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## **CONNECTED TRANSACTION**

### **THE ASSET SWAP AGREEMENT**

The Board announces that on 22 May 2009 the Company entered into the Asset Swap Agreement with China Charmaine.

Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in NBP to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hong Yuan to the Company at a consideration of HK\$125,000,000. China Charmaine is beneficially wholly-owned by SPG.

The consideration of the Asset Swap of HK\$125,000,000 was determined after arm's length negotiations between the Parties with reference to (i) the prevailing price to earnings multiples of comparable companies engaged in similar business of Hong Yuan; and (ii) the unaudited net asset value of NBP of RMB99.77 million (equivalent to approximately HK\$113.37 million) as at 30 April 2009. The consideration of HK\$125,000,000 represents a price to earnings multiple of approximately 3.17 times of Hong Yuan based on the audited net profit after tax of Hong Yuan of RMB34.70 million (equivalent to approximately HK\$39.43 million) for the year ended 31 December 2008. Moreover, according to the terms of the Asset Swap Agreement, China Charmaine has agreed to procure the repayment by NBP on or before Completion of the outstanding amounts of approximately RMB60.81 million (equivalent to approximately HK\$69.10 million) owed to the Group with such repayment expected to be financed by borrowings of NBP. Upon Completion, Hong Yuan will become a direct wholly-owned subsidiary of the Company and NBP will be wholly-owned by China Charmaine and will no longer be a subsidiary of the Company.

## **IMPLICATIONS UNDER THE LISTING RULES**

By virtue of the arrangement as disclosed in the composite document jointly issued by the Company, Legend Holdings and MGGL dated 19 July 2007, Legend Holdings is entitled to exercise or control the exercise of all the Shares held by MGGL in the Company, representing approximately 51.04% of the issued share capital of the Company as at the date of this announcement. Therefore, Legend Holdings is regarded as a controlling Shareholder. Legend Holdings indirectly holds the entire interest in China Charmaine through SPG. As such, China Charmaine, being an indirect wholly-owned subsidiary of Legend Holdings, is an associate of Legend Holdings and thus, a connected person of the Company within the meaning of the Listing Rules. Therefore, the Asset Swap constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given the applicable percentage ratios (other than the profits ratio) exceed 2.5% and the total consideration is more than HK\$10,000,000, the Asset Swap is subject to the requirements of reporting, announcement and Independent Shareholders' approval by way of poll at the EGM pursuant to Chapter 14A of the Listing Rules.

### **EGM**

MGGL, Legend Holdings and their respective associates, with material interest in the Asset Swap Agreement, will be required to abstain from voting in relation to the resolution to approve, among other things, the Asset Swap Agreement and the transactions contemplated thereunder at the EGM.

### **GENERAL**

A circular containing, among other things, (i) further details of the Asset Swap; (ii) a letter from the independent board committee of the Company; (iii) a letter of advice from an independent financial adviser to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of EGM at which a resolution will be proposed to consider and if thought fit, approve, among other things, the Asset Swap Agreement and the transactions contemplated thereunder, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

## **THE ASSET SWAP AGREEMENT**

### **Date:**

22 May 2009

### **Parties:**

- (i) the Company
- (ii) China Charmaine

## **Subject matter of the Asset Swap Agreement**

Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in NBP to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hong Yuan to the Company at a consideration of HK\$125,000,000. China Charmaine is beneficially wholly-owned by SPG.

To the best knowledge of the Directors, the Company has not entered into any prior transactions with China Charmaine and its ultimate beneficial owners which require aggregation under Rule 14A.25 of the Listing Rules.

China Charmaine is an investment holding company incorporated in Hong Kong.

## **Consideration**

The consideration of the Asset Swap of HK\$125,000,000 was determined after arm's length negotiations between the Parties with reference to (i) the prevailing price to earnings multiples of comparable companies engaged in similar business of Hong Yuan; and (ii) the unaudited net asset value of NBP of RMB99.77 million (equivalent to approximately HK\$113.37 million) as at 30 April 2009. The consideration of HK\$125,000,000 represents a price to earnings multiple of approximately 3.17 times of Hong Yuan based on the audited net profit after tax of Hong Yuan of RMB34.70 million (equivalent to approximately HK\$39.43 million) for the year ended 31 December 2008.

Pursuant to the Asset Swap Agreement, the consideration of the Asset Swap shall be satisfied by the Company transferring its entire equity interest in NBP to China Charmaine in exchange for China Charmaine's entire equity interest in Hong Yuan.

The Directors (excluding the independent non-executive Directors whose view will be given after considering the opinion of an independent financial adviser in relation to the Asset Swap) are of the opinion that the terms of the Asset Swap Agreement are fair and reasonable and on normal commercial terms and the Asset Swap is in the interests of the Company and the Shareholders as a whole.

## **Conditions precedent of the Asset Swap Agreement**

- (a) the Company having conducted a due diligence investigation in respect of Hong Yuan including but not limited to its business, legal aspects, properties and accounts and the Company being satisfied with the results of its due diligence investigation;
- (b) the Company having obtained the approval by the Independent Shareholders at the EGM in respect of the Asset Swap Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

- (c) if applicable, all relevant approvals from governmental or regulatory authorities (including but not limited to the commerce department of the PRC government) in respect of the Asset Swap Agreement being obtained and all transactions contemplated thereunder and the completion of the share transfer registration procedures in respect of the Asset Swap, in accordance with the requirements under the PRC laws; and
- (d) if applicable, the obtaining of consents to the Asset Swap from the relevant bank financiers of the Parties.

Neither Party can waive conditions (b), (c) and (d) above whereas condition (a) can be waived by the Company. As at the date of this announcement, none of the above conditions have been fulfilled. If the above conditions are not fulfilled within 6 months immediately after the date of the Asset Swap Agreement, unless the Parties otherwise agree in writing, the Asset Swap Agreement will lapse.

### **Completion**

Completion shall take place on the Completion Date at or before 5:00 p.m. (or such other time as the Parties may agree in writing).

According to the terms of the Asset Swap Agreement, China Charmaine has agreed to procure the repayment by NBP on or before Completion of the outstanding amounts of approximately RMB60.81 million (equivalent to approximately HK\$69.10 million) owed to the Group.

### **INFORMATION OF HONG YUAN**

Hong Yuan is a company established in the PRC in 1997 and wholly-owned by China Charmaine. Hong Yuan is principally engaged in the manufacture and sale of chemical products, including mainly D(-) parahydroxy phenylglycine dane salt and D(-) phenylglycine dane salt.

The aggregate original purchase cost paid by China Charmaine for 100% interest in Hong Yuan was approximately RMB67 million (equivalent to approximately HK\$76.14 million). Set out below are the audited results of Hong Yuan prepared in accordance with the Generally Accepted Accounting Principles in the PRC for the two years ended 31 December 2008:

|                               | <b>For the year ended</b>   |                     |
|-------------------------------|-----------------------------|---------------------|
|                               | <b>31 December<br/>2008</b> | 31 December<br>2007 |
|                               | <b>(audited)</b>            | (audited)           |
|                               | <b><i>RMB million</i></b>   | <i>RMB million</i>  |
| Revenue                       | <b>276.79</b>               | 168.10              |
| Profit/(loss) before taxation | <b>37.55</b>                | 20.90               |
| Profit/(loss) after taxation  | <b>34.70</b>                | 18.40               |

As at 31 December 2008, the audited net asset value of Hong Yuan was approximately RMB63.69 million (equivalent to approximately HK\$72.37 million).

As at 30 April 2009, the unaudited net asset value of Hong Yuan was approximately RMB78.56 million (equivalent to approximately HK\$89.27 million).

## INFORMATION OF NBP

NBP is a foreign investment company wholly-owned and established by the Company in the PRC in 2003. NBP is principally engaged in the manufacture and sale of pharmaceutical products, including mainly butylphthalide soft capsule, a medicine for treating ischemic stroke.

Set out below are the audited results of NBP prepared in accordance with the Generally Accepted Accounting Principles in the PRC for the two years ended 31 December 2008:

|                               | <b>For the year ended</b> |                    |
|-------------------------------|---------------------------|--------------------|
|                               | <b>31 December</b>        | 31 December        |
|                               | <b>2008</b>               | 2007               |
|                               | <b>(audited)</b>          | (audited)          |
|                               | <b><i>RMB million</i></b> | <i>RMB million</i> |
| Revenue                       | <b>60.37</b>              | 37.99              |
| Profit/(loss) before taxation | <b>(20.49)</b>            | (21.70)            |
| Profit/(loss) after taxation  | <b>(20.49)</b>            | (21.70)            |

The loss of NBP was mainly due to the loss generated from its operations.

As at 31 December 2008, the audited net asset value of NBP was approximately RMB107.03 million (equivalent to approximately HK\$121.62 million).

As at 30 April 2009, the unaudited net asset value of NBP was approximately RMB99.77 million (equivalent to approximately HK\$113.37 million).

As at 30 April 2009, the amounts due from NBP to certain subsidiaries of the Company was approximately RMB60.81 million (equivalent to approximately HK\$69.10 million). Pursuant to the Asset Swap Agreement, China Charmaine has agreed to procure the repayment by NBP on or before Completion of the outstanding amounts of approximately RMB60.81 million (equivalent to approximately HK\$69.10 million) owed to the Group with such repayment expected to be financed by borrowings of NBP. The amount repaid is intended to be used as the general working capital of the Group.

## **FINANCIAL EFFECT OF THE ASSET SWAP**

Upon Completion, (i) Hong Yuan will become a direct wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Company; and (ii) NBP will be wholly-owned by China Charmaine and the Company will cease to have any interests in NBP and its results, assets and liabilities will no longer be included in the consolidated financial statements of the Company.

As at 31 December 2008, the Group's audited total assets and total liabilities were approximately HK\$7,903.4 million and HK\$3,320.2 million respectively. It is expected that the Asset Swap would have decreased the total assets and total liabilities of the Group by approximately HK\$36.0 million and HK\$29.4 million respectively assuming that Completion had taken place on 30 April 2009. It is expected that the Group will not record any material gain or loss as a result of the disposal of NBP but will record a gain of approximately HK\$15.0 million, being the difference of the estimated fair value of NBP and its net asset value, as a result of change in fair value of NBP.

Given the profitable track record of Hong Yuan, the Directors consider that the contribution from Hong Yuan will have a positive impact on the earnings of the Group in the future following completion of the Asset Swap.

The aforesaid financial effect of the Asset Swap is for illustrative purposes only. The actual financial effect is subject to the fair values of Hong Yuan and NBP upon Completion.

## **REASONS FOR THE ASSET SWAP**

The Company is an investment holding company with its subsidiaries principally engaged in the manufacture and sale of pharmaceutical products.

The Group has been purchasing chemical products from Hong Yuan during the previous years for the production of pharmaceutical products. The chemical products purchased from Hong Yuan including but not limited to D(-) parahydroxy phenylglycine dane salt and D(-) phenylglycine dane salt are used as raw materials for the production of antibiotics, including but not limited to amoxicillin, ampicillin and ampicillin sodium. As disclosed in the announcement of the Company dated 29 November 2007 and the circular of the Company dated 11 December 2007, the Group entered into continuing connected transactions with Hong Yuan in relation to the purchase of chemical products for a period of 3 years from 1 January 2008 to 31 December 2010. The transactions were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 28 December 2007.

The Directors consider the Acquisition is a natural business growth of the Company. In addition, the Acquisition, which in effect is a vertical integration, will ensure a reliable supply of raw materials for the manufacture of pharmaceutical products of the Group at lower cost. Accordingly,

the Directors (excluding the independent non-executive Directors whose view will be given after considering the opinion of an independent financial adviser in relation to the Asset Swap) are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Upon Completion, the transactions between the Group and Hong Yuan will cease to be continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given the unsatisfactory financial performance of NBP for the past few years, the Directors consider that the future prospect of NBP is rather uncertain. In addition, the Company will be relieved from the financial burden to finance the operations of NBP after Completion. The Directors (excluding the independent non-executive Directors whose view will be given after considering the opinion of an independent financial adviser in relation to the Asset Swap) are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

Moreover, the Directors are of the view that the Asset Swap will not require any cash outlay by the Group.

## **IMPLICATIONS UNDER THE LISTING RULES**

By virtue of the arrangement as disclosed in the composite document jointly issued by the Company, Legend Holdings and MGGL dated 19 July 2007, Legend Holdings is entitled to exercise or control the exercise of all the Shares held by MGGL in the Company, representing approximately 51.04% of the issued share capital of the Company as at the date of this announcement. Therefore, Legend Holdings is regarded as a controlling Shareholder. Legend Holdings indirectly holds the entire interest in China Charmaine through SPG. As such, China Charmaine, being an indirect wholly-owned subsidiary of Legend Holdings, is an associate of Legend Holdings and thus, a connected person of the Company within the meaning of the Listing Rules. Therefore, the Asset Swap constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given the applicable percentage ratios (other than the profits ratio) exceed 2.5% and the total consideration is more than HK\$10,000,000, the Asset Swap is subject to the requirements of reporting, announcement and Independent Shareholders' approval by way of poll at the EGM pursuant to Chapter 14A of the Listing Rules.

## **EGM**

MGGL, Legend Holdings and their respective associates, with material interest in the Asset Swap Agreement, will be required to abstain from voting in relation to the resolution to approve, among other things, the Asset Swap Agreement and the transactions contemplated thereunder at the EGM.



## **GENERAL**

A circular containing, among other things, (i) further details of the Asset Swap; (ii) a letter from the independent board committee of the Company; (iii) a letter of advice from an independent financial adviser to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of EGM at which a resolution will be proposed to consider and if thought fit, approve, among other things, the Asset Swap Agreement and the transactions contemplated thereunder, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

## **DEFINITIONS**

Unless otherwise stated, the following expressions have the following meanings in this announcement:

|                        |  |
|------------------------|--|
| “Acquisition”          | the acquisition of 100% equity interest in Hong Yuan by the Company pursuant to the Asset Swap Agreement   |
| “Asset Swap”           | the Disposal and the Acquisition   |
| “Asset Swap Agreement” | the agreement dated 22 May 2009 entered into by the Parties in relation to the Asset Swap  |
| “associate(s)”         | has the meaning ascribed thereto under the Listing Rules   |
| “Board”                | the board of Directors   |
| “Business Day(s)”      | day(s) (other than Saturday and Sunday) on which banks in Hong Kong are open for business  |
| “China Charmaine”      | China Charmaine Pharmaceutical Company Limited, a company incorporated in Hong Kong with limited liability.  |
| “Company”              | China Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange  |
| “Completion”           | completion of the Asset Swap   |
| “Completion Date”      | means the 30th Business Day following the date on which the last of the conditions precedent to Completion have been fulfilled or such other date as the Parties to the Asset Swap Agreement may agree in writing on which the Asset Swap Agreement shall be completed |



|                              |   |
|------------------------------|---|
| “connected person(s)”        | has the meaning ascribed to it under the Listing Rules  |
| “Director(s)”                | the director(s) of the Company  |
| “Disposal”                   | the disposal of 100% equity interest in NBP by the Company pursuant to the Asset Swap Agreement   |
| “EGM”                        | an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Asset Swap Agreement and the transactions contemplated thereunder by the Independent Shareholders   |
| “Group”                      | collectively, the Company and its subsidiaries from time to time  |
| “Hong Kong”                  | the Hong Kong Special Administrative Region of the People’s Republic of China   |
| “Hong Yuan”                  | 河北宏源化工有限公司 (Hebei Hong Yuan Chemical Company Limited*), a company established in the PRC and wholly-owned by China Charmaine  |
| “Independent Shareholder(s)” | Shareholder(s) other than MGGL and its associates   |
| “Legend Holdings”            | 聯想控股有限公司 (Legend Holdings Limited*), an investment holding company established in the PRC, being a party acting in concert with MGGL pursuant to a concert party agreement dated 31 May 2007 entered into between Legend Holdings and MGGL, details of which are set out in the composite document dated 19 July 2007 jointly issued by the Company, Legend Holdings and MGGL |
| “Listing Rules”              | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “MGGL”                       | Massive Giant Group Limited, a controlling Shareholder and a company established under the laws of the British Virgin Islands   |
| “NBP”                        | 石藥集團恩必普藥業有限公司 (Shijiazhuang Pharma Group NBP Pharmaceutical Company Limited*), a foreign investment company established in the PRC and a wholly-owned subsidiary of the Company   |
| “Parties”                    | the parties to the Asset Swap Agreement, namely China Charmaine and the Company; and “Party” means any one of them  |

|                  |  |
|------------------|--|
| “PRC”            | the People’s Republic of China which for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan |
| “Share(s)”       | ordinary share(s) of HK\$0.10 each in the issued share capital of the Company  |
| “Shareholder(s)” | holder(s) of Shares  |
| “SPG”            | 石藥集團有限公司 (Shijiazhuang Pharmaceutical Group Company Limited*), a company established in the PRC and wholly-owned by Legend Holdings            |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited  |
| “subsidiaries”   | has the meaning ascribed to it in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)  |
| “HK\$”           | Hong Kong dollars, the lawful currency of Hong Kong  |
| “RMB”            | Renminbi, the lawful currency of the PRC   |
| “%”              | per cent.  |

*For the purpose of illustration only, amounts denominated in RMB have been translated into HK\$ at the rate of RMB1 = HK\$1.13636. Such translation should not be construed as a representation that the amounts quoted could have been or could be or will be converted at the stated rate or at any other rates at all.*

*\* For identification purpose only*

By order of the Board  
**China Pharmaceutical Group Limited**  
**Cai Dongchen**  
*Chairman*

Hong Kong, 22 May 2009

*As at the date of this announcement, the Board comprises Mr. Cai Dongchen, Mr. Yue Jin, Mr. Feng Zhenying, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Zhao John Huan and Mr. Wang Shunlong as executive Directors; Mr. Lee Ka Sze, Carmelo as non-executive Director and Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard as independent non-executive Directors.*