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## **CONNECTED TRANSACTION DISPOSAL OF A SUBSIDIARY**

The Board announces that on 23 October 2009, Zhongnuo Pharmaceutical, a wholly-owned subsidiary of the Company, and SPG entered into the Sale and Purchase Agreement pursuant to which Zhongnuo Pharmaceutical agreed to sell and SPG agreed to acquire the entire equity interest in Zhongchen Pharmaceutical, a wholly-owned subsidiary of Zhongnuo Pharmaceutical, at a consideration of RMB8,000,000.

As SPG is an indirect wholly-owned subsidiary of Legend Holdings, which is regarded as a controlling shareholder of the Company, SPG is a connected person of the Company as defined under the Listing Rules. Since the applicable percentage ratios (other than the profit ratio) exceed 0.1% but are less than 2.5%, the Disposal constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements (but exempt from the independent shareholders' approval requirement) under the Listing Rules.

### **THE SALE AND PURCHASE AGREEMENT**

#### **Date**

23 October 2009

#### **Parties**

Vendor: Zhongnuo Pharmaceutical

Purchaser: SPG

#### **Subject Matter**

Subject to the terms of the Sale and Purchase Agreement, Zhongnuo Pharmaceutical agreed to sell and SPG agreed to acquire the entire equity interest in Zhongchen Pharmaceutical.

## **Consideration**

The consideration for the disposal of Zhongchen Pharmaceutical amounts to RMB8,000,000 and shall be payable by SPG to Zhongnuo Pharmaceutical in cash upon Completion.

The consideration was determined after arm's length negotiations between the Parties with reference to the operation condition of Zhongchen Pharmaceutical and the unaudited net asset value of Zhongchen Pharmaceutical of RMB7,848,281 as at 30 September 2009.

## **Conditions Precedent**

Completion is conditional upon the satisfaction of the following conditions precedent:

- (a) all consents and approvals necessary or appropriate for consummation of the transactions contemplated by the Sale and Purchase Agreement under relevant PRC laws having been obtained from governmental or regulatory authorities in the PRC and completion of relevant procedures on amendments to the industry and commerce registration; and
- (b) (if required) the Company having obtained written consent from creditor banks in respect of the Disposal.

If the conditions shall not have been fulfilled within 6 months from the date of the Sale and Purchase Agreement (or by such later date(s) as the Parties may agree in writing), the Sale and Purchase Agreement will lapse and neither of the Parties shall have any claim against the other except in respect of any antecedent claim or breach.

## **Completion**

Completion shall take place on the thirtieth day after the date on which all the conditions of the Sale and Purchase Agreement have been fulfilled or such other date as shall be agreed between the Parties.

## **INFORMATION ON ZHONGCHEN PHARMACEUTICAL**

Zhongchen Pharmaceutical is a company established in the PRC and wholly-owned by Zhongnuo Pharmaceutical, a wholly-owned subsidiary of the Company. It is principally engaged in the wholesale of pharmaceutical products.

The audited net asset value of Zhongchen Pharmaceutical as at 31 December 2008 prepared in accordance with the generally accepted accounting principles in the PRC was RMB8,160,384. The results of Zhongchen Pharmaceutical for the two years ended 31 December 2008 and the nine months ended 30 September 2009 prepared in accordance with the generally accepted accounting principles in the PRC are set out below:

	<b>For the nine months ended 30 September 2009 (unaudited) RMB</b>	<b>For the year ended 31 December 2008                      2007 (audited)                (audited) RMB                        RMB</b>	
Profit/(loss) before taxation	(312,103)	(327,429)	(262,187)
Profit/(loss) after taxation	(312,103)	(327,429)	(262,187)

#### **FINANCIAL EFFECT OF THE DISPOSAL**

Upon Completion, the Company will no longer have any interest in Zhongchen Pharmaceutical and Zhongchen Pharmaceutical will cease to be a subsidiary of the Company. Therefore, the assets, liabilities and financial results of Zhongchen Pharmaceutical will no longer be consolidated in the consolidated financial statements of the Company. It is not expected that the Company will realize any material gain or loss upon completion of the Disposal. The proceeds of the Disposal will be used as working capital of the Group.

#### **REASONS FOR AND BENEFITS OF THE DISPOSAL**

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

Zhongchen Pharmaceutical is principally engaged in the wholesale of pharmaceutical products which is a non-core business of the Group. It has mainly purchased pharmaceutical products from other subsidiaries of the Group and sold to other wholesalers or customers in the PRC. After a recent review of the business of the Group, the Directors consider that the major operating subsidiaries of the Group already had a sufficient sales and distribution network themselves and the wholesale service of Zhongchen Pharmaceutical is not required. The Disposal is a streamlining of the core business of the Company.

The Directors, including the independent non-executive Directors, are of the opinion that the Sale and Purchase Agreement was entered into on normal commercial terms, and that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

The principal activity of SPG is investment holding. 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. SPG, 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 Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given the applicable percentage ratios (other than the profit ratio) exceed 0.1 % but are less than 2.5%, the Disposal constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements (but exempt from the independent shareholders' approval requirement) under the Listing Rules.

## **DEFINITIONS**

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

“Board”	the board of Directors
“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 Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of 100% equity interest in Zhongchen Pharmaceutical by Zhongnuo Pharmaceutical to SPG pursuant to the Sale and Purchase Agreement
“Group”	collectively, the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“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
“Parties”	the parties to the Sale and Purchase Agreement, namely SPG and Zhongnuo Pharmaceutical; 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
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 October 2009 entered into between Zhongnuo Pharmaceutical and SPG in relation to the Disposal
“Shareholder(s)”	the shareholder(s) of the Company
“SPG”	石藥集團有限公司 (Shijiazhuang Pharmaceutical Group Company Limited*), a company established in the PRC and indirectly wholly-owned by Legend Holdings
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongchen Pharmaceutical”	石藥集團石家莊中誠醫藥有限公司 (Shijiazhuang Pharma Group Zhongchen Pharmaceutical Company Limited*), a company established in the PRC and a wholly-owned subsidiary of the Company

“Zhongnuo Pharmaceutical” 石藥集團中諾藥業(石家莊)有限公司 (Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Company Limited\*), a company established in the PRC and a wholly-owned subsidiary of the Company

“RMB” Renminbi, the lawful currency of the PRC

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

Hong Kong, 23 October 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.*

\* *For identification purpose only*