and traded on the Hong Kong Stock Exchange
“Competent State-owned Assets Supervision and Administration Authority”	means State-owned Assets Supervision and Administration Commission of the State Council of the PRC or CNPGC
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Consideration Share(s)”	means the 204,561,102 Domestic Shares to be issued by the Company to CNPGC to settle the consideration pursuant to the Asset Purchase Agreement
“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for and fully paid up in RMB by PRC nationals and/or PRC incorporated entities
“Exchange Rate”	means the middle exchange rate of HK\$1 to RMB0.84390 as quoted on the website of the People's Bank of China on the Price Determination Date
“General Mandate”	means the general mandate granted to the Board by a special resolution of the Shareholders passed at the annual general meeting of the Company held on 28 June 2018 to allot, issue and/or deal with no more than 20% of the existing issued Domestic Shares as at the date of passing the said resolution
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC

“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“H Share(s)”	means overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Hong Kong Stock Exchange
“Independent Board Committee”	means the independent board committee comprising all the independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin, formed to advise the Independent Shareholders in relation to, among others, Asset Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Octal Capital”	means Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) under Securities and Futures Ordinance, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholder
“Independent Shareholder(s)”	means the Shareholder(s) other than CNPGC and its associates
“Independent Valuer”	means Vocation (Beijing) International Asset Valuation Co., Ltd. (沃克森 (北京) 國際資產評估有限公司)
“PRC”	means the People’s Republic of China, which for the purpose of this announcement only excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Date”	means the date on which the issue price of the Consideration Shares is determined, being 11 July 2018
“Previous Transaction”	the acquisition of 100% equity interest of Shanghai Pudong New Area Medicine and Herbs Co., Ltd. (上海浦東新區醫藥藥材有限公司) by the Company from CNPGC in accordance with the equity transfer agreement entered into between the Company and CNPGC on 27 November 2017, the details of which are set out in the announcement of the Company dated 27 November 2017

“RMB”	means Renminbi, the lawful currency of the PRC
“Share(s)”	means the share(s) of the Company in the nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	means the shareholders of the Company
“Target Assets”	means the 60% equity interest in the Target Company held by CNPGC
“Target Company”	means China National Scientific Instruments and Materials Co. Ltd. (中國科學器材有限公司), a company incorporated in the PRC with limited liability
“Valuation Benchmark Date”	means 31 December 2017
“Working Day”	means a day on which banks in the PRC and Hong Kong are generally open for business and which does not include a Saturday, Sunday or public holiday
“%”	means per cent

By order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, the PRC
11 July 2018

As at the date of this announcement, the executive directors of the Company are Mr. Li Zhiming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Rong Yan and Mr. Wu Yijian; and the independent non-executive directors of the Company are Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin.

** The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name “Sinopharm Group Co. Ltd.”.*