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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)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 31 December 2004 and the circular of the Company dated 24 January 2005 setting out, inter alia, particulars of the continuing connected transactions in relation to the purchase of chemical products by each of Hebei Zhongrun and Zhonghe Pharmaceutical from Hong Yuan for a period of three years commencing from 1 January 2005 under the Zhonghe Agreement and the Zhongrun Agreement.

The Zhonghe Agreement and the Zhongrun Agreement will terminate on 31 December 2007. On 29 November 2007, Hebei Zhongrun and Hong Yuan entered into the New Zhongrun Agreement and Zhonghe Pharmaceutical and Hong Yuan entered into the New Zhonghe Agreement in relation to purchase of chemical products.

As SPG and its associates (as defined in the Listing Rules) beneficially own an aggregate of approximately 50.93% of the issued share capital of the Company, transactions between each of the subsidiaries of the Company as mentioned above and Hong Yuan of the SPG Group constitute connected transactions for the Company under the Listing Rules. Furthermore, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are subject to the disclosure requirements under Rules 14A.45 and 14A.47 of the Listing Rules and the approval of the Independent Shareholders under Rule 14A.48 of the Listing Rules.

The Independent Board Committee will be formed to consider and advise the Independent Shareholders on the terms of the Continuing Connected Transactions and the Caps, and will appoint an independent financial adviser to advise the Independent Board Committee. A circular containing, among other things, details of the Continuing Connected Transactions, the recommendation of the Independent Board Committee, an advice of the independent financial adviser together with a notice to convene the EGM to approve the Continuing Connected Transactions and the Caps will be issued to the Shareholders as soon as practicable.

SPG, being the controlling Shareholder and its associates will abstain from voting on the resolutions approving the Continuing Connected Transactions and the Caps to be proposed at the EGM.

BACKGROUND

Reference is made to the announcement of the Company dated 31 December 2004 and the circular of the Company dated 24 January 2005 setting out, inter alia, particulars of the continuing connected transactions in relation to the purchase of chemical products by each of Hebei Zhongrun and Zhonghe Pharmaceutical from Hong Yuan for a period of three years commencing from 1 January 2005 under the Zhonghe Agreement and the Zhongrun Agreement. The Zhonghe Agreement and the Zhongrun Agreement were approved by the Shareholders at the extraordinary general meeting of the Company held on 21 February 2005.

The Zhonghe Agreement and the Zhongrun Agreement will terminate on 31 December 2007.

On 29 November 2007, Hebei Zhongrun and Hong Yuan entered into the New Zhongrun Agreement and Zhonghe Pharmaceutical and Hong Yuan entered into the New Zhonghe Agreement in relation to purchase of chemical products.

CONTINUING CONNECTED TRANSACTIONS

(i) Purchase of chemical products by Hebei Zhongrun

Parties: (1) Hebei Zhongrun
(2) Hong Yuan

For the period from 1 January 2005 to the date of this announcement, Hebei Zhongrun purchased chemical products from Hong Yuan under the Zhongrun Agreement. The amount of purchases of chemical products by Hebei Zhongrun from Hong Yuan for the two financial years ended 31 December 2006 and the nine months ended 30 September 2007 amounted to approximately RMB56,294,000 (equivalent to approximately HK\$57,983,000), RMB68,098,000 (equivalent to approximately HK\$70,141,000) and RMB47,564,000 (equivalent to approximately HK\$48,991,000) respectively.

(ii) Purchase of chemical products by Zhonghe Pharmaceutical

Parties: (1) Zhonghe Pharmaceutical
(2) Hong Yuan

For the period from 1 January 2005 to the date of this announcement, Zhonghe Pharmaceutical purchased chemical products from Hong Yuan under the Zhonghe Agreement. The amount of purchases of chemical products by Zhonghe Pharmaceutical from Hong Yuan for the two financial years ended 31 December 2006 and the nine months ended 30 September 2007 amounted to approximately RMB22,739,000 (equivalent to approximately HK\$23,421,000), RMB49,463,000 (equivalent to approximately HK\$50,947,000) and RMB47,807,000 (equivalent to approximately HK\$49,241,000) respectively.

The amount of purchases of chemical products by the Group from the SPG Group for the two financial years ended 31 December 2006 and the nine months ended 30 September 2007 amounted to approximately RMB79,033,000 (equivalent to approximately HK\$81,404,000), RMB117,561,000 (equivalent to approximately HK\$121,088,000) and RMB95,371,000 (equivalent to approximately HK\$98,232,000) respectively. The annual caps under the Zhonghe Agreement and Zhongrun Agreement for the three financial years ended 31 December 2007 are HK\$147,840,000, HK\$206,080,000 and HK\$236,992,000 respectively.

Conditional upon the requisite resolution being passed by the Independent Shareholders at the EGM approving the Continuing Connected Transactions and the Caps, each of Hebei Zhongrun and Zhonghe Pharmaceutical will purchase from Hong Yuan chemical products including but not limited to D(-) parahydroxy phenylglycine dane salt and D(-) phenylglycine dane salt as raw materials for the production of antibiotics including but not limited to amoxicillin, ampicillin and ampicillin sodium. The purchase prices of such products to be paid by the Group to Hong Yuan will be reached after arm's length negotiation between the Group and Hong Yuan by reference to market price either on normal commercial terms or, if there is no available comparison, on terms no less favourable than those which may be obtained by the Group from Independent Third Parties. The term of each of the New Zhonghe Agreement and the New Zhongrun Agreement is three years from 1 January 2008 to 31 December 2010.

PROPOSED ANNUAL CAPS

For each of the three financial years ending 31 December 2010, the proposed maximum aggregate value for the Continuing Connected Transactions are as follows:

	financial year ending 31 December		
	2008	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Annual cap	237,377,000	298,812,000	373,337,000

The purchase price of D(-) parahydroxy phenylglycine dane salt has increased significantly in recent months. The current market price of the salt is approximately 10% higher than the price as at the beginning of this year. In light of the current trend, it is anticipated that the purchase price for the salt will further increase. The bases of the Cap amounts are determined by reference to the current market prices of the chemical products (allowing for 15% increase in the market prices for each of 2008, 2009 and 2010) and the expected output of the products of the Group and the new purchase of D(-) phenylglycine dane salt from Hong Yuan by the Group. The output of the products of the Group is expected to increase for the three years ending 31 December 2010 as a result of a higher utilization rate of the production capacity.

REASONS FOR THE TRANSACTIONS

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.

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

By entering into the Continuing Connected Transactions, the Group will be benefited from having a reliable source of supply of raw materials from Hong Yuan. The Directors (excluding the independent non-executive Directors who will be appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Continuing Connected Transactions and will provide their views after considering the opinion of the independent financial adviser) consider that the terms of the Continuing Connected Transactions have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof and the Caps are fair and reasonable and are in the best interests of the Group and the Shareholders as a whole.

LISTING RULES REQUIREMENTS

As the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting requirements under Rules 14A.45 and 14A.47 of the Listing Rules, the annual review requirement under Rules 14A.37 to 14A.41 of the Listing Rules and are subject to independent shareholders' approval at general meeting by way of poll under Rule 14A.35(4) of the Listing Rules. The Company will seek approval from the Independent Shareholders of the Continuing Connected Transactions and the Caps on the condition that for each of the three financial years ending 31 December 2010, the annual aggregate value of the Continuing Connected Transactions will not exceed RMB237,377,000 (equivalent to approximately HK\$244,498,000), RMB298,812,000 (equivalent to approximately HK\$307,776,000) and RMB373,337,000 (equivalent to approximately HK\$384,537,000) respectively.

To the best knowledge of the Directors, the Company has not entered into any other prior transactions with Hong Yuan and SPG and their ultimate beneficial owners which require aggregation under Rule 14A.25 of the Listing Rules

GENERAL

As SPG and its associates (as defined in the Listing Rules) beneficially own an aggregate of approximately 50.93% of the issued share capital of the Company, the Continuing Connected Transactions constitute connected transactions of the Company under the Listing Rules and are subject to approval from the Independent Shareholders.

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

A circular containing particulars of the Continuing Connected Transactions, letter from the Independent Board Committee, an opinion of the independent financial adviser together with a notice to convene the EGM to approve the Continuing Connected Transactions and the Caps will be despatched to the Shareholders as soon as practicable.

DEFINITION

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Caps”	the annual caps of the Continuing Connected Transactions
“Continuing Connected Transactions”	the continuing connected transactions between the Group and Hong Yuan in respect of the purchase of chemical products as contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement
“Company”	China Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve the Continuing Connected Transactions and the Caps
“Group”	the Company together with its subsidiaries
“Hebei Zhongrun”	石藥集團河北中潤製藥有限公司 (Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co. Limited), a Sino-foreign equity joint venture company established in the PRC and 99.21% of the equity interest of which is owned by the Company and the remaining 0.79% is owned by SPG
“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 100% of the equity interest of which is indirectly owned by SPG
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors

“Independent Shareholders”	Shareholders other than the SPG Group and its associates
“Independent Third Party”	persons who, to the best of the Directors’ knowledge, are not connected persons of the Company (as defined in the Listing Rules) and are third parties independent of the Company and its connected persons
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“New Zhonghe Agreement”	the product sales and purchase agreement dated 29 November 2007 entered into between Hong Yuan and Zhonghe Pharmaceutical in relation to the sale and purchase of chemical products for the period from 1 January 2008 to 31 December 2010
“New Zhongrun Agreement”	the product sales and purchase agreement dated 29 November 2007 entered into between Hong Yuan and Hebei Zhongrun in relation to the sale and purchase of chemical products for the period from 1 January 2008 to 31 December 2010
“PRC”	the People’s Republic of China
“Shareholder(s)”	the holder(s) of the shares of the Company
“SPG”	石藥集團有限公司 (Shijiazhuang Pharmaceutical Group Company Limited), a limited liability company established in the PRC and the controlling Shareholder 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
“Zhonghe Agreement”	the product sales and purchase agreement dated 31 December 2004 entered into between Hong Yuan and Zhonghe Pharmaceutical in relation to the sale and purchase of chemical products for the period from 1 January 2005 to 31 December 2007
“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
“Zhongrun Agreement”	the product sales and purchase agreement dated 31 December 2004 entered into between Hong Yuan and Hebei Zhongrun in relation to the sale and purchase of chemical products for the period from 1 January 2005 to 31 December 2007

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By Order of the Board
Cai Dongchen
Chairman

Hong Kong, 29 November 2007

English names of the PRC established companies in this announcement are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

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.

As at the date of this announcement, the Board comprises of 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.