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SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

(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)

PLACING OF H SHARES

Placing Agents



Morgan Stanley

On 22 April 2011, the Company entered into the Placing Agreement with the Placing Agents in relation to the Placing, on a best efforts basis, of an aggregate of 138,056,825 H Shares at the Placing Price of HK\$25.00 per H Share.

The Placing Shares comprise a maximum of 138,056,825 H Shares to be allotted and issued by the Company.

The maximum of 138,056,825 Placing Shares represent 20% and 6.10%, respectively, of the existing issued H share capital and the total issued share capital of the Company as at the date of this announcement and 16.67% and 5.75%, respectively, of the issued H share capital and the total issued share capital of the Company as enlarged by the issue of the Placing Shares.

The Placing Shares will be sold to not less than 6 nor more than 10 Placees on a best efforts basis, subject to termination in certain events, as set out below under the heading "Conditions of the Placing".

The maximum amount of net proceeds of the Placing will be approximately HK\$3,389.30 million. The Company intends to use the net proceeds from the Placing for the expansion of pharmaceutical distribution and retail network and liquidity replenishment.

The Placing Shares will be issued under the General Mandate.

Since completion of the Placing is subject to a number of conditions mentioned herein, the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the H Shares.

THE PLACING AGREEMENT

Date: 22 April 2011

Parties: (i) The Company
(ii) The Placing Agents

PLACING

Pursuant to the Placing Agreement, the Placing Agents have severally (but not jointly and severally) agreed to act as the agents for the Company to procure, on a best efforts basis, professional, institutional and/or other investors to subscribe for an aggregate of 138,056,825 Placing Shares. The Placing Shares comprise a maximum of 138,056,825 H Shares to be issued and allotted by the Company.

INDEPENDENCE OF THE PLACING AGENTS

Each of the Placing Agents is not a connected person of the Company and is independent of and not connected with any connected person of the Company.

PLACEES

The Placing Agents will place the Placing Shares to not less than 6 nor more than 10 Placees. The Placing Agents shall use its reasonable endeavours, based on information available to the Placing Agents, information provided by the Company and confirmations from the Placees, to ensure that each Placee is not a connected person of the Company. It is not expected that any Placee will become a substantial shareholder of the Company immediately after the Placing.

NUMBER OF PLACING SHARES

The Placing Shares comprise a maximum of 138,056,825 H Shares to be issued and allotted by the Company.

The maximum of 138,056,825 Placing Shares represent 20% and 6.10%, respectively, of the existing issued H share capital and the total issued share capital of the Company as at the date of this announcement and 16.67% and 5.75%, respectively, of the issued H share capital and the total issued share capital of the Company as enlarged by the issue of the Placing Shares.

The aggregate nominal value of the Placing Shares will be RMB138,056,825 (equivalent to approximately HK\$164,353,000).

PLACING PRICE

The Placing Price of HK\$25.00 per H Share represents:

- (i) a discount of approximately 8.26% to the closing price of HK\$27.25 per H Share as quoted on the Stock Exchange on 21 April 2011, being the last trading day prior to the entering into of the Placing Agreement;
- (ii) a discount of approximately 8.53% to the average closing price of HK\$27.33 per H Share as quoted on the Stock Exchange for the last 5 trading days up to and including 21 April 2011; and
- (iii) a discount of approximately 9.02% to the average closing price of HK\$27.48 per H Share as quoted on the Stock Exchange for the last 10 trading days up to and including 21 April 2011.

The Placing Price was determined after arm's length negotiation between the Company and the Placing Agents which has taken into account recent market price of the H Shares and the current market conditions. The Directors consider that the terms of the Placing Agreement (including the placing fee and Placing Price) are fair and reasonable based on the current market conditions and are in the interests of the Company and the Shareholders as a whole.

CONDITIONS OF THE PLACING

Completion of the Placing is conditional upon, inter alia, the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Placing Shares.

If any of such conditions shall not have been fulfilled to the satisfaction of the Placing Agents or waived by the Placing Agents on or prior to 8:00 a.m. (Hong Kong time) on 6 May 2011, the obligations and liabilities of the Company and the Placing Agents under the Placing shall be null and void and neither the Company nor the Placing Agents shall have any claim against the other for costs, damages, compensation or otherwise.

TERMINATION

The Placing Agents may terminate the Placing Agreement, after consultation with the Company, upon the occurrence of, inter alia, certain force majeure events by giving written notice at any time prior to 8:00 a.m. on the Closing Date.

COMPLETION OF THE PLACING

The Placing is expected to be completed on the Closing Date.

As the Placing is subject to the satisfaction of certain conditions precedent, the Placing may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the date of the Placing Agreement and immediately after completion of the Placing on the Closing Date:

Holder of H Shares or Domestic Shares	As at the date of the Placing Agreement		On the Closing Date	
	No. of shares	Approximate percentage of issued share capital (%)	No. of shares	Approximate percentage of issued share capital (%)
<i>Holder of H Shares</i>				
Public shareholders	690,284,125	30.48	828,340,950	34.48
<i>Holder of Domestic Shares</i>				
CNPGC	1,574,284,349 <i>(Note)</i>	69.52	1,574,284,349	65.52
Total	<u>2,264,568,474</u>	<u>100.00</u>	<u>2,402,625,299</u>	<u>100.00</u>

Note: CNPGC is interested in 2,728,396 Domestic Shares directly and 1,571,555,953 Domestic Shares indirectly through 國藥產業投資有限公司 (Sinopharm Industrial Investment Co., Ltd.), which is 51% held by CNPGC.

LOCK-UP UNDERTAKING

The Company has undertaken to the Placing Agents that for a period from the date of the Placing Agreement up to 180 days after the Closing Date, neither the Company nor any person acting on its behalf will (i) sell, transfer, dispose, allot or issue or offer to sell, transfer, dispose, allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (ii) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transactions described in (i) above or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above without first having obtained the written consent of the Placing Agents.

GENERAL MANDATE TO ISSUE THE PLACING SHARES

The Placing Shares will be issued and allotted by the Company pursuant to the General Mandate. Pursuant to the General Mandate, the Directors are authorised to allot and issue up to 314,856,869 Domestic Shares and 138,056,825 H Shares. As at the date of this announcement, the Company has not issued any Domestic Shares or H Shares pursuant to the General Mandate. The issue and sale of the Placing Shares were approved by the CSRC on 14 April 2011.

REGULATORY AND CORPORATE APPROVALS

The Company has obtained all necessary PRC regulatory approvals for the Placing, being the approvals from the CSRC, SASAC, as well as the General Mandate and board approval. The Placing is not subject to the approval of the Shareholders.

RANKING OF THE PLACING SHARES

The Placing Shares will rank pari passu in all respects with the existing H Shares in issue as at the Closing Date, including the right to receive all dividends and distributions declared or made after the Closing Date (other than the final dividend of the Company for the year ended 31 December 2010).

REASONS FOR THE PLACING

The Directors consider that the placing of the Placing Shares represents an opportunity to raise capital for the Company while broadening the Shareholder base and capital base of the Company. Accordingly, the Directors consider that the placing of the Placing Shares is in the interests of the Company and its shareholders as a whole.

USE OF PROCEEDS

The maximum amount of net proceeds (after deducting all applicable costs and expenses, including commission, legal fees and levies) of approximately HK\$3,389.30 million from the placing of the Placing Shares is intended to be used for the expansion of pharmaceutical distribution and retail network and liquidity replenishment. The net price (after deducting all applicable costs and expenses, including commission, legal fees and levies) raised per H Share upon completion of the Placing will be approximately HK\$24.55.

EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

There has not been any equity fund raising activity of the Company in the 12 months preceding the date of this announcement.

APPLICATION FOR LISTING

Application has been made to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Placing Shares on the Stock Exchange.

TERMS AND DEFINITIONS

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

“Business Day”	any day (excluding Saturday, Sunday and public holidays in Hong Kong) on which licensed banks generally are open for business in Hong Kong and the Stock Exchange is generally open for trading of securities in Hong Kong
“CICC”	China International Capital Corporation Hong Kong Securities Limited
“Closing Date”	the Business Day after the day on which all the conditions set out in the Placing Agreement shall have been fulfilled but in any event no later than 9 May 2011, or such other date as the Company and the Placing Agents may agree in writing
“CNPGC”	中國醫藥集團總公司 (China National Pharmaceutical Group Corporation), an enterprise owned by the whole people established in the PRC, which is the controlling shareholder of the Company
“Company”	國藥控股股份有限公司 (Sinopharm Group Co. Ltd.), a joint stock limited company established in the PRC, 690,284,125 H Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission of the PRC)
“Directors”	the directors of the Company
“Domestic Shares”	the ordinary shares of the Company in the nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities
“General Mandate”	the general mandate granted by the shareholders to the Directors of the Company at the last annual general meeting of the Company held on 31 May 2010 to allot, issue, and/or deal with additional Domestic Shares and H Shares not exceeding 20% of each of its Domestic Shares and H Shares in issue as at 31 May 2010
“HK\$”	Hong Kong dollars

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“H Shares”	the overseas-listed foreign invested shares in the ordinary share capital of the Company in the nominal value of RMB1.00 each, which are listed on the Stock Exchange and are traded in Hong Kong dollars
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Morgan Stanley”	Morgan Stanley & Co. International plc. In so far as Morgan Stanley, in performing its functions under the Placing Agreement, is “dealing in securities”, as defined in Schedule 5 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (“SFO”), it shall be doing so through its agent Morgan Stanley Asia Limited and only in circumstances such that none of the sub-provisos (I), (II), (III), (IV) and (V) in sub-paragraph (iv) to the definition of “dealing in securities” in Part 2 of Schedule 5 of the SFO are applicable
“Placee(s)”	any professional, institutional or other investor(s) procured by the Placing Agents to subscribe for any of the Placing Shares pursuant to the Placing Agreement
“Placing”	placement of Placing Shares pursuant to the Placing Agreement
“Placing Agents”	CICC, UBS and Morgan Stanley
“Placing Agreement”	the placing agreement dated 22 April 2011 between the Company and the Placing Agents in respect of the Placing
“Placing Price”	the price payable for the Placing Shares at HK\$25.00 per H Share
“Placing Shares”	a maximum of 138,056,825 H Shares
“PRC”	the People’s Republic of China
“SASAC”	中國國務院國有資產監督管理委員會 (Stated-owned Assets Supervision and Administration Commission of the State Council of the PRC)
“Securities Act”	the United States Securities Act of 1933, as amended
“Shareholders”	the shareholders of the Company
“Shares”	Domestic Shares and H Shares

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“substantial shareholder” has the meaning ascribed to it under the Listing Rules

“UBS” UBS AG, Hong Kong Branch

By order of the Board of
Sinopharm Group Co. Ltd.
She Lulin
Chairman

Shanghai, the PRC

22 April 2011

As at the date of this announcement, the executive director of the Company is Mr. Wei Yulin; the non-executive directors of the Company are Mr. She Lulin, Mr. Wang Qunbin, Mr. Deng Jindong, Mr. Fan Banghan, Mr. Liu Hailiang, Mr. Chen Qiyu, Mr. Chen Wenhao and Mr. Zhou Bin; and the independent non-executive directors of the Company are Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Zhou Bajun.

The exchange rate adopted in this announcement for illustration purposes only is HK\$1.00 = RMB0.84.

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name “Sinopharm Group Co. Ltd.”*