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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(formerly known as China Pharmaceutical Group Limited 中國製藥集團有限公司)

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

DISCLOSEABLE TRANSACTION

DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY

On 4 June 2013, the Company entered into the Agreement with the Purchaser, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the Sale Interest (being 100% equity interest in Zhongrun (NMG), a direct wholly-owned subsidiary of the Company) at the consideration of RMB288,000,000, on and subject to the terms and conditions of the Agreement. Further, the Purchaser undertook to procure Zhongrun (NMG) to repay all debts owed by Zhongrun (NMG) to the Group as at the date of the Agreement on or before 30 December 2013. As at the date of the Agreement, Zhongrun (NMG) owed an aggregate of RMB790,458,422 to the Group.

The Zhongrun (NMG) Group is principally engaged in the manufacture and sales of penicillin intermediates and bulk drugs. It is expected that a gain of approximately HK\$98,000,000 will accrue to the Company upon completion of the Disposal.

As some of the applicable percentage ratios in respect of the Disposal exceed 5% but all applicable percentage ratios are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements, but exempt from shareholders' approval requirements under Chapter 14 of the Listing Rules.

THE DISPOSAL

Date

4 June 2013

Parties

Vendor : The Company

Purchaser : Best Century Group Limited

Guarantor : Longriver Corporation

To the best of the knowledge, information and belief of the Directors of the Company having made all reasonable enquiries, the Purchaser, the Guarantor and their ultimate beneficial owner are third parties independent of the Company and its connected persons.

Assets to be disposed of

Pursuant to the Agreement, the Company agreed to sell the Sale Interest, representing 100% equity interest of Zhongrun (NMG) as at the date of the Agreement, and the Purchaser agreed to purchase the same.

Zhongrun (NMG) is principally engaged in the manufacture and sales of penicillin intermediates and bulk drugs. As at the date of the Agreement, the registered capital of Zhongrun (NMG) was RMB287,625,600. The principal penicillin intermediates and bulk drugs products of Zhongrun (NMG) Group include penicillin G industrial salt, 6-APA and amoxicillin. As at the date of this announcement, the total production capacity of the Zhongrun (NMG) Group is approximately 13,000 tonnes (denominated in terms of penicillin G industrial salt).

(A) Financial information on Zhongrun (NMG)

As an internal restructuring of the Group, in July 2012, NMG Zhongxingyuan and NMG Huanbao, both of which were wholly-owned subsidiaries of the Company were merged into Zhongrun (NMG). Based on (i) the audited accounts for the financial year ended 31 December 2011 of Zhongrun (NMG), NMG Zhongxingyuan and NMG Huanbao; and (ii) the audited account for the financial year ended 31 December 2012 of Zhongrun (NMG) prepared in accordance with generally accepted accounting principles in the PRC, the financial information of Zhongrun (NMG) were as follows:

	For the year ended 31 Dec 2012 (audited) ^(Note 2)	For the year ended 31 Dec 2011 (audited) ^(Note 1)		
	Zhongrun (NMG) RMB'000	Zhongrun (NMG) RMB'000	NMG Zhongxingyuan RMB'000	NMG Huanbao RMB'000
Revenue	839,311	1,090,392	27,382	18,409
Profit (loss) before tax	(138,246)	472	222	(8)
Profit (loss) after tax	(138,246)	472	180	(8)

Notes:

1. The financial information is on company level only and not on consolidated basis.
2. The figures have reflected the financial information of NMG Zhongxingyuan and NMG Huanbao.

As at 31 December 2012, the audited net asset value of Zhongrun (NMG) was approximately RMB284,264,000.

(B) Financial information on Zhongkang and Cenway

Zhongrun (NMG) also owns equity interest in Zhongkang and Cenway. Zhongkang is wholly-owned by Zhongrun (NMG), and is principally engaged in the manufacture and sales of corn refined products. Cenway is owned as to 43.97% by Zhongrun (NMG) and 45.76% by another non-wholly owned subsidiary of the Company, and is principally engaged in the manufacture and sales of pharmaceutical intermediates.

Based on the audited accounts for the financial years ended 31 December 2011 and 31 December 2012 of Zhongkang and Cenway prepared in accordance with generally accepted accounting principles in the PRC, the financial information of Zhongkang and Cenway were as follows:

	For the year ended		For the year ended	
	31 Dec 2012 (audited)		31 Dec 2011 (audited)	
	Zhongkang	Cenway	Zhongkang	Cenway
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	226,032	19,207	354,409	29,724
Profit(loss) before tax	(3,476)	(1,643)	507	(79)
Profit (loss) after tax	(3,476)	(1,643)	431	(407)

As at 31 December 2012, the audited net asset value of Zhongkang and Cenway was approximately RMB66,525,000 and RMB65,325,000 respectively.

Upon Completion, Zhongrun (NMG) will cease to be a subsidiary of the Company, and the Company will no longer have any interest in Zhongrun (NMG) and Zhongkang. The Company will continue to hold 45.76% equity interest in Cenway through a non-wholly owned subsidiary of the Company.

Consideration

The Consideration payable by the Purchaser to the Company for the sale and purchase of the Sale Interest is RMB288,000,000 (equivalent to approximately HK\$360,000,000).

Upon signing of the Agreement, the Purchaser has paid RMB28,800,000, being 10% of the total Consideration, to the Company as part payment of the Consideration. The balance of the Consideration will be payable by the Purchaser to the Company within 10 working days from the date of the Agreement. If the Purchaser fails to pay the balance of Consideration in accordance with the Agreement, the Company shall be entitled to terminate the Agreement, in which case the Company shall be entitled to forfeit the part of Consideration already paid by the Purchaser as damages.

The Consideration was determined following commercial and arm's length negotiations between the Company and the Purchaser with reference to the business operations, financial performance, and the net asset value of the Zhongrun (NMG) Group.

Certain outstanding debts of Zhongrun (NMG)

(A) Amount owing by Zhongrun (NMG) to a lender

As at the date of the Agreement, there is an outstanding loan owing by Zhongrun (NMG) to a subsidiary of the Guarantor, in the principal amount of RMB80 million (equivalent to approximately HK\$100 million), which amount is non-interest bearing and payable on demand.

(B) Loan from the Group to Zhongrun (NMG)

As at the date of the Agreement, Zhongrun (NMG) owed an aggregate of RMB790,458,422 to the Group. Pursuant to the Agreement, the Purchaser undertook to procure Zhongrun (NMG) to repay such debts to the Company and/or designated subsidiary(ies) of the Company on or before 30 December 2013. It was further agreed that if Zhongrun (NMG) fails to repay such debts by 30 December 2013 in full, the Purchaser shall be liable to repay the same.

In order to ensure repayment of such debts, the Purchaser has agreed to procure a bank (or banks) in the PRC to issue bank guarantee in the amount of RMB790,458,422 to a designated subsidiary of the Company within 30 calendar days from the date of the Agreement. Pursuant to such bank guarantee, if the Purchaser fails to fully repay all outstanding debts to the Group by 30 December 2013, the designated subsidiary is entitled to demand immediate payment of the relevant sum by the bank(s) issuing the bank guarantee. If the Purchaser fails to deliver the bank guarantee to the designated subsidiary within the aforesaid timeframe, the Company shall be entitled (but not obligated) to terminate the Agreement and the transactions contemplated thereunder, in which case the Company shall be entitled to forfeit the Consideration (or any part thereof) already paid by the Purchaser as damages.

Completion

Subject to the due payment of the Consideration and the delivery of the abovementioned bank guarantee by the Purchaser, the parties to the Agreement agreed to use their best endeavours to procure the completion of the industrial and commercial registration procedures relating to the Sale Interest as soon as practicable and undertook to co-operate and provide mutual assistance in relation thereto.

Guarantee Agreement

On 4 June 2013, the Guarantor, the sole shareholder of the Purchaser, executed the Guarantee Agreement pursuant to which the Guarantor irrevocably and unconditionally agreed to guarantee the due performance of all obligations of the Purchaser under the Agreement, to bear all losses and costs suffered or incurred by the Company as a result of the breach or non-performance of the Purchaser of its obligations under the Agreement, and to indemnify the Company, on a full indemnity basis, of all losses and claims suffered by the Company as a result of the default or non-performance of the Purchaser of its obligations under the Agreement.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Zhongrun (NMG) has been performing unsatisfactorily financially in recent years and caused negative impact on the results of the Group. As the excess in production capacity of penicillin intermediates and bulk drugs in the PRC is deteriorating and competition within the industry becomes increasingly fierce, the Company expects that the prospect of the penicillin market in the PRC will continue to be challenging and is not optimistic about the future performance of Zhongrun (NMG). Having considered these factors, the Company intends to dispose of the Sale Interest to reduce the Group's investment in manufacture and sales of penicillin intermediates and bulk drugs, thereby reducing potential risk for further losses, and accordingly improving the Group's financial results and returns. After the disposal of Zhongrun (NMG), the Group will continue to manufacture penicillin intermediates and bulk drugs through another subsidiary of the Company located in Shijiazhuang. The total production capacity of such subsidiary is approximately 6,000 tonnes (denominated in terms of penicillin G industrial salt). The penicillin intermediates and bulk drugs manufactured by such subsidiary will be used both internally for manufacturing finished drugs products of the Group and for external sales.

It is expected that a gain of approximately HK\$98,000,000 will accrue to the Company upon completion of the Disposal. The net proceeds from the Disposal will be used by the Group as general working capital.

The Directors (including the independent non-executive Directors) of the Company consider that the terms of the Disposal are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As some of the applicable percentage ratios in respect of the Disposal exceed 5% but all applicable percentage ratios are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements, but exempt from shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company include the manufacture and sales of pharmaceutical products.

Both the Purchaser and the Guarantor are principally engaged in investment holding. The subsidiary of the Guarantor is principally engaged in the manufacture of veterinary medicine, drug additives to fodder, fertilizer (except products franchised and exclusively controlled by the state); and the sales of proprietary products.

DEFINITIONS

Unless the context otherwise requires, the following terms shall have the meanings set out below:

“Agreement”	the agreement for the sale and purchase of the Sale Interest entered into by the Company as vendor and the Purchaser as purchaser on 4 June 2013
“Cenway”	石藥集團內蒙古信匯製藥有限公司 (CSPC Cenway Inner Mongolia Pharmaceutical Co., Ltd.*), a company established in the PRC owned as to 45.76% by a non-wholly owned subsidiary of the Company, 43.97% by Zhongrun (NMG) and 10.27% by an independent third party as at the date of the Agreement
“Company”	CSPC Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	RMB288,000,000, being the consideration for the sale and purchase of the Sale Interest
“Directors”	the directors of the Company
“Disposal”	the disposal of the Sale Interest by the Company to the Purchaser on and subject to the terms of the Agreement
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the guarantee agreement dated 4 June 2013 between the Company and the Guarantor, pursuant to which, among others, the Guarantor agreed to guarantee the due performance by the Purchaser of all its obligations under the Agreement
“Guarantor”	Longriver Corporation (長江有限公司), a company incorporated in the Independent State of Samoa, the sole shareholder of the Purchaser
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“NMG Huanbao”	石藥集團內蒙古中興環保化工有限公司 (CSPC Inner Mongolia Zhongxing Huanbao Chemical Co., Ltd.*), a company established in the PRC and an indirect wholly-owned subsidiary of the Company prior to its merger with Zhongrun (NMG) in 2012
“NMG Zhongxingyuan”	內蒙古中興源生態環保有限公司 (Inner Mongolia Zhongxingyuan Environmental Protection Co., Ltd.*), a company established in the PRC and an indirect wholly-owned subsidiary of the Company prior to its merger with Zhongrun (NMG) in 2012
“PRC”	the People’s Republic of China
“Purchaser”	Best Century Group Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Guarantor
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	100% equity interest of Zhongrun (NMG)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongkang”	石藥集團內蒙古中抗糖業有限公司 (CSPC Inner Mongolia Zhongkang Sugar Products Co., Ltd.*), a company established in the PRC and a direct wholly-owned subsidiary of Zhongrun (NMG) as at the date of the Agreement
“Zhongrun (NMG)”	石藥集團中潤製藥(內蒙古)有限公司 (CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd.*), a foreign-owned enterprise established in the PRC and a direct wholly-owned subsidiary of the Company as at the date of the Agreement
“Zhongrun (NMG) Group”	Zhongrun (NMG) and its subsidiaries
“%”	per cent

By order of the Board of
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 4 June 2013

Note: for illustration purposes only, the translation of RMB to HK\$ in this announcement is based on the exchange rate of HK\$1=RMB0.80. This does not constitute any representation that any amount has been, could have been or may be exchanged at any particular rate on any date.

As at the date of this announcement, the Board of the Company comprises Mr. Cai Dongchen, Mr. Feng Zhenying, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Zhao John Huan, Mr. Wang Shunlong, Mr. Wang Huaiyu, Mr. Lu Jianmin and Mr. Wang Zhenguo as executive directors; Mr. Lee Ka Sze, Carmelo as non-executive director and Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang, Mr. Chan Siu Keung, Leonard, Mr. Wang Bo and Mr. Zhang Fawang as independent non-executive directors.

** For identification purposes only*