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中國製藥集團有限公司
China Pharmaceutical
Group Limited

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 1093)

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SHIJIAZHUANG PHARMA GROUP INNER MONGOLIA ZHONGKANG SUGAR CO. LIMITED

On 30 August 2007 (after trading hours), Zhonghe Pharmaceutical entered into the Agreement with the Vendors to conditionally acquire the entire equity interest in Zhongkang Sugar from the Vendors at an aggregate consideration of RMB130,000,000.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as the applicable percentage ratios exceed 5% but are below 25%. As SPG and its associates (as defined in the Listing Rules) beneficially own an aggregate of approximately 50.926% of the issued share capital of the Company, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements.

In view of the interests of the SPG Group in the Acquisition, the SPG Group and its associates will abstain from voting in relation to the resolution approving the Acquisition at the EGM. An Independent Board Committee will be appointed to advise the Independent Shareholders on whether or not the terms of the Acquisition are in the interests of the Company and are fair and reasonable so far as the Shareholders as a whole are concerned. An independent financial adviser will be appointed to advise the Independent Board Committee regarding the terms of the Acquisition.

A circular containing further details of the Acquisition, letter from the Independent Board Committee, an opinion of the independent financial adviser together with a notice convening the EGM to approve the Acquisition will be despatched to the Shareholders as soon as practicable.

THE AGREEMENT

Date

30 August 2007 (after trading hours)

Parties

Vendors: SPG
Hong Yuan

Purchaser: Zhonghe Pharmaceutical

Asset to be acquired

Subject to the terms and conditions of the Agreement, Zhonghe Pharmaceutical has conditionally agreed to acquire 100 per cent. of the equity interest in Zhongkang Sugar.

Consideration

The Consideration amounts to RMB130,000,000 and shall be payable by Zhonghe Pharmaceutical to the Vendors in cash from internal resources of the Group upon Completion.

The Consideration was determined following arm's length negotiations between all parties to the Agreement. The Consideration of RMB130,000,000 represents a price earnings multiple of 6.5 based on the Guaranteed Profit. In arriving at the Consideration, the Board has made reference to the valuation of other companies listed on the Stock Exchange which engaged in similar business as that of Zhongkang Sugar and considers that the Consideration is comparable to the valuation of these comparable companies.

Conditions precedent

Completion of the Agreement is conditional upon the fulfillment of the following conditions:

- (a) Zhonghe Pharmaceutical having conducted a due diligence investigation in respect of Zhongkang Sugar including but not limited to its business, legal aspects, properties and accounts and Zhonghe Pharmaceutical being satisfied with the results of such due diligence investigation;
- (b) the approval by the Independent Shareholders of the Agreement and the transactions contemplated thereunder at an EGM to be held in accordance with the requirements of the Listing Rules; and
- (c) (if required) all approvals and consents required for the Acquisition having been obtained from governmental or regulatory authorities (including but not limited to the Ministry of Commerce of the PRC Government).

In the event that not all the above conditions have been fulfilled within 3 months from the date of the Agreement, i.e. 30 November 2007 (or by such later date(s) as the parties to the Agreement may agree in writing), the Vendors and Zhonghe Pharmaceutical may terminate the Agreement. Save for condition (a) which can be waived by Zhonghe Pharmaceutical, none of the conditions precedent can be waived by the parties to the Agreement.

Completion

Completion shall take place on the thirtieth day after the date on which all the conditions of the Agreement have been fulfilled or such other date as shall be agreed between the parties to the Agreement. Upon Completion, Zhongkang Sugar will be indirectly wholly owned by the Company and its financial results will be consolidated in the financial results of the Company.

Profit Guarantee

Pursuant to the Agreement, the Vendors have guaranteed to Zhonghe Pharmaceutical that the audited net profit of Zhongkang Sugar for the year ending 31 December 2007 will not be less than RMB20,000,000 (the “**Guaranteed Profit**”) according to the generally accepted accounting principles and standards in Hong Kong. In the event that such guarantee cannot be fulfilled, the Vendors will reimburse Zhonghe Pharmaceutical with an amount equal to the shortfall between the Guaranteed Profit and the actual net profit of Zhongkang Sugar for the year ending 31 December 2007 times a multiple of 6.5 in cash. The maximum amount to be reimbursed by the Vendors to Zhonghe Pharmaceutical is RMB130,000,000.

Pursuant to the Agreement, the Vendors and Zhonghe Pharmaceutical shall, within 5 days from the date of the audited accounts of Zhongkang Sugar for the year ended 31 December 2007, confirm in writing the exact amount to be reimbursed by the Vendors to Zhonghe Pharmaceutical. The Vendors shall reimburse Zhonghe Pharmaceutical within 10 days from the date of the confirmation. In the event such reimbursement is required to be made by the Vendors, the investment cost in Zhongkang Sugar will be reduced by the reimbursement so received and the related goodwill arising from the Acquisition will be reduced accordingly in the consolidated financial statements of the Company.

INFORMATION ON THE VENDORS

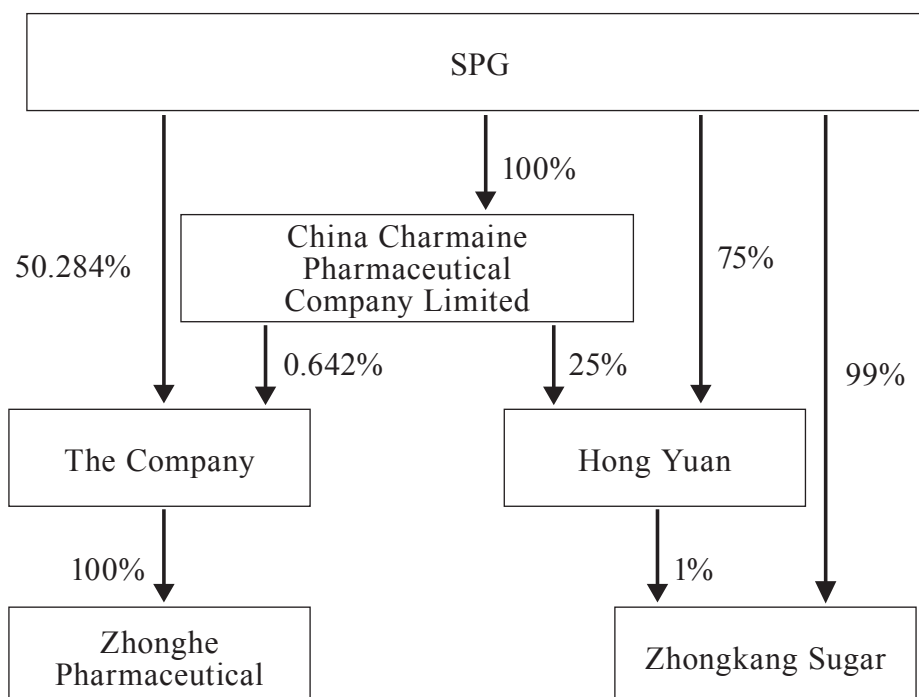
Hong Yuan is principally engaged in manufacture and sales of chemical products.

SPG is an enterprise established in the PRC and is an investment holding company. SPG and its subsidiaries are primarily engaged in the manufacturing and trading of pharmaceutical and chemical products. To the best knowledge of the Directors, the Company has not entered into any prior transactions with SPG and its ultimate beneficial owners which require aggregation under Rules 14.22 and 14A.25 of the Listing Rules.

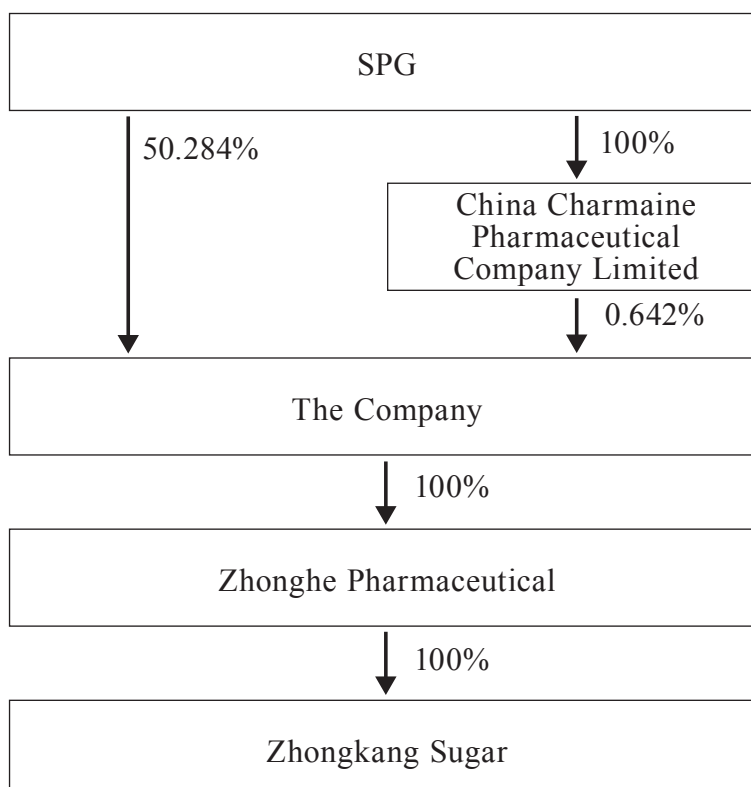
SHAREHOLDING STRUCTURE OF ZHONGKANG SUGAR IMMEDIATELY PRIOR TO AND AFTER COMPLETION OF THE ACQUISITION

The following charts set out the corporate structure of Zhongkang Sugar immediately prior to and after Completion:

Immediately prior to Completion



Immediately after Completion



INFORMATION ON ZHONGKANG SUGAR

Zhongkang Sugar is a company incorporated in the PRC established on 19 April 2004. The total equity interest in Zhongkang Sugar is owned as to 99% by SPG and as to 1% by Hong Yuan. Zhongkang Sugar is principally engaged in the manufacture and sale of corn refined products (including liquid glucose and corn syrup). The Group has been the largest customer of Zhongkang Sugar since its establishment.

According to the valuation report of Zhongkang Sugar prepared by an independent PRC valuer based on depreciated replacement cost method, the net asset value of Zhongkang Sugar as at 31 July 2007 was RMB84,044,816 (equivalent to approximately HK\$86,566,160).

According to the audited accounts of Zhongkang Sugar for the seven months ended 31 July 2007 prepared in accordance with the generally accepted accounting principles in the PRC, its audited profit for the seven months ended 31 July 2007 was RMB7,510,077 (equivalent to approximately HK\$7,735,379). The audited results of Zhongkang Sugar for the two years ended 31 December 2006 based on the generally accepted accounting principles in the PRC are set out below:—

	For the financial year ended	
	31 December	
	2005	2006
	<i>RMB</i>	<i>RMB</i>
Net profit (loss) before taxation	(956,084)	3,450,942
Net profit (loss) after taxation	(956,084)	3,450,942

REASONS FOR AND BENEFITS OF THE ACQUISITION

The operations of Zhongkang Sugar are complementary and related to the business of the Group. Almost all of the liquid glucose and corn syrup used by the production plants of the Group in Inner Mongolia are sourced from Zhongkang Sugar. The amount of purchases of liquid glucose and corn syrup by the Group from Zhongkang Sugar for the two years ended 31 December 2006 amounted to approximately RMB89,926,000 (equivalent to approximately HK\$92,623,780) and RMB159,333,000 (equivalent to approximately HK\$164,112,990) respectively.

The production site of Zhongkang Sugar is adjacent to the plants of the Group in Inner Mongolia. In addition, Zhongkang Sugar is the only manufacturer in neighbouring area that is capable of producing quality liquid glucose and corn syrup which meets the quantity requirement of the plants of the Group in Inner Mongolia. Although there are other corn refined product manufacturers in other areas of the PRC, sourcing from other manufacturers would mean high production cost for the Group as it would need to incur extra transportation costs to transport the raw materials to the plants of the Group in Inner Mongolia. Vertical integration as a result of the Acquisition will ensure a reliable and efficient supply of high quality raw materials at lower cost.

As disclosed in the announcements of the Company dated 31 December 2004 and 21 February 2005 and the circular of the Company dated 24 January 2005, the Group entered into continuing connected transactions

with Zhongkang Sugar in relation to the purchase of liquid glucose and corn syrup from Zhongkang Sugar for a period of 3 years from 1 January 2005 to 31 December 2007. The transactions were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 21 February 2005. Upon completion of the Acquisition, these transactions will cease to be continuing connected transactions of the Company. The number of existing continuing connected transactions of the Group will be greatly reduced.

The Directors (excluding the independent non-executive Directors who have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, who will provide their views after considering the opinion of the independent financial adviser) consider that the terms of the Acquisition have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof are fair and reasonable and are in the best interests of the Group and the Shareholders as a whole.

General

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

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as the applicable percentage ratios exceed 5% but are below 25%. As SPG and its associates (as defined in the Listing Rules) beneficially own an aggregate of approximately 50.926% of the issued share capital of the Company, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements.

In view of the interests of the SPG Group in the Acquisition, the SPG Group and its associates will abstain from voting in relation to the resolution approving the Acquisition at the EGM. An Independent Board Committee will be appointed to advise the Independent Shareholders on whether or not the terms of the Acquisition are in the interests of the Company and are fair and reasonable so far as the Shareholders as a whole are concerned. An independent financial adviser will be appointed to advise the Independent Board Committee regarding the terms of the Acquisition.

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DEFINITIONS

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

“Acquisition”	the acquisition by Zhonghe Pharmaceutical of the entire equity interest in Zhongkang Sugar from the Vendors pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 30 August 2007 entered into between Zhonghe Pharmaceutical and the Vendors in relation to the Acquisition

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	China Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition pursuant to the Agreement
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition
“Hong Yuan”	河北宏源化工有限公司 (Hebei Hong Yuan Chemical Co. Limited), a company established in the PRC and 75% equity interest of which is owned by SPG and the remaining 25% is owned by a wholly-owned subsidiary of SPG
“Independent Shareholders”	Shareholders other than the SPG Group and its associates
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors
“Group”	the Company and its subsidiaries
“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
“PRC”	the People’s Republic of China
“Shareholder(s)”	the holder(s) of the share(s) of the Company
“SPG”	Shijiazhuang Pharmaceutical Group Company Limited, a limited liability company established in the PRC, the controlling shareholder of the Company and beneficially owned by Legend Holdings Limited
“SPG Group”	SPG together with its subsidiary excluding the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	SPG and Hong Yuan

“Zhonghe Pharmaceutical”	石藥集團中禾製藥(內蒙古)有限公司 (Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited), a foreign investment company established in the PRC and a wholly owned subsidiary of the Company
“Zhongkang Sugar”	石藥集團內蒙古中抗糖業有限公司 (Shijiazhuang Pharma Group Inner Mongolia Zhongkang Sugar Co. Limited), a limited liability company established in the PRC and 99% of equity interest of which is owned by SPG and the remaining 1% is owned by Hong Yuan
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

Unless otherwise specified in this announcement, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK\$ at the rate of RMB1.00=HK\$1.03. No representation is made that any amounts in HK\$ or RMB can be or could have been converted at the relevant dates at the above rate or any other rates at all.

By Order of the Board
CHINA PHARMACEUTICAL GROUP LIMITED
CAI DONGCHEN
Chairman

Hong Kong, 30 August 2007

As at the date of this announcement, the board of directors of the Company comprises eight executive directors, namely Mr. Cai Dongchen, Mr. Yue Jin, Mr. Feng Zhenying, Mr. Ji Jianming, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Li Zhibiao and Mr. Zhang Zheng; one non-executive director, namely Mr. Lee Ka Sze, Carmelo and four independent non-executive directors, namely Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard.