
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Pharmaceutical Group Limited, you should at once hand this document and the accompanying Form(s) of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the General Offer contained herein.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document and the accompanying Form(s) of Acceptance and make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document and the accompanying Form(s) of Acceptance.



Legend Holdings Limited

(Incorporated in the PRC with limited liability)

Massive Giant Group Limited

(Incorporated in the British Virgin Islands with limited liability)



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)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO
UNCONDITIONAL MANDATORY CASH OFFER BY
GOLDBOND CAPITAL (ASIA) LIMITED
ON BEHALF OF MASSIVE GIANT GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$0.10 EACH IN
THE SHARE CAPITAL OF CHINA PHARMACEUTICAL GROUP LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED
TO BE ACQUIRED OR CONTROLLED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

Financial adviser to Massive Giant Group Limited



Goldbond Capital (Asia) Limited

**Independent Financial Adviser to the Independent Board Committee of
China Pharmaceutical Group Limited**



CIMB-GK Securities (HK) Limited

A letter from the Board is set out on pages 7 to 10. A letter from Goldbond Capital containing, among other things, details of the General Offer is set out on pages 11 to 23. A letter from CIMB-GK containing its advice and recommendation to the Independent Board Committee in respect of the General Offer are set out on pages 25 to 45 of this document respectively.

The procedures for acceptance and settlement of the General Offer are set out on pages I-1 to I-7 in Appendix I to this document and in the accompanying Form(s) of Acceptance. Acceptances of the General Offer should be received by the Registrar by no later than 4:00 p.m. on Thursday, 9 August 2007 (or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code).

19 July 2007

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EXPECTED TIMETABLE

2007

Despatch date of this Composite Offer Document and the accompanying Forms of Acceptance and commencement of the General Offer (<i>Note 1</i>)	Thursday, 19 July
Latest time and date for acceptance of the General Offer	4:00 p.m. on Thursday, 9 August
Closing Date of the General Offer (<i>Note 2</i>)	Thursday, 9 August
Announcement of the results of the General Offer to be posted on the Stock Exchange's website	7:00 p.m. on Thursday, 9 August
Latest date for posting of remittances for the amounts due under the General Offer in respect of valid acceptances received on or before the Closing Date (<i>Notes 3 and 4</i>)	Saturday, 18 August

Notes:

1. The General Offer is made on 19 July 2007, being the date of posting of this document, and is capable of acceptance on and from this date until the Closing Date.
2. The General Offer, which is unconditional, will be closed on 9 August 2007 unless the Offeror revises or extends the General Offer in accordance with the Takeovers Code. An announcement will be posted on the Stock Exchange's website by 7:00 p.m. on 9 August 2007 stating whether the General Offer has been revised or extended or have expired or in relation to any extension of the General Offer, to state also either the next closing date or that the General Offer will remain open until further notice. A notification of such announcement will be published in the newspapers on the next Business Day thereafter. In the event that the Offeror decides that the General Offer will remain open until further notice, at least 14 days' notice in writing will be given, before the General Offer is closed, to those Independent Shareholders who have not accepted the General Offer. For further details, please refer to the paragraph headed "Acceptance period and revisions" in Appendix I to this document.
3. The General Offer is unconditional. Acceptance of the General Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code.
4. Remittances in respect of the cash consideration payable for the Shares tendered under the General Offer will be posted to the relevant Shareholders by ordinary post at their own risk as soon as practicable, but in any event within 10 days after the receipt of all relevant documents by the Registrar from the Shareholders which render the relevant acceptances under the General Offer complete and valid.

All time and date references contained in this document refer to Hong Kong time and date.

DEFINITIONS

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

“Agreement”	the conditional sale and purchase agreement dated 16 June 2007 entered into between Legend Holdings and the SASAC relating to the sale and purchase of the entire interest of SPG
“Announcement”	the announcement dated 8 May 2007 made by the Company in relation to the listing for sale of the entire state-owned interest in SPG
“Appraised Assets Value”	the appraised assets value of SPG’s approximately 50.93% shareholding interest in the Company of approximately RMB1.25 billion (equivalent to approximately HK\$1.29 billion) as at 30 September 2006 as per the Valuation Report
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Bank”	The Bank of East Asia, Limited, a company incorporated in Hong Kong and the ordinary shares of which are listed on the main board of the Stock Exchange
“Board”	the board of Directors
“Business Day”	a day, other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“CCPCL”	China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG incorporated in Hong Kong

DEFINITIONS

“CIMB-GK” or “Independent Financial Adviser”	CIMB-GK Securities (HK) Limited, a licensed corporation under the SFO to carry on Types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the General Offer
“Closing Date”	9 August 2007, being the 21st day after the date on which this document is posted or, if the General Offer is extended, the closing date of the General Offer as extended by the Offeror in accordance with the Takeovers Code
“Concert Party Agreement”	a concert party agreement dated 31 May 2007 entered into between Legend Holdings and the Offeror
“Company”	China Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability whose issued Shares are listed on the Stock Exchange
“Completion”	completion of the Transaction on the Completion Date
“Completion Date”	the date of Completion being 26 June 2007
“Composite Offer Document”	this document jointly issued by and on behalf of the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, among others, terms and conditions of the General Offer, the Form(s) of Acceptance in respect of the General Offer and the advice of CIMB-GK to the Independent Board Committee in respect of the General Offer
“Consideration”	RMB870 million (equivalent to approximately HK\$896 million), being the consideration for the Transaction
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

DEFINITIONS

“Form(s) of Acceptance”	the accompanying form(s) of acceptance and transfer in respect of the General Offer
“General Offer”	the unconditional mandatory cash offer to be made by Goldbond Capital on behalf of the Offeror for all the Offer Shares in accordance with the Takeovers Code
“Goldbond Capital”	Goldbond Capital (Asia) Limited, a licensed corporation to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO and the financial adviser to the Offeror in respect of the General Offer
“Group”	the Company and its subsidiaries
“H Fund”	Hony Capital Fund III, L.P is a Cayman Islands exempted limited partnership, and is controlled by its general partner, H Fund GP
“H Fund GP”	Hony Capital Fund III GP, L.P is a Cayman Islands exempted limited partnership and is controlled by its general partner, HCF3GPL
“HCF3GPL”	Hony Capital Fund III GP Limited is a company with limited liability incorporated in the Cayman Islands
“HCML”	Hony Capital Management Limited is a company with limited liability incorporated in the BVI
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard established to advise the Independent Shareholders in respect of the General Offer
“Independent Shareholders”	being the Shareholders of the Company other than the Offeror, Legend Holdings and their respective associates and parties acting in concert with any of them
“Joint Announcement”	the announcement dated 28 June 2007 jointly made by the Company, the Offeror and Legend Holdings in relation to, among other things, the Transaction and the terms of the General Offer

DEFINITIONS

“Legend Holdings”	聯想控股有限公司 (for identification purposes, in English, Legend Holdings Limited), an investment holding company established in the PRC and with its subsidiaries primarily engaged in information technology, equity investment and real estate investment. Legend Holdings is also a controlling shareholder of Lenovo Group Limited and Digital China Holdings Limited, companies whose shares are listed on the Stock Exchange, with an approximate 49.2% and 47.8% equity interest in the issued share capital of Lenovo Group Limited and Digital China Holdings Limited respectively as disclosed on the website of the Stock Exchange as at 17 July 2007
“Latest Practicable Date”	16 July 2007, being the latest practicable date for ascertaining certain information referred to in this document prior to the printing of this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	the HK\$1.3 billion committed term loan facility offered by the Bank for drawing until 30 August 2007
“Offer Price”	HK\$1.6715 per Share
“Offer Shares”	all Shares which are not already owned or controlled, or have not been agreed to be acquired by Legend Holdings, MGL and parties acting in concert with them
“Offeror” or “MGL”	Massive Giant Group Limited, a special purpose vehicle company established under BVI law and wholly-owned by H Fund
“Premium”	the premium of approximately RMB31 million (equivalent to approximately HK\$32 million), being the difference between the Consideration and the appraised net assets value of SPG of approximately RMB839 million (equivalent to approximately HK\$864 million) as set out in the Valuation Report

DEFINITIONS

“Premium Apportionment”	apportionment of the Premium by approximately 57.06%, representing approximately RMB17.7 million (equivalent to approximately HK\$18.2 million) to the Appraised Assets Value. Such apportionment is made in proportion based on the Appraised Assets Value as a percentage to SPG’s appraised total assets value of approximately RMB2.19 billion (equivalent to approximately HK\$2.26 billion) as set out in the Valuation Report
“PRC”	The People’s Republic of China
“Registrar”	Secretaries Limited, the share registrar of the Company situated at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Relevant Period”	the period commencing on 8 November 2006, being the date falling six months prior to the Announcement and up to the Latest Practicable Date
“Relevant Securities”	relevant securities as defined in Note 4 to Rule 22 of the Takeovers Code
“SASAC”	石家莊市人民政府國有資產監督管理委員會 (for identification purposes, in English, State-owned Assets Supervision and Administration Committee of Shijiazhuang Municipal People’s Government)
“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SPG”	石藥集團有限公司 (for identification purpose, in English, Shijiazhuang Pharmaceutical Group Company Limited), established in the PRC, is an investment holding company and with its subsidiaries primarily engaged in the manufacturing and trading of pharmaceutical and chemical products

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction”	the sale and purchase of the entire interest in SPG pursuant to the Agreement
“Valuation Report”	石家莊製藥集團有限公司擬整體企業改制項目資產評估報告書（截止2006年9月30日）(for identification purposes, in English, Shijiazhuang Pharmaceutical Group Company Limited assets valuation report as at 30 September 2006)
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

Unless otherwise specified, translations of HK\$ into RMB (and vice versa) in this Composite Offer Document are based on the rate of RMB1.00 = HK\$1.03 (for the purpose of illustration only). 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.

LETTER FROM THE BOARD



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)

Executive Directors:

CAI Dongchen (*Chairman*)

YUE Jin

FENG Zhenying

JI Jianming

CHAK Kin Man

PAN Weidong

LI Zhibiao

ZHANG Zheng

Registered Office:

Room 3805, 38th Floor

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Non-executive Director:

LEE Ka Sze, Carmelo

Independent Non-executive Directors:

HUO Zhenxing

QI Moujia

GUO Shichang

CHAN Siu Keung Leonard

19 July 2007

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GOLDBOND CAPITAL (ASIA) LIMITED
ON BEHALF OF MASSIVE GIANT GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$0.10 EACH IN
THE SHARE CAPITAL OF CHINA PHARMACEUTICAL GROUP LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Pursuant to the announcement of the Company dated 8 May 2007, the joint announcements issued by the Company, Legend Holdings and the Offeror dated 12 June 2007 and 28 June 2007, it was announced, inter alia, that on 16 June 2007, Legend Holdings entered into the Agreement with SASAC, pursuant to which Legend Holdings conditionally agreed to acquire,

LETTER FROM THE BOARD

and SASAC conditionally agreed to dispose of, the entire interest of SPG. The Agreement was completed on 26 June 2007. Upon Completion there was an effective change in control of the Company resulting in Legend Holdings becoming indirectly interested in approximately 50.93% of the issued share capital of the Company. As such, Legend Holdings and parties acting in concert with it are obliged to extend a mandatory unconditional general offer under Rule 26 of the Takeovers Code for all issued shares of the Company which are not owned or have not been agreed to be acquired by Legend Holdings and parties acting in concert with it.

The terms of the General Offer are set out in “Letter from Goldbond Capital” of the Composite Offer Document, Appendix I to the Composite Offer Document and the Form of Acceptance.

The purpose of this document is to provide you with, among other things, further information relating to the Group and the General Offer, as well as the respective recommendation and advice of the Independent Board Committee and CIMB-GK regarding the General Offer.

THE GENERAL OFFER

Goldbond Capital, on behalf of the Offeror, is making the General Offer to acquire all the Shares not already owned or agreed to be acquired by the Offeror it on the following basis:

For each Offer Share HK\$1.6715 in cash

INFORMATION ON THE GROUP

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products in the PRC. Current principal products of the Group include (i) vitamin C, penicillin and cephalosporin products in bulk form; and (ii) antibiotic finished drugs.

For the year ended 31 December 2006, the audited consolidated revenue, profit before tax and profit attributable to equity holders of the Company were approximately HK\$3,539 million, HK\$1.6 million and HK\$15.7 million respectively. For the year ended 31 December 2005, the audited consolidated revenue, profit before tax and profit attributable to equity holders of the Company were approximately HK\$3,192 million, HK\$149.0 million and HK\$156.5 million respectively.

The turnover of the Group for the year ended 31 December 2006 increased approximately 11% as compared with the previous year which was mainly attributable to the increase in the sales volume of the bulk penicillin products. On the other hand, the profit attributable to equity holders of the Company for the year ended 31 December 2006 decreased approximately 90% as compared with the previous year which was mainly attributable to (i) the decrease in the average prices of the bulk vitamin C and cephalosporin products and (ii) the decline in the profit margin of the finished drug business during the same year.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has a total of 1,538,124,661 Shares in issue. Save for the aforesaid, the Company has no other Relevant Securities in the Company as at the date hereof.

Further information in relation to the Group is set out in Appendices II, III and IV to the Composite Offer Document. An expected timetable in relation to the General Offer is set out under the section headed “Expected timetable” of the Composite Offer Document.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the “Letter from Goldbond Capital”, in the Composite Offer Document for intentions of the Offeror regarding the Group.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Offeror to maintain the listing of the Shares on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of the Company have undertaken to the Stock Exchange to take appropriate steps as soon as practicable following the closing of the General Offer to ensure not less than 25% of the Shares will be held by the public.

The Stock Exchange has stated that if, at the close of the General Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the Shares.

RECOMMENDATION

The Independent Board Committee comprising Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard (who have no direct or indirect interest in the General Offer) has been established to make a recommendation (i) as to whether the General Offer is or is not fair and reasonable; and (ii) as to acceptance. CIMB-GK has advised the Independent Board Committee in that regard. Mr. Lee Ka Sze, Carmelo, being a partner of Woo Kwan Lee & Lo, Solicitors, legal adviser to the Company with respect to Hong Kong law in connection with the General Offer, is regarded not independent to advise the Independent Shareholders on the General Offer.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 24 of the Composite Offer Document and the letter from CIMB-GK to the Independent Board Committee set out on pages 25 to 45 of the Composite Offer Document.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the “Letter from Goldbond Capital” set out on pages 11 to 23 of the Composite Offer Document as well as the additional information contained in Appendices I to IV to the Composite Offer Document and the accompanying Form of Acceptance.

Yours faithfully
For and on behalf of the Board
Cai Dongchen
Chairman

LETTER FROM GOLDBOND CAPITAL



Goldbond Capital (Asia) Limited

3902B, 39th Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

19 July 2007

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GOLDBOND CAPITAL (ASIA) LIMITED
ON BEHALF OF MASSIVE GIANT GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$0.10 EACH IN
THE SHARE CAPITAL OF CHINA PHARMACEUTICAL GROUP LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Terms and expressions used herein shall have the same meanings as defined in the document jointly issued by Legend Holdings, the Offeror and the Company in respect of the General Offer (the “Composite Offer Document”) and the Joint Announcement, unless stated otherwise.

On 16 June 2007, Legend Holdings entered into the Agreement with SASAC, pursuant to which Legend Holdings conditionally agreed to acquire, and the SASAC conditionally agreed to dispose of, the entire interest of SPG at an aggregate consideration of RMB870 million (equivalent to approximately HK\$896 million) representing a premium of approximately RMB31 million (equivalent to approximately HK\$32 million) over the appraised net asset value of SPG of approximately RMB839 million (equivalent to approximately HK\$864 million) as at 30 September 2006 as set out in the Valuation Report. As at the Latest Practicable Date, SPG, among its holding of other investments, directly and indirectly holds as to approximately 50.93% of the entire issued share capital of the Company and the Appraised Assets Value was approximately RMB1.25 billion (equivalent to approximately HK\$1.29 billion) as at 30 September 2006.

LETTER FROM GOLDBOND CAPITAL

Immediately before Completion, Legend Holdings and parties acting in concert with it did not own any Shares. Upon Completion, there was an effective change in control of the Company resulting in Legend Holdings becoming indirectly interested in 783,316,161 Shares, representing approximately 50.93% of the entire issued share capital of the Company. Therefore, under Rule 26.1 of the Takeovers Code, upon Completion, Legend Holdings is obliged to make an unconditional general offer for all the issued Shares other than those already beneficially owned or agreed to be acquired by Legend Holdings and parties acting in concert with it.

Pursuant to the abovementioned obligation under Rule 26 of the Takeovers Code, it is proposed that MGL, an associate of Legend Holdings, would make the unconditional general offer on behalf of Legend Holdings.

The General Offer will be made at HK\$1.6715 per Share after taking into account (i) the Consideration; (ii) the Appraised Assets Value and the Premium Adjustment; and (iii) the 783,316,161 Shares owned by SPG as at the Latest Practicable Date. The Consideration would comprise entirely of cash. As completion took place on 26 June 2007, the General Offer is unconditional in all respects.

The Board of the Company confirmed that the Company has not had any prior transaction or relationship with Legend Holdings or parties acting in concert with it.

This letter sets out details of the Agreement, the terms of the General Offer, together with the information on the Offeror and the intention of the Offeror regarding the future of the Group. Further details of the terms of the General Offer regarding, inter alia, the procedures for acceptance and settlement and the acceptance period are set out in Appendix I to the Composite Offer Document and in the accompanying Form of Acceptance.

Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Board set out on pages 7 to 10 and the letter from CIMB-GK, the independent financial adviser to the Independent Board Committee in relation to the General Offer set out on pages 25 to 45 of the Composite Offer Document of which this letter forms a part.

THE AGREEMENT

On 16 June 2007, Legend Holdings entered into the Agreement with SASAC, pursuant to which Legend Holdings conditionally agreed to acquire, and SASAC conditionally agreed to dispose of, the entire interest of SPG. As at the Latest Practicable Date, the condition of the Agreement, which is to obtain approval from Shijiazhuang Municipal People's Government, was satisfied as the requisite approval has been obtained and the Transaction was completed on 26 June 2007 upon requisite confirmation, filing and/or registration of the Agreement with the relevant PRC authorities.

LETTER FROM GOLDBOND CAPITAL

Date

16 June 2007

Parties

Vendor: SASAC

Purchaser: Legend Holdings

Assets to be acquired

The entire equity interest of SPG.

Purchase price and payment terms

An aggregate consideration of RMB870 million (equivalent to approximately HK\$896 million) was paid in cash by Legend Holdings.

The Consideration was arrived at based on (i) the appraised net assets value of SPG as set out in the Valuation Report and (ii) after arm's length negotiations between Legend Holdings and SASAC.

Pursuant to the Agreement, a PRC auditor, as at the date of this letter, is in the process of carrying out the Audit. According to the best knowledge of the Offeror, the Audit is expected to be completed before end of July 2007. In the event that, based on the results of the Audit, the net asset value of SPG as at Completion Date exceeds RMB870 million (equivalent to approximately HK\$896 million), such Excess Amount will be payable to SASAC by SPG within 30 days from completion of the Audit. No further payment is required if the net asset value of SPG as at Completion Date is less than the RMB870 million (equivalent to approximately HK\$896 million).

LETTER FROM GOLDBOND CAPITAL

Condition precedent of the Agreement and Completion

The Agreement was conditional upon approval from Shijiazhuang Municipal People's Government, which was received on 20 June 2007, and Completion was to take place upon the requisite confirmation, filing and/or registration of the Agreement with the relevant PRC authorities including relevant local administration for industry and commerce.

Completion took place on 26 June 2007.

Representations and warranties

Pursuant to the Agreement, a business plan of SPG is to be developed, which includes an intention of investing, within five years from the Completion Date, no less than RMB5 billion in the pharmaceutical industry of Shijiazhuang, PRC. This investment of RMB5 billion is not directly related to the Company.

Furthermore, Legend Holdings has given an undertaking to the Company to the effect that Legend Holdings shall refrain from entering into transactions of any kind with SASAC, its nominees or concert parties in relation to the proposed investment of RMB5 billion as referred to in the Agreement.

THE GENERAL OFFER

Principal terms of the General Offer

Goldbond Capital, on behalf of the Offeror, will make the General Offer to acquire the Offer Shares on the following basis:

For each Share HK\$1.6715 in cash

As at the Latest Practicable Date, the Company has 1,538,124,661 Shares in issue and there are no outstanding warrants, options, derivatives or securities convertible into Shares as at the Latest Practicable Date. As at the Latest Practicable Date, save for the 783,316,161 Shares held through SPG which were acquired by Legend Holdings under the Agreement, Legend Holdings and parties acting in concert with it, did not own, or have control or direction over, any Shares, or did not enter into any derivatives in respect of the Shares or other securities of the Company. Save for the Agreement and the Concert Party Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Shares which might be material to the General Offer. There is no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the General Offer.

As at the Latest Practicable Date, none of the shareholders of the Company, the Offeror or any parties acting in concert with them have made any irrevocable commitment to or not to accept the General Offer.

LETTER FROM GOLDBOND CAPITAL

The General Offer is unconditional in all respects and, unless otherwise extended, will remain open for acceptance until 4:00 p.m. on 9 August 2007. Acceptances of the General Offer shall be irrevocable and, subject to the right of withdrawal set out in Appendix I to the Composite Offer Document, once given cannot be withdrawn.

The procedure for acceptance and further terms of the General Offer are set out in Appendix I to the Composite Offer Document.

Comparisons of value

The Offer Price of HK\$1.6715 per Share is determined after taking into account (i) the Consideration; (ii) the Appraised Assets Value and the Premium Apportionment; and (iii) the 783,316,161 Shares owned by SPG as at the Latest Practicable Date. The Offer Price therefore reflects the appraised assets value of SPG's approximately 50.93% shareholding interest in the Company of approximately RMB1.25 billion (equivalent to approximately HK\$1.29 billion) as per the Valuation Report and the proportionate apportionment of the difference between the Consideration and the appraised net assets value of SPG of approximately RMB839 million (equivalent to approximately HK\$864 million) as set out in the Valuation Report. The Offer Price of HK\$1.6715 per Share represents:

- (a) a discount of approximately 46.94% to the closing price of HK\$3.15 per Share as quoted on the Stock Exchange on 16 July 2007, being the Latest Practicable Date;
- (b) a discount of approximately 8.66% to the closing price of HK\$1.83 per Share as quoted on the Stock Exchange on 7 May 2007, being the last trading day prior to the commencement of the offer period;
- (c) a discount of approximately 37.16% to the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on 15 June 2007, being the last trading day prior to the suspension of trading of the Shares on 18 June 2007;
- (d) a discount of approximately 39.66% to the average closing price of HK\$ 2.77 per Share over the 5 trading days (excluding the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007;
- (e) a discount of approximately 39.00% to the average closing price of HK\$ 2.74 per Share over the 10 trading days (excluding the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007;

LETTER FROM GOLDBOND CAPITAL

- (f) a discount of approximately 32.05% to the average closing price of approximately HK\$ 2.46 per Share over the 30 trading days (excluding 8 May 2007 and the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007; and
- (g) a premium of approximately 1.32% over the audited consolidated net tangible asset value per Share of approximately HK\$1.6498 as at 31st December 2006 (based on the audited consolidated net tangible assets of the Company of approximately HK\$2,537,602,000 as stated in the last published annual report of the Company for the year ended 31 December 2006 and 1,538,124,661 Shares in issue as at 31st December 2006).

The closing price of the Shares quoted on the Stock Exchange on 7 May 2007, being the last business day immediately preceding the Announcement, was HK\$1.83 per Share.

Dealings in the Shares and other securities by the Offeror during the Relevant Period

As at the Latest Practicable Date, save for the 783,316,161 Shares held through SPG which were acquired by Legend Holdings under the Agreement, neither the Offeror nor any parties acting in concert with it owned any Shares or any other securities, including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital of the Company. Neither the Offeror nor any parties acting in concert with it has dealt in any Shares or any other securities, including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital of the Company during the Relevant Period.

During the Relevant Period and as at the Latest Practicable Date, none of the directors of the Offeror nor the directors of Legend Holdings owned or have dealt in any Shares or any other securities, including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital of the Company.

Highest and lowest prices

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$3.11 on 25 May 2007 and HK\$0.94 on 7 November 2006 respectively.

Total consideration

As at the Latest Practicable Date, there are 1,538,124,661 Shares in issue. At the Offer Price of HK\$1.6715 per Share, the entire issued share capital of the Company would be valued at approximately HK\$2,571 million. Based on 754,808,500 Shares subject to the General Offer, the General Offer would be valued at approximately HK\$1,262 million.

The Offeror will finance the General Offer by way of the Loan Facility. Security provided by the Offeror includes:

- (i) Charge over US\$ time deposit in the amount equivalent to HK\$550 million in the name of the Offeror and such charged deposit should be applied to repay the Loan Facility;

LETTER FROM GOLDBOND CAPITAL

- (ii) Legal charge over all Shares purchased through the General Offer from the proceeds of the Loan Facility only if the drawdown amount in aggregate is equivalent to or over HK\$550 million; and
- (iii) Equitable charge over all shares of the Offeror.

The Offeror does not intend that the payment of interests on, or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company.

Based on the Loan Facility, Goldbond Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the General Offer.

Effects of accepting the General Offer

By accepting the General Offer, the relevant Shareholders will sell their Shares to the Offeror free from all liens, claims and encumbrances and with all rights attached to them as at the Latest Practicable Date, including the right to receive all dividends and distributions declared, paid or made, if any, on or after 28 June 2007, being the date of the Joint Announcement.

The General Offer Shares will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including (without limitation) the right to receive dividends and distributions declared, made or paid, if any, on or after the 28 June 2007, being the date of the Joint Announcement.

Stamp duty

Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration arising on acceptance of the General Offer (or of the market value of the Shares as determined by the tax authority of Hong Kong) will be deducted from the consideration due to the accepting Shareholders. The Offeror will arrange for payment of the stamp duty by the accepting Shareholders in connection with the acceptance of the General Offer and the transfer of their respective Shares.

Payment

Payment in cash in respect of acceptances of the General Offer will be made within ten days of the date on which the relevant documents of title are received by the Registrar to render each such acceptance complete and valid.

LETTER FROM GOLDBOND CAPITAL

Compulsory acquisition

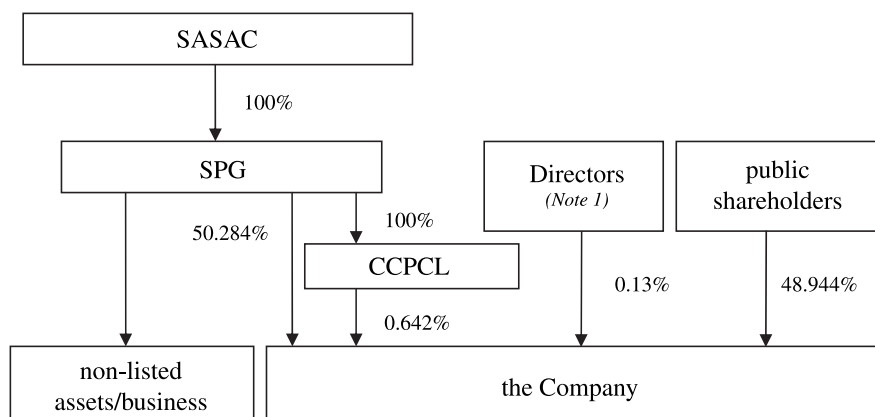
The Offeror and parties acting in concert with it do not intend, but reserve the right, to exercise any right which may be available to it to acquire compulsorily any outstanding issued Shares not acquired under the General Offer after it has closed.

SHAREHOLDING STRUCTURE OF THE COMPANY

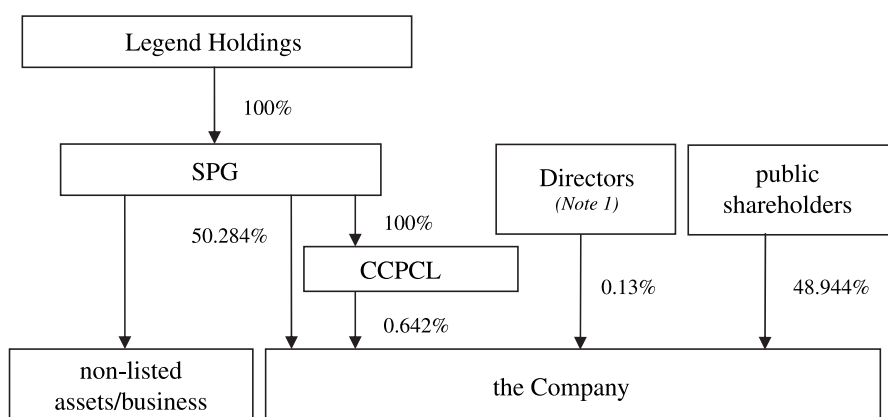
The shareholding structure of the Company (a) immediately before Completion; (b) upon Completion and (c) upon the completion of the General Offer will be as follows:

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION OF THE TRANSACTION AND THE GENERAL OFFER

(a) Immediately before Completion



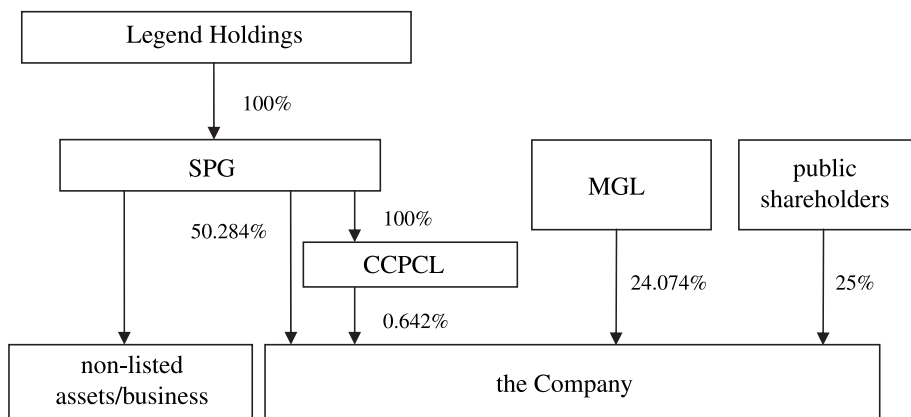
(b) Upon Completion



Note 1: 2,000,000 Shares and 4,000 Shares, representing 0.13% and 0.00026% of the issued Shares of the Company, held by Mr. Cai Dongchen, chairman of the Company and Mr. Chak Kin Man, an executive Director respectively.

LETTER FROM GOLDBOND CAPITAL

- (c) Upon completion of the General Offer (assuming full acceptance of Offer Shares but provides that 25% of the issued Shares of the Company are held by the public)



INFORMATION ON LEGEND HOLDINGS

Legend Holdings is an investment holding company established in 1984 in the PRC and with its subsidiaries primarily engaged in information technology, equity investment and real estate investment.

Legend Holdings is ultimately controlled and is owned as to 35% by the Employees' Shareholding Society of Legend Holdings Limited and 65% by the Chinese Academy of Sciences (whose interests in Legend Holdings are held through its wholly-owned subsidiary, Chinese Academy of Sciences Holdings Co., Ltd.). The directors of Chinese Academy of Sciences Holdings Co., Ltd. are Mr. Yang Bailing, Mr. Jiang Mianheng, Mr. Shi Erwei, Mr. Fang Xin, Mr. Yan Yixun, Mr. Deng Maicun and Mr. Liu Jianyao. The Employee's Shareholding Society of Legend Holdings Limited is not a corporate entity and accordingly, does not have any directors. The directors of Legend Holdings are Mr. Zeng Maochao, Mr. Liu Chuanzhi, Mr. Li Qin, Mr. Zhu Linan, Mr. Chen Guodong and Mr. Yang Bailing.

INFORMATION ON THE OFFEROR

MGL is a special purpose vehicle company incorporated in the BVI with limited liability, which is wholly-owned by H Fund. H Fund is an investment fund which is structured as a Cayman Islands exempted limited partnership controlled by its general partner, the H Fund GP, which is itself also a Cayman Islands exempted limited partnership and is controlled by its general partner, HCF3GPL, a company with limited liability and incorporated in the Cayman Islands. HCF3GPL is wholly-owned by Hony Capital Management III Limited, a company with limited liability and incorporated in the Cayman Islands, which is in turn owned as to 45% by Legend Holdings (through its wholly-owned subsidiary, Right Lane Limited) and 55% by Mr. John Huan Zhao. As at the Latest Practicable Date, MGL does not engage in any business undertakings. As advised by the legal adviser to the Offeror in respect of the Cayman Islands laws, control in this context is pursuant to the Cayman Islands Exempted Limited

LETTER FROM GOLDBOND CAPITAL

Partnership (“ELP”) law which provides that the general partner(s) of a Cayman Islands ELP has the exclusive right to manage the affairs of that ELP to the exclusion of the limited partners.

Besides general partnership interests, H Fund and H Fund GP have limited partners, which, under the relevant limited partnership agreements do not participate in the day to day management of H Fund and have no voting control relating to the management of the funds and merely passively receive economic returns on their investment commitments in the respective funds.

Legend Holdings maintains the single largest limited partnership interest in H Fund, with a holding of approximately 34.4% of the value of the fund. In addition to Legend Holdings, H Fund has 25 other investors with interests ranging from 0.15% to 17.09% of the value of H Fund. Pursuant to H Fund’s limited partnership agreement, its general partner, H Fund GP, is responsible for the making of all fund investment decisions (on the recommendations of HCML, the manager of H Fund, which sources investments for H Fund but has no right to take investment decisions on behalf of H Fund or bind H Fund), subject to the unanimous approval of H Fund’s five-member investment committee comprising Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Henry Cornell, Ms. Stephanie Hui and Mr. John Huan Zhao.

The Board of the Company confirmed that the Company has not had any prior transaction or relationship with any of the abovementioned members of H Fund’s investment committee.

LEGEND HOLDINGS AND THE OFFEROR

Legend Holdings and the Offeror have entered into the Concert Party Agreement pursuant to which Legend Holdings and the Offeror have agreed that they would consult each other on all major matters concerning the affairs of the Company with the aim of reaching a consensus, including any investment or disposal decisions regarding the Shares, as long as Legend Holdings and the Offeror hold any equity interests in the Company.

Legend Holdings and the Offeror have undertaken to each other under the Concert Party Agreement that they will not do any act or exercise any of their voting power (which may be available to them from time to time) over any of the Shares in contravention of their respective obligations under the Concert Party Agreement or in violation of any consensus reached in accordance with the Concert Party Agreement.

An arrangement by way of a separate side letter has also been put into place amongst the ultimate stakeholders of the Offeror/H Fund (and related entities) to effectively vest in Legend Holdings ultimate control in relation to all decisions exercisable by the Offeror/H Fund (and related entities) to the extent that they relate to:

- (a) the making of the General Offer for the Shares of the Company by the Offeror;

LETTER FROM GOLDBOND CAPITAL

- (b) the Offeror's resultant equity stake in the Company and any disposal or investment decisions in relation thereof;
- (c) the management of the Offeror's equity stake in the Company including the exercise of voting rights attached to such equity stake; and
- (d) all other matters relating to the general management and affairs of the Company.

INTENTION OF THE OFFEROR REGARDING THE GROUP

The Offeror intends that the Company will continue its existing businesses in the manufacturing and sale of pharmaceutical products and will maintain its listing status on the Stock Exchange following the close of the General Offer. The Offeror has no intention to dispose of or re-deploy the assets of the Group other than in the ordinary course of its business, or to inject its assets into the Group as a result of the General Offer. Following Completion and the close of the General Offer, the Offeror will conduct a detailed review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. The Offeror intends that, save for the change in the composition of the Board of the Company as stated below, there will not be any material changes in the management or employees of the Group as a result of the General Offer to ensure a smooth transition.

The Offeror is of the view that in the long term, the Group would benefit from a developing PRC economy which would drive the growth of the pharmaceutical market in the PRC as a result of increasing GDP, higher dispensable income and growing healthcare awareness.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

It is the intention of the Offeror that there will be a change in the composition of the Board of the Company. The Offeror is in the process of identifying suitable personnel for the positions of executive Directors and independent non-executive Directors at appropriate times. Further announcement(s) will be made once the appointment of the new Directors (including but not limited to the three independent non-executive Directors), setting out details of the appointment of such Directors in accordance with Rule 13.51(2) of the Listing Rules, is confirmed.

All appointments and resignations of Directors would be made in full compliance with the requirements of the Takeovers Code and further announcement(s) will be made by the Company in accordance with the requirements of the Listing Rules.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror has no intention to privatise the Company and intends to maintain the listing of the Shares on the Stock Exchange after the close of the General Offer.

LETTER FROM GOLDBOND CAPITAL

The directors of the Offeror and the new directors to be appointed to the Board will undertake to the Stock Exchange, if upon closing of the General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, to take appropriate steps within a reasonable period following the close of the General Offer, to ensure that, as soon as practicable following the close of the General Offer, not less than 25% of the issued Shares will be held by the public.

The Stock Exchange has stated that if, upon closing of the General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the Shares; or**
- (b) there are insufficient Shares in public hands to maintain an orderly market;**

it will consider exercising its discretion to suspend trading in the Shares.

TAXATION

You are recommended to consult your own professional advisers if you are in any doubt as to the taxation implications of accepting the General Offer. It is emphasised that none of the Offeror, the parties acting in concert with it and Goldbond Capital and any of their respective directors and any other parties involved in the General Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the General Offer.

ACCEPTANCE AND SETTLEMENT

(a) Procedures for acceptance of the General Offer

To accept the General Offer, you should complete the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the General Offer.

The completed Form of Acceptance should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the General Offer by post or by hand to the Registrar, Secretaries Limited, the share registrar of the Company situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, Hong Kong marked "China Pharmaceutical Offer" on the envelope, as soon as practicable after receipt of this document and in any event so as to reach the Registrar by no later than 4:00 p.m. on Thursday, 9 August 2007 or such later time and/or date as the Offeror may determine and announce.

LETTER FROM GOLDBOND CAPITAL

Further terms of the General Offer, including procedures for acceptance and the acceptance period, are set out in the Appendix I to the Composite Offer Document and the Form of Acceptance.

(b) Settlement of the General Offer

Provided that the relevant Form(s) of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and received by the Registrar by no later than 4:00 p.m. on Thursday, 9 August 2007, a cheque for the amount representing the cash consideration (after deducting the relevant seller's ad valorem stamp duty payable by you) due to you in respect of the Shares tendered by you under the General Offer will be despatched to you by ordinary post at your own risk within 10 days of the date on which all the relevant documents which render such acceptance complete and valid are received by the Registrar.

GENERAL

To ensure equality of the treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the General Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the General Offer.

All documents and remittances will be sent to the Independent Shareholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant Forms of Acceptance completed and returned by the Independent Shareholders. None of the Company, the Offeror and the parties acting in concert with it, Goldbond Capital and the Registrar or any of their respective directors will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

Your attention is drawn to the Form(s) of Acceptance, the additional information set out in the appendices to the Composite Offer Document.

Yours faithfully,
For and on behalf of
Goldbond Capital (Asia) Limited
Stacey Wong
Head of Corporate Finance

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

19 July 2007

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GOLDBOND CAPITAL (ASIA) LIMITED
OH BEHALF OF MASSIVE GIANT GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$0.10
EACH IN THE SHARE CAPITAL OF
CHINA PHARMACEUTICAL GROUP LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR
AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the composite offer document dated 19 July 2007 (the “Document”) jointly issued by the Offeror and the Company of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires. We have been appointed as members of the Independent Board Committee to consider the General Offer and to advise you as to whether, in our opinion, the terms of the General Offer are fair and reasonable so far as your interests are concerned.

CIMB-GK has been appointed to advise us in respect of the General Offer. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from CIMB-GK on pages 25 to 45 of the Document. We also wish to draw your attention to: (i) the “Letter from the Board” set out on pages 7 to 10 of the Document; (ii) the “Letter from CIMB-GK” set out on pages 25 to 45 of the Document; and (iii) the additional information set out in the appendices to the Document.

Having taken into account the terms of the General Offer and the advice and recommendation of CIMB-GK, we consider that the terms of the General Offer are not fair and reasonable so far as the Independent Shareholders are concerned and accordingly, we recommend the Independent Shareholders not to accept the General Offer.

Yours faithfully,

Independent Board Committee

Huo Zhenxing Qi Moujia Guo Shichang Chan Siu Keung, Leonard

Independent non-executive Directors

LETTER FROM CIMB-GK

The following is the text of a letter of advice from CIMB-GK, the independent financial adviser to the Independent Board Committee, which has been prepared for the purpose of incorporation into the Composite Offer Document, setting out its advice to the Independent Board Committee in connection with the General Offer.



CIMB-GK Securities (HK) Limited

25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

19 July 2007

*To the Independent Board Committee and the Independent Shareholders
of China Pharmaceutical Group Limited*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GOLDBOND CAPITAL (ASIA) LIMITED ON BEHALF OF
MASSIVE GIANT GROUP LIMITED TO
ACQUIRE ALL THE ISSUED SHARES OF
HK\$0.10 EACH IN THE SHARE CAPITAL OF THE COMPANY
(OTHER THAN THOSE SHARES ALREADY OWNED OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment, as approved by the Independent Board Committee, as the independent financial adviser to the Independent Board Committee in relation to the General Offer, details of which are set out in the composite offer document of the Company dated 19 July 2007 (the "Composite Offer Document"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Offer Document unless the context requires otherwise.

The Board currently comprises eight executive directors, one non-executive director and four independent non-executive directors. The Independent Board Committee comprising Messrs. Huo Zhenxing, Qi Moujia, Guo Shichang, and Chan Siu Keung, Leonard, all of whom have no direct or indirect interest in the General Offer, has been established to advise the Independent Shareholders on the terms of the General Offer.

LETTER FROM CIMB-GK

In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the General Offer are fair and reasonable and whether the Independent Shareholders should accept the General Offer.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts provided by the Directors and contained or referred to in the Composite Offer Document. The Directors have declared in a responsibility statement set out in Appendix IV to the Composite Offer Document that they jointly and severally accept full responsibility for the accuracy of the information (other than that relating to SPG after and including Completion, Legend Holdings, the Offeror and SASAC) contained in the Composite Offer Document. We have assumed that the information and representations provided to us by the Directors or contained or referred to in the Composite Offer Document were true and accurate at the time they were made and continue to be so up to the date of dispatch of the Composite Offer Document. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Composite Offer Document.

We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Group, the Offeror or any of their respective associates.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the General Offer since this is particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the General Offer and, if in doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the General Offer, we have considered the following principal factors and reasons:

I. Background to and terms of the General Offer

On 16 June 2007, Legend Holdings entered into the Agreement with SASAC, pursuant to which Legend Holdings conditionally agreed to acquire, and the SASAC conditionally agreed to dispose of, the entire interest of SPG at an aggregate consideration of RMB870 million (equivalent to approximately HK\$896 million). The Transaction was completed on 26 June 2007. Immediately before Completion, Legend Holdings and parties acting in concert with it, did not own any Shares.

LETTER FROM CIMB-GK

Upon Completion, there was an effective change in control of the Company resulting in Legend Holdings becoming indirectly interested in 783,316,161 Shares, representing approximately 50.93% of the entire issued share capital of the Company. Therefore, under Note 8 of the Notes to Rule 26.1 of the Takeovers Code, Legend Holdings is obliged to make an unconditional general offer for all the issued Shares other than those already owned or agreed to be acquired by Legend Holdings and parties acting in concert with it.

Pursuant to the abovementioned obligation under Rule 26 of the Takeovers Code, Goldbond Capital will, on behalf of the Offeror, make the unconditional General Offer. The General Offer will be made at HK\$1.6715 per Share after taking into account (i) the Consideration; (ii) the Appraised Assets Value and the Premium Apportionment; and (iii) the 783,316,161 Shares owned by SPG as at the Latest Practicable Date. The Consideration would comprise entirely of cash.

The board of directors of the Company confirmed that the Company has not had any prior transaction or relationship with Legend Holdings or parties acting in concert with it.

II. Information on the Offeror and Legend Holdings, their intention regarding the Group, proposed change of board composition and listing status of the Company

As stated in the “Letter from Goldbond Capital”, the Offeror is wholly-owned by the H Fund. H Fund is an investment fund controlled by its general partner, the H Fund GP, which is in turn controlled by its general partner, HCF3GPL, a company with limited liability and incorporated in the Cayman Islands. HCF3GPL is wholly-owned by Hony Capital Management III Limited, a company with limited liability and incorporated in the Cayman Islands, which is in turn owned as to 45% by Legend Holdings (through its wholly-owned subsidiary, Right Lane Limited) and 55% by Mr. John Huan Zhao. Legend Holdings is an investment holding company established in 1984 in the PRC and with its subsidiaries primarily engaged in information technology, equity investment and real estate investment. As at the Latest Practicable Date, the Offeror does not engage in any business undertakings.

Legend Holdings maintains the single largest limited partnership interest in H Fund, with a holding of approximately 34.4% of the value of the fund. In addition to Legend Holdings, H Fund has 25 other investors with interests ranging from 0.15% to 17.09% of the value of H Fund. Pursuant to H Fund’s limited partnership agreement, its general partner, H Fund GP, is responsible for the making of all fund investment decisions (on the recommendations of HCML, the manager of H Fund, which sources investments for H Fund but has no right to take investment decisions on behalf of H Fund or bind H Fund), subject to the unanimous approval of H Fund’s five-member investment committee comprising Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Henry Cornell, Ms. Stephanie Hui and Mr. John Huan Zhao.

LETTER FROM CIMB-GK

An arrangement by way of a separate letter has also been put into place amongst the ultimate stakeholders of the Offeror/H Fund (and related entities) to effectively vest in Legend Holdings ultimate control in relation to all decisions exercisable by the Offeror/H Fund (and related entities) to the extent that they relate to:

- (a) the making of the General Offer for the Shares of the Company by the Offeror;
- (b) the Offeror's resultant equity stake in the Company and any disposal or investment decisions in relation thereof;
- (c) the management of the Offeror's equity stake in the Company including the exercise of voting rights attached to such equity stake; and
- (d) all other matters relating to the general management and affairs of the Company.

According to the "Letter from Goldbond Capital" of the Composite Offer Document, the Offeror has no intention to dispose of or re-deploy the assets of the Group other than in the ordinary course of its business, or to inject its assets into the Group as a result of the General Offer. Following Completion and the close of the General Offer, the Offeror will conduct a detailed review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Save for the proposed change in the composition of the board of directors (including the independent non-executive directors) of the Company, the Offeror does not intend to effect any material changes in the management or employees of the Group as a result of the Offer to ensure a smooth transition.

While the Offeror has stated its intention to carry on the Group's current business, we have no information as to the Offeror's future development plan for the Group following completion of the General Offer and thus are unable to provide an opinion on the future prospects of and the impact of new management on the Group.

The Offeror has no intention to privatize the Company and intends to maintain the listing of the Shares on the Stock Exchange after the close of the General Offer. The Directors are aware of the requirement of Rule 8.08(1)(a) of the Listing Rules which provides that at least 25% of an issuer's total issued share capital must at all times be held by the public. The directors of the Offeror and the Directors will undertake to the Stock Exchange, if upon closing of the General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, to take appropriate steps within a reasonable period following the close of the General Offer, to ensure that, as soon as practicable following the close of the General Offer, not less than 25% of the issued Shares will be held by the public.

LETTER FROM CIMB-GK

III. Historical financial performance of the Group

The principal business of the Group is manufacture and sale of bulk pharmaceutical products including penicillin, cephalosporin, vitamin C and finished drugs. Sales of bulk penicillin, cephalosporin, vitamin C accounted for the majority of the Group's turnover. The following table sets out a summary of the financial results of the Group for each of the three years ended 31 December 2006 as extracted from the annual reports of the Group for the year ended 31 December 2006 (the "2006 Annual Report"), the year ended 31 December 2005 (the "2005 Annual Report") and the first quarterly reports of the Group for the three months ended 31 March 2007:

	Year ended 31 December 2004 (Audited) <i>HK'000</i>	Year ended 31 December 2005 (Audited) <i>HK'000</i>	Year ended 31 December 2006 (Audited) <i>HK'000</i>	For the three months ended 31 March 2006 (unaudited) <i>HK\$'000</i>	For the three months ended 31 March 2007 (unaudited) <i>HK'000</i>
Turnover	2,450,649	3,192,065	3,538,754	912,936	1,028,621
Profit attributable to Shareholders	245,011	156,518	15,664	14,725	20,523

For the year ended 31 December 2005 ("FY2005"), the Group recorded a turnover of approximately HK\$3,192 million representing an increase of 30.3% as compared with that of the year ended 31 December 2004 ("FY2004"). The profit attributable to Shareholders for FY2005 was approximately HK\$157 million, representing a decrease of approximately 36.1% from that of FY2004. The decrease in profit attributable to Shareholders for FY2005 was mainly due to the decrease in the average price of vitamin C and narrowing of the profit margin of the vitamin C and penicillin major products as noted in the decrease in the net profit margin from approximately 10.0% in FY2004 to approximately 4.9% in FY2005.

For the year ended 31 December 2006 ("FY2006"), the Group recorded a turnover of approximately HK\$3,539 million, representing an increase of approximately 10.9% as compared to FY2005. The increase in turnover was mainly attributable to the increase in the sales volume of the bulk penicillin products during the year. Despite the increase in turnover, the profit attributable to Shareholders for FY2006 recorded a decrease of approximately 90.0% from that of FY2005 to approximately HK\$15.7 million. The decrease in profit attributable to Shareholders was principally due to the decrease in the average prices of vitamin C and cephalosporin products and the decline in profit margin of the finished drug business as noted in the further erosion of the net profit margin from approximately 4.9% in FY2005 to approximately 0.4% in FY2006. As at 31

LETTER FROM CIMB-GK

December 2006, the audited consolidated net asset value of the Group amounted to approximately HK\$2,641.6 million as compared to the unaudited net asset value of approximately HK\$2,501.5 million as at 30 June 2006.

For the three months ended 31 March 2007, the Group recorded a higher turnover of approximately HK\$1,028.6 million as compared to HK\$912.9 million of the corresponding period in FY2006, with the net profit also increased to approximately HK\$20.5 million as compared to HK\$14.7 million for the corresponding period in FY2006. The net profit margin for the three months ended 31 March 2007 also improved to approximately 2.0% as compared to approximately 0.4% as noted for FY2006. As noted from the first quarterly report of the Company for the three months ended 31 March 2007, based on the noted recovery of the prices of the Group's products and the improvement in the profit margin in the first quarter of this year, the Directors believe the outlook of the Group in the second quarter of the year will be promising.

Given the improvement to the net profit margin shown in the Group's first quarterly report for the three months ended 31 March 2007, which was mainly attributable to the recovery of the prices of the Group's products, we have further discussed with the management of the Company as regards the industry outlook and noted that after the first quarter, the prices of the Group's products such as bulk penicillin and vitamin C have further increased. Given the above, we consider that the outlook of the Company is promising.

IV. Offer Price

The Offer Price of HK\$1.6715 per Offer Share represents:

- (a) a discount of approximately 8.66% to the closing price of HK\$1.83 per Share as quoted on the Stock Exchange on 7 May 2007, being the last trading day prior to the commencement of the offer period;
- (b) a discount of approximately 37.16% to the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on 15 June 2007, being the last trading day prior to the suspension of trading of the Shares on 18 June 2007;
- (c) a discount of approximately 39.66% to the average closing price of HK\$2.77 per Share over the 5 trading days (excluding the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007;
- (d) a discount of approximately 39.00% to the average closing price of HK\$2.74 per Share over the 10 trading days (excluding the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007;

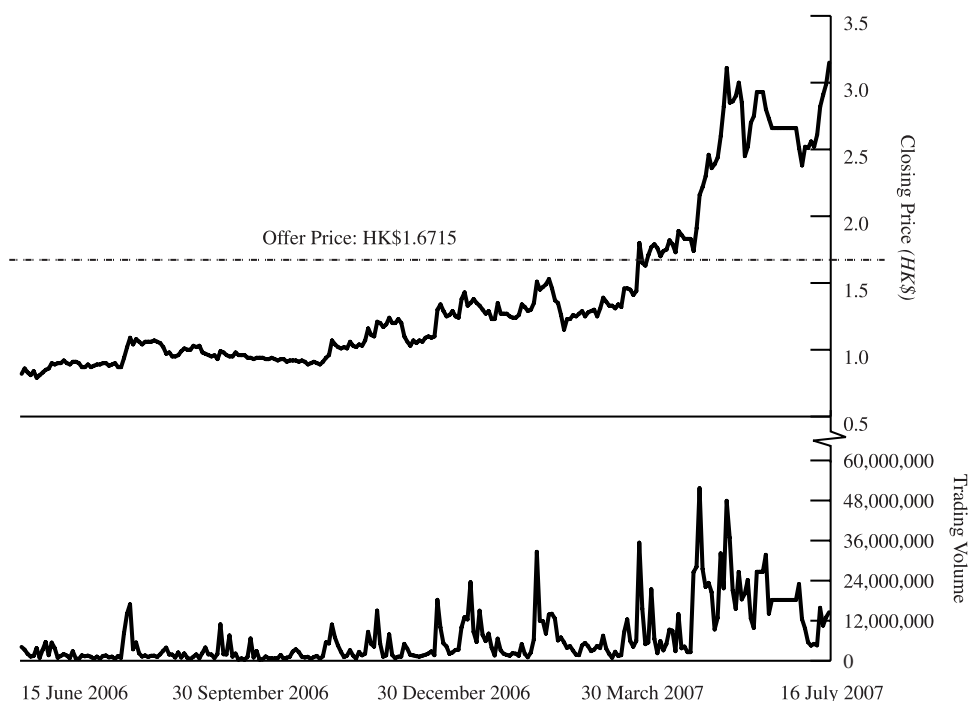
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- (e) a discount of approximately 32.05% to the average closing price of approximately HK\$2.46 per Share over the 30 trading days (excluding 8 May 2007 and the period between 11 June 2007 and 12 June 2007 during which trading of the Shares had been suspended) up to and including 15 June 2007;
- (f) a discount of approximately 46.94% to the closing price of HK\$3.15 per Share as at the Latest Practicable Date; and
- (g) a premium of approximately 1.32% over the audited consolidated net tangible asset value (“NTA”) per Share of approximately HK\$1.6498 as at 31 December 2006 (based on the audited consolidated net tangible assets of the Company of approximately HK\$2,537.6 million as at 31 December 2006 and 1,538,124,661 Shares in issue as at the same date).

We set out below our analysis on the Offer Price:

(i) *Historical market price and liquidity of the Shares*

The following chart shows the closing price and trading volume of the Shares as quoted on the Stock Exchange from 15 June 2006, being the trading day falling 12 months prior to 15 June 2007 (the “Last Trading Day”) (the last trading day of the Shares immediately prior to the suspension of the Shares on 18 June 2007), to the Latest Practicable Date (both dates inclusive) (the “Review Period”):



Source: Bloomberg

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As shown in the above chart, during the period from 15 June 2006 to the Last Trading Day (both dates inclusive) (the “Pre-Announcement Period”), the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$3.11 per Share recorded on 25 May 2007, and HK\$0.79 per Share recorded on 22 June 2006.

During the Pre-Announcement Period, the Shares traded below the Offer Price until April 2007. On 11 April 2007, despite the fact that the Company announced its annual results for the FY2006 which recorded a substantial decrease in net profit, the Share price increased from HK\$1.44 on 11 April 2007 to HK\$1.85 on 12 April 2007, representing an increase of approximately 25.0%. Then on 8 May 2007, the Company made the first announcement relating to the possible General Offer and the Share price further increased from HK\$1.83 on 7 May 2007 (the last trading day prior to the date of the first announcement), which was above the Offer Price, to reach the highest of HK\$3.11 per Share in late May 2007. As of the Latest Practicable Date, the Shares closed at HK\$3.15 per Share.

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The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/ period	Average daily trading volume for the month/period <i>(note 1)</i>	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date (%)	Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (%) <i>(note 2)</i>
2006				
June	108,826,882	4,946,676	0.32	0.66
July	26,163,000	1,245,857	0.08	0.17
August	79,654,393	2,491,715	0.16	0.33
September	52,326,012	3,447,495	0.22	0.46
October	26,144,793	1,307,240	0.08	0.17
November	87,719,600	3,987,255	0.26	0.53
December	45,583,000	2,399,105	0.16	0.32
2007				
January	174,288,000	7,922,182	0.52	1.05
February	133,437,441	7,413,191	0.48	0.98
March	82,218,298	3,737,195	0.24	0.50
April	164,076,000	9,115,333	0.59	1.21
May	448,471,538	22,423,577	1.46	2.98
June	205,120,139	18,647,285	1.21	2.47
July (up to and including the Latest Practicable Date)	95,888,450	9,588,845	0.62	1.27

Source: Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on 752,819,734 Shares held by public Shareholders, representing approximately 48.944% of the issued share capital of the Company as at the Latest Practicable Date.

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As illustrated in the table above, the average daily trading volume of the Shares in each month during the Pre-Announcement Period ranged from 1.25 million Shares to approximately 22.42 million Shares, representing approximately 0.08% and approximately 1.46% respectively of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.17% and 2.98% respectively of the total number of Shares held by public Shareholders as at the Latest Practicable Date.

Since the release of the first announcement on 8 May 2007, the average daily trading volume of Shares increased from approximately 9.11 million in April 2007 to approximately 22.24 million in May 2007, granting support to the existing level of the Share price.

(ii) *Comparison of the Offer Price with the comparables*

The Group is principally engaged in the manufacture and sale of pharmaceutical products. In assessing the fairness of the Offer Price, we have, to our best efforts, identified and reviewed all of the 18 comparable companies listed on the Stock Exchange whose principal business is engaged in similar business as those of the Group (the “Comparable Companies”). The following table sets out the comparison between the Offer Price with those of the Comparable Companies:

Stock Code	Name of Comparables	Principal business	Market Capitalisation	Price to earnings multiple based on 2005 results (“PER”)	Price to earnings multiple based on 2006 results (“PER”)	Price to earnings multiple (Discount)/ premium of closing price to NTA per share (%)	Dividend yield (%)
			(HK\$ in million) <i>(Note 1)</i>	(times) <i>(Note 2)</i>	(times) <i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>
3933	United Laboratories International Holdings Ltd.	manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them, cough syrup, anti-allergy medicine and capsule casings	5,712.0	36.6	25.1	337.7	0
2877	China Shineway Pharmaceutical Group Ltd.	development, manufacture and sale of Chinese pharmaceutical products in PRC	5,259.7	15.4	15.4	201.4	1.6

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Stock Code	Name of Comparables	Principal business	Market Capitalisation (HK\$ in million) <i>(Note 1)</i>	Price to earnings multiple based on 2005 results ("PER") <i>(Note 2)</i>	Price to earnings multiple based on 2006 results ("PER") <i>(Note 3)</i>	(Discount)/ premium of closing price to NTA per share (%) <i>(Note 3)</i>	Dividend yield (%) <i>(Note 3)</i>
858	Extrawell Pharmaceutical Holdings Ltd.	Marketing and distribution of pharmaceutical products, develop, manufacture and sale of pharmaceutical products, commercial exploitation of gene inventions; and research on genome and development & manufacture of gene chips	5,152.5	Loss making	1,125.0	Net deficit	0
1177	Sino Biopharmaceutical Holdings Ltd.	research and development, production and sale of biopharmaceutical products, modernised Chinese medicines and chemical medicines for medical treatment	3,848.7	2.4	27.2	108.4	2.9
587	Hua Han Bio-Pharmaceutical Holdings Ltd.	Research, development, manufacture and sale of chinese herbal pharmaceutical and naturally-sourced anti-tumor medicines and western pharmaceutical products	2,351.6	18.2	18.9	190.7	0.7
8329	Shenzhen Neptune Interlong Bio-technique Co., Ltd	R&D of modern biological technology, production and sale of cytokines category protein therapeutic drugs and biological products for disease prevention.	2,328.8	Loss making	Loss making	2,318.5	0
1889	Wuyi International Pharmaceutical Co., Ltd.	manufacture, market and sale branded prescription and over-the-counter western pharmaceuticals and modern Chinese medicine products, including Chinese medicine injectibles	1,881.6	12.7	13.1	984.8	0

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Stock Code	Name of Comparables	Principal business	Market Capitalisation (HK\$ in million) <i>(Note 1)</i>	Price to earnings multiple based on 2005 results ("PER") <i>(Note 2)</i>	Price to earnings multiple based on 2006 results ("PER") <i>(Note 3)</i>	(Discount)/ premium of closing price to NTA per share (%) <i>(Note 3)</i>	Dividend yield (%) <i>(Note 3)</i>
8058	Shandong Luoxin Pharmacy Stock Co., Ltd.	manufacture and sale of antibiotics, anti-viral medicines, and system specific medicines	1,414.3	28.5	23.0	555.6	0.9
2005	Ljfun International Pharmaceutical Holdings Ltd.	Research, development, manufacture and sale of pharmaceutical products	1,324.7	10.1	15.4	162.2	1.5
719	Shandong Xinhua Pharmaceutical Holdings	development, manufacture and sales of bulk pharmaceuticals, preparations and chemical products	1,285.0	909.4	55.0	(8.0)	0.7
2898	Long Far Pharmaceutical Holdings Ltd.	Marketing and distribution as well as the research and development of proprietary Chinese medicine under the Group's brandname of Long Far	960.0	2.0	Loss making	1,063.5	0
8120	China Medical and Bio Science Ltd.	Production, sales and distribution of veterinary drugs and animal vaccines	703.2	Loss making	Loss making	22,190.0	0
897	Wai Yuen Tong Medicine Holdings Ltd.	Production and sale of traditional Chinese and western pharmaceutical products	649.3	Loss making	Loss making	66.0	0
2327	Jiwa Bio-Pharm Holdings Ltd.	Research, development, manufacture & sale of pharmaceutical products, including new medicine and generic pharmaceutical products	300.0	10.25	15.4	46.8	1.7

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Stock Code	Name of Comparables	Principal business	Market Capitalisation (HK\$ in million) <i>(Note 1)</i>	Price to earnings multiple based on 2005 results ("PER") <i>(Note 2)</i>	Price to earnings multiple based on 2006 results ("PER") <i>(Note 3)</i>	(Discount)/ premium of closing price to NTA per share (%) <i>(Note 3)</i>	Dividend yield (%) <i>(Note 3)</i>
8225	Venturepharm Laboratories Ltd.	Research, development and commercialisation of drug products.	295.2	52.2	18.6	160.9	0
8049	Jilin Province Hinan Changlong Bio-pharmacy Co., Ltd.	Manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi.	201.7	24.4	65.4	13.9	3.5
8019	Everpride Biopharm Co., Ltd.	develop and sale of chinese medicine known as Plasmin Capsule for treatment of cardiovascular and cerebrovascular diseases	165.0	Loss making	9.4	Net deficit	0
8221	Lee's pharmaceutical Holdings Ltd.	Manufacture and sale of self-developed pharmaceutical products, trading of license-in pharmaceutical products	152.3	11.0	Loss making	911.3	0
Maximum:				909.4	1,125.0	22,190.0	3.5
Minimum:				2.0	9.4	(8.0)	0
Average:				91.4	109.8	1,831.5	
Average premium:						2,093.7	
Average discount:						(8.0)	
<i>The General Offer:</i>			<i>2,571.0</i> <i>(note 4)</i>	<i>16.4</i>	<i>163.9</i>	<i>1.3</i> <i>(note 5)</i>	<i>0</i>

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Notes:

1. Calculated based on the closing price of the shares of the Comparable Companies as of the Latest Practicable Date.
2. Calculated based on the closing price of the shares of the Comparable Companies as of the Latest Practicable Date and their respective 2005 annual report.
3. Calculated based on the closing price of the shares of the Comparable Companies as of the Latest Practicable Date and their respective 2006 annual report.
4. Calculated based on the Offer Price and 1,538,124,661 Shares in issue as at the date of the Joint Announcement.
5. Calculated based on the Offer Price and the 2006 NTA per Share (as defined in the section headed “IV(ii)(b) NTA analysis” of this letter). In addition, based on the Offer Price and the Adjusted 2006 NTA per Share (as defined in the section headed “IV(ii)(b) NTA analysis” of this letter), the discount of the Offer Price to the Adjusted 2006 NTA per Share is approximately 4.4%.

(a) *PER analysis*

PER is regarded as the most common valuation method to value a company with recurrent income base. The PER for the PER Comparables Companies ranged from approximately 9.4 times to approximately 1,125.0 times, with an average PER of approximately 109.8 times.

Based on the Group’s net profit attributable to the Shareholders of HK\$15.7 million as reported in the 2006 Annual Report and the 1,538,124,661 Shares in issue as at 31 December 2006, the Group’s basic earnings per share for the year ended 31 December 2006 were approximately HK\$0.0102 (“FY2006 EPS”). The Offer Price represents a PER of approximately 163.9 times the FY2006 EPS. We note that the PER implied by the Offer Price of approximately 163.9 times FY2006 EPS is higher than the average PER of approximately 109.8 times but is lower than the maximum PER of approximately 1,125.0 times of the Comparable Companies as shown in the table above.

However, given that the Group experienced a substantial decrease in profit in FY2006 as compared to its profit level in recent years, we have, for illustration purposes, compared the Offer Price with the earnings per Share based on the results of FY2005 of the Company with those of the Comparable Companies in FY2005. Based on the Group’s net profit attributable to the Shareholders of HK\$156.5 million as reported in the 2005 Annual Report and the 1,538,124,661 Shares in issue as at 31 December 2005, the Group’s basic earnings per share for the year ended 31 December 2005 were approximately HK\$0.1018 (“FY2005 EPS”). The Offer Price represents a PER of approximately 16.4 times based on FY2005 EPS, which is lower than the average PER of approximately 91.4 times of those of the Comparable Companies in 2005.

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(b) *NTA analysis*

As an additional reference, we have also reviewed the reference between the Offer Price and the NTA per Share. The consolidated audited NTA of the Company as at 31 December 2006 was approximately HK\$2,537.6 million, was equivalent to approximately HK\$1.6498 per Share (“2006 NTA per Share”) based on the 1,538,124,661 Shares in issue as at 31 December 2006. As disclosed in Appendix III to the Composite Offer Document, the property interests held and occupied by the Group in the PRC as at 31 May 2007 amounted to approximately RMB322.86 million (HK\$332.55 million) (the “Property Valuation”). We note that Sallmanns has not assigned values to certain property interests held by the Group if the necessary title and building ownership certificates have not been obtained, which we also consider it appropriate as the Group does not legally own those properties. We have been advised by the Directors that after taking into account the Property Valuation, the adjusted consolidated NTA of the Group as at 31 December 2006 would have amounted to approximately HK\$2,689.5 million, representing approximately HK\$1.7486 per Share (the “Adjusted 2006 NTA per Share”) based on the 1,538,124,661 Shares in issue as at 31 December 2006.

As set out in the table above, based on the closing price per share of the Comparable Companies on the Last Trading Day, the Comparable Companies traded at a level ranging from a discount of approximately 8.0% to a premium of approximately 22,190.0% over their respective consolidated NTA per share (based on their latest published financial reports). The Offer Price represents a premium of approximately 1.3% over the 2006 NTA per Share and a discount of approximately 4.4% to the Adjusted 2006 NTA per Share which is within the range of those of the Comparable Companies, but is lower than the average premium of 2093.7% and the average discount of 8.0% of those of the Comparable Companies.

(c) *Dividend yield analysis*

No dividend was declared by the Company in the last two years ended 31 December 2006.

(iii) *Comparable cash offer transactions*

For additional reference, we have also, to the best of our knowledge and based on the information available from the Stock Exchange’s Website, reviewed and compared the Offer Price with offer prices of all cash offers (including takeovers and privatizations) announced by companies listed on the main board of the Stock Exchange (the “Cash Offer Comparables”) during the period commencing

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from 1 January 2007 to the Latest Practicable Date. The following table sets out the comparison between the Company and the Cash Offer Comparables:

Stock Code	Name of Cash Offer Comparables	Principal business	Date of announcement	(Discount)/ premium of offer price to last closing price prior to announcement of the offer (%)	Market capitalisation (HK\$' million) (Note 1)	PER (times) (Note 2)	(Discount)/ premium of offer price to NTA per share (%) (Note 3)	Dividend yield (%) (Note 4)
439	Climax International Company Ltd. ("Climax")	Manufacturing and trading of OEM paper products and house brand and agency products.	9 January 2007	(23.1)	43.8	N/A (Note 5)	(72.2)	0.0
22	Mexan Ltd. ("Mexan")	Property investment and rental, hotel operation, investment holding and toll operation.	16 February 2007	(4.0)	648.9	N/A (Note 5)	(42.0) (Note 6)	N/A (Note 7)
65	Pacific Century Insurance Holdings Ltd.	Provision of extensive range of whole life, endowment and unit-linked insurance products to individuals, and a range of other related insurance products in Hong Kong.	1 March 2007	58.2	4,211.6	20.6	142.7	0.4
8282	TOM Online Inc.	Provide value-added multimedia products and wireless services in China	9 March 2007	33.3	4,856.0	29.1	149.7	0.0
30	ABC Communications (Holdings) Ltd.	Provision of financial quotation, security trading system licensing and sales of related products, wireless applications, and corporate activities and investment holdings.	16 April 2007	19.6	226.4	20.7	(6.8)	10.3

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Stock Code	Name of Cash Offer Comparables	Principal business	Date of announcement	(Discount)/ premium of offer price to last closing price prior to announcement of the offer (%)	Market capitalisation (HK\$' million) (Note 1)	PER (times) (Note 2)	(Discount)/ premium of offer price to NTA per share (%) (Note 3)	Dividend yield (%) (Note 4)
649	Shimao International Holdings Ltd. ("Shimao")	Property development, rental and investment, and hotel operation.	19 April 2007	50.0	579.3	N/A (Note 5)	38.2	0.0
665	Taifook Securities Group Ltd.	Broking and trading in securities, futures & bullion contracts and FX, provision of margin and other financing, corporate advisory, placing and underwriting, nominee and custodian, fund management and financial planning services.	26 April 2007	13.6	1,269.2	8.2	24.0	5.8
1229	Artfield Group Ltd.	Manufacturing and marketing of clocks and lighting products, the trading of metals and the provision of electroplating services.	9 May 2007	(62.6)	447.6 (Note 5)	N/A	(4.4)	0.0
566	RBI Holdings Ltd.	Manufacture, design and sale of children's toys.	14 May 2007	13.9	403.8	15.3	(8.6)	3.6
669	Techtronic Industries Co. Ltd.	Manufacture & trading of rechargeable power tools, floor care equipment, solar powered & electronic products, personal & health care products, kitchenware products.	14 May 2007	(67.3)	15,952.2	4.9	(24.7)	5.3
145	The Hong Kong Building and Loan Agency Ltd.	Investment holding, provision of mortgage finance and other related services and treasury investments.	16 May 2007	(35.9)	517.5	29.5	43.2	0.0

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Stock Code	Name of Cash Offer Comparables	Principal business	Date of announcement	(Discount)/ premium of offer price to last closing price prior to announcement of the offer (%)	Market capitalisation (HK\$' million) (Note 1)	PER (times) (Note 2)	(Discount)/ premium of offer price to NTA per share (%) (Note 3)	Dividend yield (%) (Note 4)
851	MAE Holdings Ltd. ("MAE")	Manufacturing and sale of electrical adapters, toroidal transformers, EI transformers and related accessories, plastic moulds and electrical products.	16 May 2007	(76.0)	68.9	N/A (Note 5)	N/A (Note 8)	0.0
8122	CASH Financial Services Group Ltd.	Provision of online and traditional brokerage of securities, options, futures and leveraged foreign exchange contracts, mutual funds and insurance-linked investment products, margin financing, corporate finance, and online game services.	18 May 2007	(1.3)	532.1	13.1	8.6	13.2
380	World Trade Bun Kee Ltd.	Importing and selling of a comprehensive range of pipes, fittings and other related accessories of different materials, applications and brandnames in Hong Kong. Also engaged in warehouse business for a variety of products.	11 June 2007	(41.3)	2,418.5	7.5	31.2	3.2
8192	Global Solution Engineering Ltd.	Provision of image design services, information technology consultancy services as well as content management solution services and on-line advertising solution services	3 July 2007	(48.1)	34.6	N/A (note 5)	4,000.0	0.0
Maximum:				58.2		29.5	4,000.0	13.2
Minimum:				(76.0)		4.9	(72.2)	0.0
Average:				(11.4)		16.5	305.6	
Average premium:				31.4			554.7	
Average discount:				(40.0)			(26.4)	
The General Offer:			7 May 2007	(8.7)	2,571.0	163.9	1.3	0
							<i>(note 9)</i>	

Source: Bloomberg, the Stock Exchange's website, the announcements, offer/response documents and the latest published financial reports of the Cash Offer Comparables prior to the release of their subscription announcements.

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Notes:

1. Market capitalisation as quoted on Bloomberg as at the last trading day prior to the release of the respective announcement.
 2. Calculated based on the offer price divided by the latest audited earnings per share set out in the respective offer/response document or annual report.
 3. Calculated based on the offer price divided by the latest published net asset value per share set out in the respective announcement or offer/response document.
 4. Calculated based on the dividend per share set out in the respective offer/response document or annual report and the offer price of the respective comparable transactions.
 5. Incurred loss in the latest financial year.
 6. Calculated based on the offer price of approximately HK\$0.1067 divided by the unaudited pro forma consolidated net assets per share of Mexan of approximately HK\$0.1839, being the net asset value per share of Mexan and its subsidiaries (the "Mexan Group") subsequent to the completion of the proposed Mexan Group's reorganisation announced on 16 February 2007.
 7. The dividend yield of Mexan is excluded as the Mexan Group did not maintain a standard dividend payout in the last two financial years, saved for the distribution in specie of the shares of Inventive Limited pursuant to the proposed Mexan Group's reorganisation and the proposed special dividend announced on 16 February 2007.
 8. MAE had a deficiency in net assets per MAE's share of approximately HK\$0.36 as at 31 October 2006 based upon MAE's unaudited consolidated deficiency in net assets of approximately HK\$20,400,000 (as stated in MAE's interim report for the six months ended 31 October 2006) and 56,781,103 MAE's shares in issue as at 31 October 2006.
 9. Calculated based on the Offer Price and the 2006 NTA per Share (as defined in the section headed "IV(ii)(b) NTA analysis" of this letter). In addition, based on the Offer Price and the Adjusted 2006 NTA per Share (as defined in the section headed "IV(ii)(b) NTA analysis" of this letter), the discount of the Offer Price to the Adjusted 2006 NTA per Share is approximately 4.4%.
- (a) *Reference of the offer price to the last closing price of shares prior to announcement of offer*

As noted from the table above, the offer prices of the Comparable Companies represent an average premium of approximately 31.4% and an average discount of approximately 40.0% to their respective last closing price of shares prior to the announcement of the offer. The Offer Price represents a discount of approximately 8.7% to the closing price of HK\$1.83 per Share as at the last trading day prior to the commencement of the offer period on 7 May 2007 and approximately 37.2% to the closing price on the Last Trading Day, which are both slightly lower than the average discount of approximately 40.0% of those of the Comparable Companies.

(b) *PER analysis*

The average historical PER as implied by the offer price of the Cash Offer Comparables was approximately 16.5 times as compared to that of approximately 163.9 times as implied by the Offer Price. Nonetheless, we consider that as the Company and each of the Cash Offer Comparables are engaged in different

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industries with different growth pattern and prospects, it is not meaningful and is inappropriate to compare the PER implied by the Offer Price with those of the Cash Offer Comparables. Such information sets out in the table above is solely for reference purposes.

(c) *NTA analysis*

The reference of the offer prices of the Cash Offer Comparables to their respective consolidated NTA per share falls within a range of a discount of approximately 72.2% to a premium of approximately 4,000%, with an average premium of approximately 554.7% and an average discount of approximately 26.4% (based on the Cash Offer Comparables' respective latest published financial reports). The Offer Price represents a premium of approximately 1.3% over the 2006 NTA per Share and a discount of approximately 4.4% to the Adjusted 2006 NTA per Share, which is below such average premium and average discount of those of the Cash Offer Comparables. However, as the offer price offered by an investor for the shares of a particular company is affected by, among other factors, the industry, business or operational performance and future prospects of that particular company, the above comparison with the Cash Offer Comparables is solely for reference purposes.

V. Other Factor

As disclosed in the section headed "6. Material Litigation" in Appendix IV to the Composite Offer Document, we note that the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. The plaintiffs seek treble unspecified damages and other relief. On 5 June 2007, the court heard the defendants' motions to dismiss the case based on the legal principles of act of state, foreign sovereign compulsion and international comity. We further note that according to the latest timetable fixed by the court, and among other things, fact discovery is scheduled to be concluded by 29 February 2008, expert discovery is scheduled to be concluded by 19 September 2008 and a pre-trial hearing will be held on 11 November 2008. We understand that the Directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. Given the aforesaid court's timetable, we have been advised by the Directors that the outcome of the antitrust complaints cannot be estimated with certainty at this stage. Having considered the latest development and the court's timetable relating to this lawsuit (a majority of which will take place in 2008 and beyond) and the Directors' representation, we are not in a position to assess the possible financial impact this lawsuit will have on the Group. However, we consider that since details of this litigation has been reported by the Company since February 2005 and updated progress was also contained in the FY2006 annual report of the Company, which are all made known to the public, the performance of the Share price should have reflected the market views towards the implications of this lawsuit to the Group.

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RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- the 1.3% premium of the Offer Price over the 2006 NTA per Share is lower than (i) the average premium of approximately 2093.7% of those of the Comparable Companies; and (ii) the average premium of approximately 554.7% of those of the Cash Offer Comparables;
- the historical PER (based on the results of FY2006) of approximately 163.9 times implied by the Offer Price is higher than the average historical PER of approximately 109.8 times of those of the Comparable Companies in 2006; however, such high PER implied under the Offer Price was due to the substantially low profit of the Group recorded in FY2006; whilst the historical PER (based on the results of FY2005) implied by the Offer Price of approximately 16.4 times is lower than the average historical PER of approximately 91.4 times of those of the Comparable Companies in 2005;
- the positive industry outlook relating to the expected stable prices of the bulk penicillin and vitamin C in 2007, which is in favour of the Group's business performance;
- the Offer Price represents a discount of approximately (i) 8.66% to the closing price of HK\$1.83 per Share as at the last trading day prior to the commencement of the offer period; (ii) 37.16% to the closing price of HK\$2.66 per Share on the Last Trading Day and (iii) 46.94% to the price of the Shares of HK\$3.15 as at the Latest Practicable Date and
- given the court's timetable on the antitrust lawsuits (a majority of those court's events will take place in 2008 and beyond); the Directors' belief that the outcome of the antitrust complaints cannot be estimated with certainty at this stage; the fact that the antitrust lawsuit was made known to the public since early February 2005, the market price of the Shares should have reflected the market views towards the implications of the antitrust lawsuit on the Group,

we consider that the Offer Price is not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders not to accept the Offer.

Shareholders who wish to realize all or part of their investment in the Shares should monitor the Share price performance during the Offer Period, particularly, if the Share price falls below the Offer Price, those Shareholders may wish to accept the Offer. Those Shareholders who are attracted by the future prospects of the Group may consider retaining some or all of their Shares.

Yours faithfully,

For and on behalf of

CIMB-GK Securities (HK) Limited

Alex Lau

Executive Vice President

Flavia Hung

Senior Vice President

1. FURTHER PROCEDURES FOR ACCEPTANCE**The General Offer**

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name(s), and you wish to accept the General Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the General Offer in respect of your Shares, you must either:
- (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the General Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnify or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities)/custodian bank to authorise HKSCC Nominees Limited to accept the General Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities)/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited (i.e. 9 August 2007).
- (c) If the certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the General Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the General Offer in respect of your Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Goldbond Capital and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (e) Acceptance of the General Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on Thursday, 9 August 2007 or such later time and/or date as the Offeror may determine in compliance with the requirements of the Takeovers Code and announce, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

- (ii) from a registered shareholder of Shares or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder of Shares, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) The address of the Registrar is at Secretaries Limited, the share registrar of the Company situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

2. ACCEPTANCE PERIOD AND REVISIONS

The General Offer will remain open for acceptance until 4:00 p.m. on Thursday, 9 August 2007, unless extended or revised in accordance with the Takeovers Code. The Offeror reserves the right to revise or extend the General Offer in accordance with the Takeovers Code.

The General Offer may be revised at any time up to the Closing Date. If the General Offer is revised, such revised General Offer will remain open for acceptance for a period of at least 14 days from the date of posting of the written notification of the revision to the Shareholders. In any case where the General Offer is revised, and the consideration offered under the revised General Offer does not represent on such date a reduction in the value of the General Offer in their original or any previously revised form(s), the benefit of such revised General Offer will be made available as set out herein to acceptors of the General Offer in their original or any previously revised form(s) (hereinafter called "previous acceptor(s)"). The execution by, or on behalf of, a previous acceptor of any Form(s) of Acceptance shall be deemed to constitute acceptance of the General Offer as so revised unless such person becomes entitled to withdraw his or her acceptance under the section of this Appendix headed "Right of withdrawal" and duly does so.

If the General Offer is extended or revised, the announcement of such extension or revision will state the next closing date or that the General Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the General Offer is closed to those Independent Shareholders who have not accepted the General Offer and an announcement will be published.

If the Closing Date of the General Offer is extended, any reference in this document and in the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the General Offer so extended.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Thursday, 9 August 2007 and, if extended, on each subsequent Closing Date (if any), the Offeror will inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the General Offer. The Offeror will publish an announcement on the Stock Exchange's website by 7:00 p.m. on each Closing Date stating whether the General Offer has been revised, extended or has expired. Such announcement will be republished in accordance with the requirements set out below on the next Business Day.

The announcement must state the following:

- (i) the total number of all issued Shares and rights over shares for which acceptances of the General Offer have been received;
- (ii) the total number of Shares and rights over shares held, controlled or directed by the Offeror or parties acting in concert with it before the General Offer period; and
- (iii) the total number of Shares and rights over shares acquired or agreed to be acquired by the Offeror or parties acting in concert with it during the General Offer period between the date of the Announcement and 4:00 p.m. on the Closing Date or, if the General Offer is extended as permitted by the Executive in accordance with the Takeovers Code, the date on which the General Offer finally closes for acceptance.

The announcement must also specify the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the General Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the website of the Hong Kong Exchange and Clearing Limited (www.hkex.com.hk) and the website of the Company (www.irasia.com/listco/hk/cpg/index.htm) and a notification announcement will be published in at least one

leading English language newspaper and one leading Chinese newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong. An announcement on the results of the General Offer will be published on the website of the Hong Kong Exchange and Clearing Limited and the website of the Company and a notification announcement of the same will be published on the newspapers on Friday, 10 August 2007.

4. RIGHT OF WITHDRAWAL

Acceptances of the General Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements for making announcements under Rule 19 of the Takeovers Code relating to the General Offer), the Executive may require that Shareholders who tendered acceptances of the General Offer be granted a right of withdrawal, on terms acceptable to the Executive until such requirements are met. A further announcement will be made by the Offeror if any such right of withdrawal (as described in this paragraph) is available to the Independent Shareholders.

5. GENERAL

- (a) All communications, notices, Form(s) of Acceptance, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Company, the Offeror, Goldbond Capital, and any of their respective agents nor the Registrar accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the accompanying Form(s) of Acceptance form part of the terms of the General Offer.
- (c) The accidental omission to despatch this document and/or the Form(s) of Acceptance or any of them to any person to whom the General Offer is made will not invalidate the General Offer in any way. The deliberate omission, if any, to despatch this document and/or the Form(s) of Acceptance to any overseas Shareholders will not invalidate the General Offer in anyway.
- (d) The General Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

- (e) Due execution of the Form(s) of Acceptance will constitute an authority to any director of the Offeror, Goldbond Capital or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the General Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares, in respect of which such person has accepted the General Offer.
- (f) Acceptance of the General Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the General Offer is sold by any such person or persons free from all liens, claims and encumbrances and together with all rights attaching thereto including the right to receive all future dividends or other distributions, if any, declared, paid or made on the Shares on or after the date of the Joint Announcement, and that if the accepting Shareholder resides outside of Hong Kong, he, she or it has observed the laws of all relevant territories, obtained any requisite governmental, exchange control or other consents, complied with all requisite formalities or legal requirements and paid any issue, transfer or other taxes or other required payments due from him, her or it in connection with such acceptance in any territory, that he, she or it has not taken or omitted to take any action which will or may result in the Company, the Offeror and parties acting in concert with it, or Goldbond Capital or any other person acting in breach of the legal or regulatory requirements of any territory in connection with the General Offer or his, her is acceptance thereof, and is permitted under all applicable laws to receive and accept the General Offer, and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws.
- (g) The settlement of the consideration to which any Shareholder is entitled under the General Offer will be implemented in full in accordance with the terms of the General Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.
- (h) Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable; and (ii) the market value of the Shares (rounded up to the nearest HK\$1) arising in connection with acceptance of the General Offer, is payable by accepting Independent Shareholders and will be deducted from the consideration payable to the Independent Shareholders accepting the General Offer and will be settled by the Offeror on behalf of such accepting Independent Shareholders.

- (i) The Offeror does not intend, but reserve the right, to exercise any right which may be available to it to acquire compulsorily any Shares not acquired under the General Offer after the General Offer has closed but reserves the right to do so.
- (j) References to the General Offer in this document and in the Form(s) of Acceptance shall include any extension and/or revision thereof.
- (k) The making of the General Offer to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such persons who wish to accept the General Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.
- (l) The English text of this document and the Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

1. SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006

There was no qualification in the auditor's reports issued by Deloitte Touche Tohmatsu for each of the three years ended 31 December 2006 as set out in the annual reports of the Company for the respective years.

The following is certain audited financial information of the Group for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the 2005 and 2006 annual report of the Company and published unaudited financial information of the Group for the three months ended 31 March 2007.

Results

	Three months ended 31 March		Year ended 31 December	
	2007 HK\$'000 (unaudited)	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000 (restated) (Note)
Turnover	1,028,621	3,538,754	3,192,065	2,450,649
Profit before tax	22,650	1,600	148,992	248,577
Income tax	(2,121)	13,763	7,301	(3,185)
Profit after tax	20,529	15,363	156,293	245,392
Minority interests	(6)	301	225	(381)
Profit attributable to equity holders	20,523	15,664	156,518	245,011
Earnings per share — basic	HK1.33 cents	HK1.02 cents	HK10.18 cents	HK15.93 cents

During the three years ended 31 December 2006, there were no extraordinary or exceptional items nor any dividends.

Assets and Liabilities

	As at 31 December		
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000 (restated) (Note)
Total assets	5,273,408	5,379,779	4,707,246
Total liabilities	(2,622,574)	(2,884,251)	(2,438,149)
Minority interests	2,650,834 (9,193)	2,495,528 (10,696)	2,269,097 (10,058)
	2,641,641	2,484,832	2,259,039

Note:

The financial information for year ended 31 December 2004 was restated as a result of retrospective applications of new Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of the jointly controlled entity have been changed.

2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2006

The following is a summary of the audited consolidated accounts of the Company for the two years ended 31 December 2006 as extracted from the 2006 annual report of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	6	3,538,754	3,192,065
Cost of sales		<u>(2,925,429)</u>	<u>(2,498,501)</u>
Gross profit		613,325	693,564
Other income		34,814	21,157
Distribution costs		(232,511)	(182,723)
Administrative expenses		(308,094)	(293,231)
Other expenses		(6,808)	(20,537)
Share of loss of a jointly controlled entity		(3,350)	(1,099)
Finance costs	7	<u>(95,776)</u>	<u>(68,139)</u>
Profit before tax		1,600	148,992
Income tax	8	<u>13,763</u>	<u>7,301</u>
Profit for the year	9	<u><u>15,363</u></u>	<u><u>156,293</u></u>
Attributable to:			
Equity holders of the Company		15,664	156,518
Minority interests		<u>(301)</u>	<u>(225)</u>
		<u><u>15,363</u></u>	<u><u>156,293</u></u>
Dividend	12	<u><u>—</u></u>	<u><u>—</u></u>
Earnings per share — basic	13	<u><u>HK1.02 cents</u></u>	<u><u>HK10.18 cents</u></u>

CONSOLIDATED BALANCE SHEET

At December 31, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	3,233,026	3,176,949
Prepaid lease payments	15	145,923	154,612
Intangible assets	16	48,275	61,233
Goodwill	17	55,764	55,764
Interest in a jointly controlled entity	19	21,646	24,086
Pledged bank deposits	20	1,312	2,428
		<u>3,505,946</u>	<u>3,475,072</u>
Current assets			
Inventories	21	682,935	756,053
Trade and other receivables	22	574,488	512,987
Bills receivable	22	98,501	118,281
Prepaid lease payments	15	4,361	4,474
Loan receivable	23	—	670
Tax recoverable		1,165	8,096
Trade receivables due from related companies	24	2,660	14,393
Amount due from a jointly controlled entity	24	13,155	17,047
Pledged bank deposits	20	2,792	—
Bank balances and cash	20	387,405	472,706
		<u>1,767,462</u>	<u>1,904,707</u>
Current liabilities			
Trade and other payables	25	754,147	974,756
Bills payable	25	223,118	403,876
Trade payables due to related companies	24	11,360	—
Amounts due to related companies	24	10,454	4,146
Trade payable due to a jointly controlled entity	24	—	3,107
Tax liabilities		15,002	7,328
Unsecured bank loans	26	752,000	344,804
		<u>1,766,081</u>	<u>1,738,017</u>
Net current assets		<u>1,381</u>	<u>166,690</u>
Total assets less current liabilities		<u>3,507,327</u>	<u>3,641,762</u>

		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Loans from ultimate holding company	27	59,493	55,488
Loan from a fellow subsidiary	28	20,000	—
Unsecured bank loans	26	777,000	1,090,746
		<u>856,493</u>	<u>1,146,234</u>
		<u>2,650,834</u>	<u>2,495,528</u>
Capital and reserves			
Share capital	29	153,812	153,812
Reserves		<u>2,487,829</u>	<u>2,331,020</u>
Equity attributable to equity holders			
of the Company		2,641,641	2,484,832
Minority interests		<u>9,193</u>	<u>10,696</u>
		<u>2,650,834</u>	<u>2,495,528</u>

BALANCE SHEET*At December 31, 2006*

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	674	1,115
Investments in subsidiaries	<i>31</i>	1,202,044	1,202,052
		<u>1,202,718</u>	<u>1,203,167</u>
Current assets			
Other receivables		4,808	6,592
Amounts due from subsidiaries	<i>32</i>	866,733	908,243
Bank balances and cash	<i>20</i>	3,429	24,393
		<u>874,970</u>	<u>939,228</u>
Current liabilities			
Other payables		13,174	13,654
Amount due to a subsidiary	<i>32</i>	—	304
Unsecured bank loans	<i>26</i>	242,000	96,000
		<u>255,174</u>	<u>109,958</u>
Net current assets		<u>619,796</u>	<u>829,270</u>
Total assets less current liabilities		1,822,514	2,032,437
Non-current liability			
Unsecured bank loans	<i>26</i>	412,000	574,000
		<u>1,410,514</u>	<u>1,458,437</u>
Capital and reserves			
Share capital	<i>29</i>	153,812	153,812
Reserves	<i>33</i>	1,256,702	1,304,625
		<u>1,410,514</u>	<u>1,458,437</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital contribution	Goodwill reserve	Translation reserve	Non-distributable reserves	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2005	153,812	1,116,727	1,362	(167,254)	2,692	276,334	876,213	2,259,886	10,058	2,269,944
Exchange differences arising on translation to presentation currency	—	—	—	—	68,428	—	—	68,428	218	68,646
Profit for the year	—	—	—	—	—	—	156,518	156,518	(225)	156,293
Total recognised income and expense for the year	—	—	—	—	68,428	—	156,518	224,946	(7)	224,939
Transfers	—	—	—	—	—	79,190	(79,190)	—	—	—
Capital contributions by minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	1,331	1,331
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	(686)	(686)
At December 31, 2005	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Exchange differences arising on translation to presentation currency	—	—	—	—	140,908	—	—	140,908	393	141,301
Profit for the year	—	—	—	—	—	—	15,664	15,664	(301)	15,363
Total recognised income and expense for the year	—	—	—	—	140,908	—	15,664	156,572	92	156,664
Transfers	—	—	—	—	—	27,242	(27,242)	—	—	—
Capital contribution from ultimate holding company	—	—	237	—	—	—	—	237	—	237
Release upon disposal of a subsidiary (Note 2)	—	—	—	—	—	—	—	—	(1,595)	(1,595)
At December 31, 2006	153,812	1,116,727	1,599	(167,254)	212,028	382,766	941,963	2,641,641	9,193	2,650,834

Note 1: The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

Note 2: During the year ended December 31, 2006, M2B.com.hk Limited, a non-wholly owned subsidiary of the Company, was disposed of.

CONSOLIDATED CASH FLOW STATEMENT*For the year ended December 31, 2006*

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	1,600	148,992
Adjustments for:		
Interest income	(4,284)	(2,687)
Share of loss of a jointly controlled entity	3,350	1,099
Finance costs	95,776	68,139
Depreciation of property, plant and equipment	311,391	245,456
Amortisation of prepaid lease payments	4,361	4,474
Amortisation of intangible assets	20,902	16,585
(Gain) loss on disposal of property, plant and equipment	(3)	15,780
Release of a liability from a minority shareholder	(1,595)	—
Operating cash flows before movements in working capital	431,498	497,838
Decrease (increase) in inventories	73,118	(303,198)
Increase in trade and other receivables	(61,501)	(99,358)
Decrease (increase) in bills receivable	19,780	(27,950)
Decrease (increase) in trade receivables due from related companies	11,733	(10,539)
Decrease (increase) in amount due from a jointly controlled entity	3,892	(241)
(Decrease) increase in trade and other payables	(112,521)	113,416
(Decrease) increase in bills payable	(180,758)	15,836
Increase in trade payables due to related companies	11,360	—
Increase (decrease) in amounts due to related companies	6,308	(136)
Decrease in trade payable due to a jointly controlled entity	(3,107)	(1,307)
Cash generated from operations	199,802	184,361
PRC Enterprise Income Tax refunds	34,250	10,859
PRC Enterprise Income Tax paid	(3,234)	(8,312)
NET CASH FROM OPERATING ACTIVITIES	230,818	186,908

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(335,997)	(421,168)
Purchase of technical know-how	(5,778)	(6,521)
Prepayment of land leases	(3,090)	(57,005)
(Increase) decrease in pledged bank deposits	(1,676)	14,270
Proceeds from early termination of land leases	14,740	—
Interest received	4,284	2,687
Repayment of loan receivable	670	780
Proceeds from disposal of property, plant and equipment	173	7,987
NET CASH USED IN INVESTING ACTIVITIES	<u>(326,674)</u>	<u>(458,970)</u>
FINANCING ACTIVITIES		
Bank loans raised	785,000	1,252,440
Loan raised from ultimate holding company	1,400	—
Loan raised from a fellow subsidiary	20,000	—
Capital contributed by minority shareholders of a subsidiary	—	1,331
Repayment of bank loans	(726,000)	(893,119)
Interest paid	(95,443)	(74,862)
Dividends paid	—	(54,141)
Dividends paid to minority shareholders	—	(686)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(15,043)</u>	<u>230,963</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(110,899)	(41,099)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	472,706	501,346
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>25,598</u>	<u>12,459</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	<u><u>387,405</u></u>	<u><u>472,706</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company’s parent and ultimate holding company is Shijiazhuang Pharmaceutical Group Company Limited (“SPG”), a state-owned enterprise incorporated in the People’s Republic of China (the “PRC”). SPG, together with the companies under its control, other than the Company and its subsidiaries (collectively referred to as the “Group”), will hereinafter be referred to as the “SPG Group”. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi (“RMB”). The consolidated financial statements are presented in Hong Kong dollars (“HKD”) for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” ³
HK(IFRIC) — INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions ⁷
HK(IFRIC) — INT 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after January 1, 2007.

² Effective for annual periods beginning on or after January 1, 2009.

³ Effective for annual periods beginning on or after March 1, 2006.

⁴ Effective for annual periods beginning on or after May 1, 2006.

⁵ Effective for annual periods beginning on or after June 1, 2006.

⁶ Effective for annual periods beginning on or after November 1, 2006.

⁷ Effective for annual periods beginning on or after March 1, 2007.

⁸ Effective for annual periods beginning on or after January 1, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to December 31, each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments which represents up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the lease on a straight-line basis.

Intangible assets*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Goodwill

Goodwill arising on acquisitions of subsidiaries and a jointly controlled entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries and jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries and a jointly controlled entity prior to January 1, 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit ("CGU") to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on an acquisition of a subsidiary after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the CGU to which the goodwill relates may be impaired (see the accounting policy below).

For the purpose of impairment testing, goodwill arising from an acquisition of subsidiary is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for the goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, trade receivables due from related companies, amount due from a jointly controlled entity, loan receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable, trade payables due to related companies, amounts due to related companies, trade payable due to a jointly controlled entity, unsecured bank loans, loans from ultimate holding company and loan from a fellow subsidiary are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses, other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services rendered by the Group in the normal course of business, and is stated net of value-added tax and sales returns.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Operating lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Company (i.e. HKD) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill on subsidiaries is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was HK\$215,894,000. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the result. Details of the impairment test are provided in note 18.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, trade receivable due from related companies, amount due from a jointly controlled entity, bank balances, trade payables, bills payable, trade payables due to related companies, amounts due to related companies, trade payable due to a jointly controlled entity, unsecured bank loans, loans from ultimate holding company and loan from a fellow subsidiary.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at December 31, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At the balance sheet date, the management reviews the financial positions of the jointly controlled entity and the repayment records. In this regards, the management considers that the Group's credit risk on amount due from the jointly controlled entity is minimal.

The Group's concentration of credit risk by geographical locations of customers is mainly the PRC which accounted for 90% of the trade receivable at December 31, 2006.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Though several subsidiaries of the Company have foreign currency sales, mainly in United States Dollars and Euro Dollars, which expose the Group to foreign currency risk, the directors consider that the risk is minimal to the Group at current stage.

The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank loans (see note 26 for details of these loans), which are raised from the banks in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rate associated with the loans is more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

Cash flow interest rate risk

The cash flow interest rate exposure for the Group is restricted to the floating rate bank loans (see note 26 for details of these loans). The Group currently does not use interest rate swap to swap its borrowings from floating rates to fixed rates as the management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, the management monitors closely the interest rate exposure and will consider using interest rate swap should the need arise.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the consideration received or receivable for goods sold and services rendered by the Group to outside customers, and are stated net of value-added tax and sales returns during the year.

An analysis of the Group's revenue for the year is as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	3,536,575	3,186,904
Service income	2,179	5,161
	<u>3,538,754</u>	<u>3,192,065</u>

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group reports its primary segment information by products which are bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

For the year ended December 31, 2006:

	Bulk Drugs			Finished Drugs	Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	HK\$'000	HK\$'000	HK\$'000				
REVENUE							
External sales	1,016,186	671,996	575,303	1,255,518	19,751	—	3,538,754
Inter-segment sales	202,634	78,740	606	—	—	(281,980)	—
TOTAL REVENUE	1,218,820	750,736	575,909	1,255,518	19,751	(281,980)	3,538,754
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	83,966	30,371	(10,626)	31,214	(19,934)		114,991
Unallocated corporate income							2,481
Unallocated corporate expenses							(16,746)
							100,726
Share of loss of a jointly controlled entity					(3,350)		(3,350)
Finance costs							(95,776)
Profit before tax							1,600
Income tax							13,763
Profit for the year							15,363

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2006:

	Bulk Drugs			Finished Drugs	Others	Consolidated
	Penicillin	Cephalosporin	Vitamin C			
	series	series	series			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS						
Segment assets	1,518,976	1,307,360	1,338,859	820,300	253,340	5,238,835
Interest in a jointly controlled entity					21,646	21,646
Unallocated corporate assets						12,927
Consolidated total assets						<u>5,273,408</u>
LIABILITIES						
Segment liabilities	193,690	257,457	193,655	294,999	39,100	978,901
Unallocated corporate liabilities						1,643,673
Consolidated total liabilities						<u>2,622,574</u>

For the year ended December 31, 2006:

	Bulk Drugs			Finished Drugs	Others	Unallocated corporate	Consolidated
	Penicillin	Cephalosporin	Vitamin C				
	series	series	series				
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OTHER INFORMATION							
Capital additions	120,878	52,019	54,409	8,362	5,339	3	241,010
Depreciation and amortisation	119,209	97,728	79,539	22,380	17,353	445	<u>336,654</u>

For the year ended December 31, 2005:

	Bulk Drugs			Finished Drugs	Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	HK\$'000	HK\$'000	HK\$'000				
REVENUE							
External sales	525,091	855,131	692,507	1,109,971	9,365	—	3,192,065
Inter-segment sales	219,615	137,039	—	—	—	(356,654)	—
TOTAL REVENUE	744,706	992,170	692,507	1,109,971	9,365	(356,654)	3,192,065
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	(9,220)	117,849	87,840	63,131	(21,728)		237,872
Unallocated corporate income							4,325
Unallocated corporate expenses							(23,967)
							218,230
Share of loss of a jointly controlled entity					(1,099)		(1,099)
Finance costs							(68,139)
Profit before tax							148,992
Income tax							7,301
Profit for the year							156,293

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2005:

	Bulk Drugs			Finished Drugs	Others	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series			
	HK\$'000	HK\$'000	HK\$'000			
ASSETS						
Segment assets	1,676,073	1,161,005	1,314,016	919,060	242,235	5,312,389
Interest in a jointly controlled entity					24,086	24,086
Unallocated corporate assets						43,304
Consolidated total assets						<u>5,379,779</u>
LIABILITIES						
Segment liabilities	339,974	194,934	251,026	536,860	46,331	1,369,125
Unallocated corporate liabilities						1,515,126
Consolidated total liabilities						<u>2,884,251</u>

For the year ended December 31, 2005:

	Bulk Drugs			Finished Drugs	Others	Unallocated corporate	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	HK\$'000	HK\$'000	HK\$'000				
OTHER INFORMATION							
Capital additions	292,576	23,469	78,621	37,424	106,907	3	539,000
Depreciation and amortisation	82,215	90,086	64,235	20,037	9,346	596	<u>266,515</u>

Geographical segments

The Group's operations are located in the PRC, and the following table provides an analysis of the Group's sales by geographical market:

	Revenue	
	2006	2005
	HK\$'000	HK\$'000
The PRC	2,486,009	2,325,016
Asia other than the PRC	614,837	408,984
Europe	216,860	252,810
America	191,301	175,927
Others	29,747	29,328
	<u>3,538,754</u>	<u>3,192,065</u>

Analysis of carrying amounts of segment assets, and additions to property, plant and equipment and intangible assets are not presented as over 90% of the amounts involved are located in the PRC.

7. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
— bank loans wholly repayable within five years	82,670	53,326
— loans from ultimate holding company wholly repayable within five years (<i>note 27</i>)	1,819	1,651
— loan from a fellow subsidiary wholly repayable within five years (<i>note 28</i>)	481	—
— bills receivable discounted without recourse	8,576	14,705
Bank loan arrangement fees	1,897	5,180
Imputed interest expense on non-current interest-free loan from ultimate holding company (<i>note 27</i>)	333	278
	<u>95,776</u>	<u>75,140</u>
Total borrowing costs	95,776	75,140
Less: interest capitalised in construction in progress	—	(7,001)
	<u>95,776</u>	<u>68,139</u>

For the year ended December 31, 2005, the borrowing costs capitalised arose on the general borrowing pool and were calculated by applying a capitalisation rate of 4.5% to expenditure on qualifying assets.

8. INCOME TAX

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
The tax credit comprises:		
PRC Enterprise Income Tax		
— current year	4,285	19,335
— overprovision in prior years	(1,337)	(3,813)
— tax credits/refunds	(16,711)	(22,823)
	<u>(13,763)</u>	<u>(7,301)</u>

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both years.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain subsidiaries of the Company were granted tax credits/refunds which were mainly derived from the following activities:

- a) Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to three PRC subsidiaries set up in previous years.
- b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

The tax credit for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before tax	<u>1,600</u>	<u>148,992</u>
Tax at the domestic income tax rate of 27% (2005: 27%)	432	40,228
Tax effect of income not taxable for tax purpose	(878)	(2,006)
Tax effect of expenses not deductible for tax purpose	10,320	25,839
Tax effect of share of loss of a jointly controlled entity	904	297
Tax effect of tax losses not recognised	29,182	11,368
Utilisation of tax losses previously not recognised	(4,912)	(23)
Effect of tax exemption and relief granted to PRC subsidiaries	(30,763)	(56,410)
Effect of different tax rates of subsidiaries operating in other jurisdiction	—	42
Tax credits/refunds granted to PRC subsidiaries	(16,711)	(22,823)
Overprovision in respect of prior years	<u>(1,337)</u>	<u>(3,813)</u>
Tax credit for the year	<u>(13,763)</u>	<u>(7,301)</u>

At the balance sheet date, the Group had unused tax losses of HK\$141,262,000 (2005: HK\$51,376,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2011.

There was no other significant unprovided deferred tax for the year or at the balance sheet date.

9. PROFIT FOR THE YEAR

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Employee benefits expenses including those of directors	252,032	229,034
Contribution to retirement benefits schemes including those of directors	<u>43,104</u>	<u>41,222</u>
Total employee benefits expenses including those of directors	<u>295,136</u>	<u>270,256</u>
Depreciation of property, plant and equipment	311,391	245,456
Amortisation of prepaid lease payments	4,361	4,474
Amortisation of intangible assets	<u>20,902</u>	<u>16,585</u>
Total depreciation and amortisation	<u>336,654</u>	<u>266,515</u>
Auditors' remuneration	1,600	1,600
Net foreign exchange loss	2,726	1,664
Research and development expenses	8,148	6,217
(Gain) loss on disposal of property, plant and equipment	(3)	15,780
Interest income	(4,284)	(2,687)
Release of liability from a minority shareholder	<u>(1,595)</u>	<u>—</u>

Note: For the year ended December 31, 2005 and 2006, cost of inventories recognised as an expense approximates cost of sales as shown in the consolidated income statement.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 15 (2005: 13) directors were as follows:

2006

	Lee														Chan Siu Keung, Leonard	Total
	Cai	Wei	Feng	Ji	Yao	Chak	Pan	Li	Zhang	Ka Sze,	Huo	Qi	Guo	Shichang		
	Dongchen	Fumin	Yue Jin	Zhenying	Jianming	Shian	Kin Man	Weidong	Zhibiao	Zheng	Carmelo	Zhenxing	Moujia	Shichang		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	60	60	60	60	60	—	60	30	30	30	240	60	60	60	120	990
Other emoluments:																
Salaries and other benefits	3,041	2,127	207	213	209	93	1,170	54	135	101	—	—	—	—	—	7,350
Contribution to retirement benefits schemes	246	166	8	8	8	4	108	2	11	8	—	—	—	—	—	569
Performance related incentive payments (note)	300	243	127	245	114	68	150	25	11	8	—	—	—	—	—	1,291
Total emoluments	3,647	2,596	402	526	391	165	1,488	111	187	147	240	60	60	60	120	10,200

2005

	Lee												Chan Siu Keung, Leonard	Total	
	Cai	Ding	Wei	Feng	Ji	Yao	Chak	Ka Sze,	Huo	Qi	Guo	Shichang			
	Dongchen	Ergang	Fumin	Yue Jin	Zhenying	Jianming	Shian	Kin Man	Carmelo	Zhenxing	Moujia	Shichang			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees		60	55	60	60	60	50	50	5	240	60	60	60	120	940
Other emoluments:															
Salaries and other benefits		2,715	1,760	2,027	173	206	172	122	87	—	—	—	—	—	7,262
Contribution to retirement benefits schemes		217	145	172	7	7	6	5	8	—	—	—	—	—	567
Performance related incentive payments (note)		600	1,000	450	207	253	133	158	25	—	—	—	—	—	2,826
Total emoluments		3,592	2,960	2,709	447	526	361	335	125	240	60	60	60	120	11,595

No directors waived any emoluments in the years ended December 31, 2006 and 2005.

Note: The above remuneration is determined by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company during the whole financial year whose emoluments are included in note 10 above. The emoluments of the remaining individual who was appointed as an executive director of the Company during the year were as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Director's fee	30	5
Salaries and other benefits	395	820
Contributions to retirement benefits scheme	34	74
Performance related incentive payments	32	300
	<u>491</u>	<u>1,199</u>

12. DIVIDEND

No dividend was proposed by the directors for the years ended December 31, 2006 and 2005.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2006 is based on the profit for the year of HK\$15,664,000 (2005: HK\$156,518,000) and the 1,538,124,661 shares (2005: 1,538,124,661 shares) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2006 and 2005 as there were no potential ordinary shares in issue during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST						
At January 1, 2005	502,265	2,198,220	10,779	11,791	842,023	3,565,078
Exchange adjustments	11,535	50,485	163	248	19,335	81,766
Additions	5,292	31,603	1,561	7,075	429,943	475,474
Transfers	322,330	866,447	932	—	(1,189,709)	—
Disposals	(955)	(38,107)	(1,770)	(3,304)	—	(44,136)
At December 31, 2005	840,467	3,108,648	11,665	15,810	101,592	4,078,182
Exchange adjustments	41,711	145,234	524	783	4,064	192,316
Additions	28,647	61,300	2,546	2,984	135,664	231,141
Transfers	71,068	75,754	—	—	(146,822)	—
Disposals	—	(2,532)	—	(2,381)	—	(4,913)
At December 31, 2006	981,893	3,388,404	14,735	17,196	94,498	4,496,726
DEPRECIATION						
At January 1, 2005	68,898	577,468	2,492	7,903	—	656,761
Exchange adjustments	2,135	16,601	62	204	—	19,002
Provided for the year	32,208	208,461	2,191	2,596	—	245,456
Eliminated on disposals	(842)	(17,077)	(419)	(1,648)	—	(19,986)
At December 31, 2005	102,399	785,453	4,326	9,055	—	901,233
Exchange adjustments	6,388	45,511	224	464	—	52,587
Provided for the year	45,616	260,649	2,487	2,639	—	311,391
Eliminated on disposals	—	(1,368)	—	(143)	—	(1,511)
At December 31, 2006	154,403	1,090,245	7,037	12,015	—	1,263,700
CARRYING VALUES						
At December 31, 2006	<u>827,490</u>	<u>2,298,159</u>	<u>7,698</u>	<u>5,181</u>	<u>94,498</u>	<u>3,233,026</u>
At December 31, 2005	<u>738,068</u>	<u>2,323,195</u>	<u>7,339</u>	<u>6,755</u>	<u>101,592</u>	<u>3,176,949</u>

At December 31, 2006, no borrowing cost (2005: HK\$7,001,000) was capitalised and included in construction in progress.

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At December 31, 2006, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK\$567,696,000 (2005: HK\$483,425,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY COST			
At January 1, 2005	2,222	1,005	3,227
Additions	3	—	3
At December 31, 2005	2,225	1,005	3,230
Additions	4	—	4
At December 31, 2006	2,229	1,005	3,234
DEPRECIATION			
At January 1, 2005	665	854	1,519
Provided for the year	445	151	596
At December 31, 2005	1,110	1,005	2,115
Provided for the year	445	—	445
At December 31, 2006	1,555	1,005	2,560
CARRYING VALUES			
At December 31, 2006	674	—	674
At December 31, 2005	1,115	—	1,115

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	3.3% — 5%
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK\$150,284,000 (2005: HK\$159,086,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK\$4,361,000 (2005: HK\$4,474,000) is classified under current assets for reporting purpose.

16. INTANGIBLE ASSETS

	Technical know-how <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Utility rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At January 1, 2005	65,059	20,906	68,823	154,788
Exchange adjustments	1,494	480	1,581	3,555
Additions	6,521	—	—	6,521
At December 31, 2005	73,074	21,386	70,404	164,864
Exchange adjustments	3,514	962	3,168	7,644
Additions	5,778	—	—	5,778
At December 31, 2006	82,366	22,348	73,572	178,286
AMORTISATION				
At January 1, 2005	46,316	8,849	29,673	84,838
Exchange adjustments	855	553	800	2,208
Provided for the year	7,127	2,536	6,922	16,585
At December 31, 2005	54,298	11,938	37,395	103,631
Exchange adjustments	2,814	705	1,959	5,478
Provided for the year	9,519	4,302	7,081	20,902
At December 31, 2006	66,631	16,945	46,435	130,011
CARRYING VALUES				
At December 31, 2006	<u>15,735</u>	<u>5,403</u>	<u>27,137</u>	<u>48,275</u>
At December 31, 2005	<u>18,776</u>	<u>9,448</u>	<u>33,009</u>	<u>61,233</u>

At December 31, 2006, included in development costs was an amount of HK\$3,848,000 (2005: HK\$3,682,000) which was internally generated while all other intangible assets of the Group were acquired from independent third parties.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

Utility rights represent up-front non-refundable payment to secure the rights to use electricity in the PRC over 10 years.

17. GOODWILL

HK\$'000

COST

At January 1, 2005 and 2006 and December 31, 2006

55,764

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill with indefinite useful lives as set out in note 17 and goodwill reserves has been allocated to two individual cash generating units ("CGUs"). The carrying amount of goodwill as at December 31, 2006 has been allocated to the following units:

HK\$'000

Business segment of finished drugs ("Unit A")

55,764

Manufacture of penicillin ("Unit B")

160,130

215,894

During the year ended December 31, 2006, management of the Group determines that there is no impairment of the above-mentioned CGUs containing the goodwill. The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 4.5% per annum, for both Unit A and Unit B, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed their aggregate recoverable amounts.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

THE GROUP**2006****2005**

HK\$'000

HK\$'000

Share of net assets

21,646

24,086

At December 31, 2006, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

At January 1, 2005 and 2006 and December 31, 2006, included in the goodwill reserves was goodwill of HK\$7,124,000 arising on acquisition of the jointly controlled entity in prior years.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current assets	<u>31,496</u>	<u>33,247</u>
Non-current assets	<u>59,906</u>	<u>55,773</u>
Current liabilities	<u>(59,990)</u>	<u>(53,441)</u>
Non-current liabilities	<u>(10,730)</u>	<u>(12,457)</u>
Income	<u>87,491</u>	<u>71,661</u>
Expenses	<u>90,841</u>	<u>72,760</u>

20. BANK BALANCES/PLEGGED BANK DEPOSITS

Bank balances and pledged bank deposits carry interest at market rates which range from 1.4% to 2.6% (2005: 1.4% to 2.1%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$2,792,000 (2005: Nil) have been pledged to secure short-term bank borrowings and therefore classified as current assets. The remaining deposits amounting to HK\$1,312,000 (2005: HK\$2,428,000) have been pledged to secure banking facilities granted to the Group for the acquisition of property, plant and equipment and therefore classified as non-current assets.

21. INVENTORIES

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Raw materials	82,193	82,754
Work in progress	174,151	199,186
Finished goods	<u>426,591</u>	<u>474,113</u>
	<u>682,935</u>	<u>756,053</u>

22. TRADE AND OTHER RECEIVABLES/ BILLS RECEIVABLE

	THE GROUP	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	497,288	379,192
Bills receivable	98,501	118,281
	<u>595,789</u>	<u>497,473</u>
Other receivables	77,200	133,795
	<u>672,989</u>	<u>631,268</u>

The Group allows a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables at the balance sheet date:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	559,880	472,208
91 to 180 days	35,731	24,436
181 to 365 days	178	829
	<u>595,789</u>	<u>497,473</u>

23. LOAN RECEIVABLE

The amount was unsecured, carried interest rate of 6.435% per annum and was fully repaid during the year.

24. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(i) Connected parties

Name of company	Nature of transactions/ balances	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
The SPG Group	Sale of steam (<i>note a</i>)	2,672	4,897
	Purchase of raw materials (<i>note a</i>)	266,499	158,948
	Rental expense (<i>note b</i>)	5,787	3,350
	Interest expense on loans from ultimate holding company (<i>note d</i>)	2,152	1,929
	Interest expense on loan from a fellow subsidiary (<i>note d</i>)	481	—
	Bank guarantee (<i>note e</i>)	400,000	—
	Balance due from (to) the SPG Group at December 31		
	— trade receivables (<i>note f</i>)	2,660	14,393
	— trade payables (<i>note f</i>)	(11,360)	—
	— other payables (<i>note f</i>)	(10,454)	(4,146)
	— long-term loans (<i>note d</i>)	(79,493)	(55,488)
		(79,493)	(55,488)

(ii) Related parties, other than connected parties

Name of company	Nature of transactions/ balances	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), an associate of SPG (note i)	Sales of raw materials (note a)	—	503
	Sales of finished goods (note a)	—	5,301
	Purchase of finished goods (note a)	—	23,437
	Rental expenses (note b)	—	1,085
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	—	502
	Income from provision of technology consultancy services (note g)	—	19
	Income from leasing of property, plant and equipment (note g)	—	183
Huarong, a jointly controlled entity of the Group	Sales of finished goods (note a)	4,695	3,259
	Purchase of raw materials (note a)	36,062	33,039
	Income from provision of technology consultancy services (note g)	173	461
	Provision of utility services by the Group (note h)	10,416	7,339
	Balance due from (to) Huarong at December 31		
	— dividend receivable	6,122	6,122
	— other receivables (note f)	7,033	10,925
	— trade payables (note f)	—	(3,107)
		<u> </u>	<u> </u>

(iii) Other state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to the followings:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(iv) Compensation of key management personnel

The remuneration of directors as key management of the Group during the year was as follows:

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Short-term benefits	8,641	10,088
Post-employment benefits	569	567
	9,210	10,655

The above remuneration is determined by the remuneration committee, having regard to the Company’s operating results, individual performance and comparable market statistics.

Notes:

- (a) The transactions were carried out with reference to the market prices.
- (b) Rental expenses were paid in accordance with the tenancy agreements .
- (c) Pursuant to the services agreements, the service fees paid for all composite services, other than the provision of utilities, were based on actual costs incurred by Ouyi. For the provision of utilities, the service fees paid were based on the actual costs of the utilities incurred by the Group plus 2% as the handling charge.
- (d) Details of the loans are set out in note 27 and note 28.

- (e) Guarantees were given by SPG to banks to secure bank loans granted to the Group.
- (f) At the balance sheet date, the amount was aged within one year.
- (g) The transactions were based on terms agreed by both parties.
- (h) The transactions were based on the actual cost of utilities incurred by the Group.
- (i) Ouyi was a former associate company of SPG and the relationship ceased on July 31, 2005. Only the transactions with Ouyi prior to July 31, 2005 were considered as related party transactions.

25. TRADE AND OTHER PAYABLES/BILLS PAYABLE

	THE GROUP	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	406,100	498,933
Bills payable	223,118	403,876
	<u>629,218</u>	<u>902,809</u>
Other payables	348,047	475,823
	<u>977,265</u>	<u>1,378,632</u>

The following is an aged analysis of trade and bills payables at the balance sheet date:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	555,975	787,371
91 to 180 days	54,433	69,611
181 to 365 days	9,917	26,432
More than 365 days	8,893	19,395
	<u>629,218</u>	<u>902,809</u>

26. UNSECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The unsecured bank loans are repayable as follows:				
On demand or within one year	752,000	344,804	242,000	96,000
More than one year, but not more than two years	562,000	758,746	292,000	242,000
More than two years, but not more than five years	<u>215,000</u>	<u>332,000</u>	<u>120,000</u>	<u>332,000</u>
	1,529,000	1,435,550	654,000	670,000
Less: Amount due within one year shown under current liabilities	<u>(752,000)</u>	<u>(344,804)</u>	<u>(242,000)</u>	<u>(96,000)</u>
Amount due after one year	<u><u>777,000</u></u>	<u><u>1,090,746</u></u>	<u><u>412,000</u></u>	<u><u>574,000</u></u>

The fair value of the above bank loans at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Fixed-rate RMB bank loans	875,000	765,550	—	—
Floating-rate HKD bank loans	<u>654,000</u>	<u>670,000</u>	<u>654,000</u>	<u>670,000</u>
	<u><u>1,529,000</u></u>	<u><u>1,435,550</u></u>	<u><u>654,000</u></u>	<u><u>670,000</u></u>

The interest rates of the Group's fixed-rate RMB bank loans and floating-rate HKD bank loans are 5.02% to 6.76% (2005: 4.8% to 5.8%) per annum and 4.47% to 5.46% (2005: 1.0% to 5.2%) per annum, respectively.

At the balance sheet date, the Group and the Company had no undrawn loan facilities (2005: HK\$80,000,000) in respect of floating-rate HKD bank loans.

27. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured and are analysed as follows:

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loans from SPG:		
— interest bearing at the rate of 3.78% per annum	50,000	47,847
— interest-free	9,493	7,641
	<u>59,493</u>	<u>55,488</u>

At December 31, 2006, the fair value of the interest-free portion of loans from SPG of HK\$9,493,000 (2005: HK\$7,641,000) was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78%.

As SPG had agreed not to demand repayment of the above loans within twelve months from the balance sheet date, the loans are classified as non-current liabilities.

28. LOAN FROM A FELLOW SUBSIDIARY

The amount is unsecured and carries interest rate of 6% per annum. Since the fellow subsidiary has agreed not to demand repayment of the above loan within twelve months from the balance sheet date, the loan is classified as non-current liability.

At December 31, 2005, there was no loan from a fellow subsidiary.

29. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At December 31, 2005 and 2006	<u>3,000,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
At December 31, 2005 and 2006	<u>1,538,124,661</u>	<u>153,812</u>

30. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue and have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK\$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

31. INVESTMENTS IN SUBSIDIARIES

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investment, at cost	<u>1,202,044</u>	<u>1,202,052</u>

Particulars of the Company's subsidiaries as at December 31, 2006 are set out in note 40.

32. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts are unsecured, interest-free and repayable on demand.

33. RESERVES

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
At January 1, 2005	1,116,727	174,282	1,291,009
Profit for the year	<u>—</u>	<u>13,616</u>	<u>13,616</u>
At December 31, 2005	1,116,727	187,898	1,304,625
Loss for the year	<u>—</u>	<u>(47,923)</u>	<u>(47,923)</u>
At December 31, 2006	<u><u>1,116,727</u></u>	<u><u>139,975</u></u>	<u><u>1,256,702</u></u>

The Company's reserves available for distribution to shareholders as at December 31, 2006 represent its retained profits of HK\$139,975,000 (2005: HK\$187,898,000).

34. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year in respect of land and buildings	<u>10,247</u>	<u>6,835</u>

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	9,249	8,400	2,077	770
In the second to fifth year inclusive	4,307	10,264	863	—
Over five years	<u>231</u>	<u>339</u>	<u>—</u>	<u>—</u>
	<u><u>13,787</u></u>	<u><u>19,003</u></u>	<u><u>2,940</u></u>	<u><u>770</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated and rentals are fixed for an average term of two years.

35. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— property, plant and equipment	77,489	7,867
— intangible assets	6,817	3,568
	<u>84,306</u>	<u>11,435</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u>3,016</u>	<u>40,450</u>

36. MAJOR NON-CASH TRANSACTION

During the year, HK\$3,232,000 of sales proceeds from disposal of property, plant and equipment was agreed by both parties to set off with trade payables for the same amount.

37. CONTINGENT LIABILITIES

- (i) As disclosed in the press announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in The United States of America (the “United States”). These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the antitrust complaints in the United States. Up to the date of this report, three antitrust complaints have been served on the Company and the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

- (ii) At December 31, 2006, a guarantee of HK\$20,000,000 (2005: Nil) was given by the Company to a bank in respect of banking facilities utilised by its subsidiary.

38. PLEDGE OF ASSETS

At December 31, 2006, no bills receivable of the Group (2005: bills receivable of HK\$3,828,000) was pledged to a bank to secure banking facilities granted to a subsidiary of the Company. The pledge at December 31, 2005 was released upon the repayment of the loan facilities in January 2006. Details of the other pledge of assets are set out in note 20.

39. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK\$43,104,000 (2005: HK\$41,222,000).

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at December 31, 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Golden Wing Limited	Hong Kong	Limited liability company	HK\$3	100	—	Inactive
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	99.21	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB120,000,000	100	—	Manufacture and sales of pharmaceutical products
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	HK\$130,000,000	100	—	Manufacture and sales of pharmaceutical products

APPENDIX II
FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital registered by the Company		Principal activity
				<i>Directly</i> %	<i>Indirectly</i> %	
Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB135,000,000	100	—	Manufacture and sales of pharmaceutical products
Tin Lon Investment Limited	Hong Kong	Limited liability company	HKS2	100	—	Investment holding
Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	US\$20,169,000	100	—	Manufacture and sale of pharmaceutical products
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB59,400,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB216,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,440,000	100	—	Provision of pharmaceutical research and development services
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	100	—	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Hebei Zhongrun Huanbao Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB5,000,000	—	85	Sewage treatment
Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,000,000	80.42	—	Sewage treatment

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

3. UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2007

The following is a summary of the published unaudited consolidated accounts of the Company for the three months ended 31 March 2007 as extracted from the result announcement of the Company dated 14 June 2007.

CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2007

	For the three months ended March 31,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,028,621	912,936
Cost of sales	(799,542)	(742,605)
Gross profit	229,079	170,331
Other income	3,346	12,348
Selling and distribution expenses	(86,618)	(56,527)
Administrative expenses	(89,444)	(82,377)
Other expenses	(5,066)	(4,569)
Profit from operations	51,297	39,206
Finance costs	(26,048)	(23,458)
Share of results of a jointly controlled entity	(2,599)	791
Profit before tax	22,650	16,539
Income tax	(2,121)	(1,770)
Profit for the period	<u>20,529</u>	<u>14,769</u>
Attributable to:		
Equity holders of the Company	20,523	14,725
Minority interests	6	44
	<u>20,529</u>	<u>14,769</u>
Dividend	<u>—</u>	<u>—</u>
Earnings per share		
— basic	<u>HK1.33 cents</u>	<u>HK0.96 cents</u>

Notes:

1. The accounting policies adopted in preparation of the financial data for the three months ended March 31, 2007 are consistent with those disclosed in the 2006 annual report of the Company.
2. The calculation of the basic earnings per share for the three months ended March 31, 2007 is based on the profit attributable to equity holders of the Company of HK\$20,523,000 (three months ended March 31, 2006: HK\$14,725,000) and 1,538,124,661 shares (three months ended March 31, 2006: 1,538,124,661 shares) in issue during the period.

No diluted earnings per share is presented for the three months ended March 31, 2007 and 2006 as there were no potential ordinary shares in issue during both periods.

3. The directors resolved not to declare an interim dividend for the three months ended March 31, 2007 (three months ended March 31, 2006: Nil).
4. The financial data for the three months ended March 31, 2007 is based on the internal records and management accounts of the Group and has not been reviewed or audited by the external auditors of the Company.

4. MATERIAL CHANGE

Save as the improvement in results reported in the first quarter results of 2007 as compared with the previous financial year and the strong recovery of the prices of the penicillin and vitamin C products as mentioned under the section headed “Business Review and Outlook” on page 3 of the results announcement of the Company dated 14 June 2007 for the three months ended 31 March 2007 regarding the financial and trading outlook of the Group, the Directors are not aware that there has been any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statement of the Group were made up.

5. STATEMENT OF INDEBTEDNESS

(a) Borrowings

As at the close of business on 31 May 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding unsecured bank borrowings of approximately HK\$1,463.0 million and notes payable of approximately HK\$186.7 million. In addition, the Group had outstanding other borrowings of approximately HK\$139.6 million, comprising (i) loan from a fellow subsidiary of approximately HK\$110.0 million; and (ii) loan from the ultimate holding company of approximately HK\$29.6 million.

(b) Contingent liabilities

As at the close of business on 31 May 2007, the Group had guarantees given to banks in respect of bank facilities utilised by a jointly controlled entity of approximately HK\$21.0 million.

(c) Pledge of assets

As the close of business on 31 May 2007, bank deposits amounting to approximately HK\$1,133,000 have been pledged to secure banking facilities granted to the Group.

(d) Litigation

Details of the litigation are set out in Appendix IV to this document under the section headed “MATERIAL LITIGATION”.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 May 2007 any loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuations as at 31 May 2007 of the property interests of the Group.



Corporate valuation and consultancy
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19 July 2007

The Directors

China Pharmaceutical Group Limited

Room 3805, 38th Floor,

Central Plaza,

18 Harbor Road,

Wanchai,

Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China Pharmaceutical Group Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 May 2007 (the “date of valuation”).

Our valuations of the property interests represent the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Where, due to the nature of the buildings and structures of the properties in Group I in the PRC, there are no market sales comparables readily available; the property interests in Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Groups II and III which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been, in some instances, provided by the Group with extracts of the title documents relating to the properties in the PRC and have caused searched to be made at the Hong Kong Land Registries in respect of Hong Kong properties. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company’s PRC legal advisers — Hylands Law Firm, concerning the validity of the Group’s titles to the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 May 2007 RMB
1.	Land, various buildings and structures located at No. 47 Fengshou Road Shijiazhuang City Hebei Province The PRC	185,984,000
2.	Land and various buildings located at No. 188 Gongnong Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	16,668,000
3.	Land, various buildings and structures located at No. 88 Yangzi Road Economy Development Zone Shijiazhuang City Hebei Province The PRC	44,475,000
4.	Land, various buildings and structures located at No. 236 Huanghe Road Gaoxin District Shijiazhuang City Hebei Province The PRC	75,737,000

No.	Property	Capital value in existing state as at 31 May 2007 RMB
5.	Land, various buildings and structures located at Tuodian Industrial Park Yanshan Camp Tuoketuo County Inner Mongolia Autonomous Region The PRC	No commercial value
6.	Various buildings and structures located at Tuodian Industrial Park Yanshan Camp Tuoketuo County Inner Mongolia Autonomous Region The PRC	No commercial value
7.	A building and various structures located at No. 276 Zhongshan West Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	No commercial value
Sub-total:		<hr/> 322,864,000 <hr/>

**GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP
IN THE PRC**

No.	Property	Capital value in existing state as at 31 May 2007 RMB
8.	Land, various buildings and structures located at No. 6 Huaxing Road Shijiazhuang City Hebei Province The PRC	No commercial value
9.	Land, various buildings and structures located at No. 188 Gongnong Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	No commercial value
10.	Land and various buildings located at No. 496 Heping East Road Chang'an District Shijiazhuang City Hebei Province The PRC	No commercial value
11.	Land and building located at No. 2 Jingshitiao Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	No commercial value
12.	Land, various buildings and structures located at No. 47 Fengshou Road Shijiazhuang City Hebei Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 May 2007 RMB
13.	Land, various buildings and structures located at Yinxing Fertilizer Plant Douyu Huafei Chang Road Shijiazhuang City Hebei Province The PRC	No commercial value
14.	A building located at No. 276 Zhongshan West Road Shijiazhuang City Hebei Province The PRC	No commercial value
Sub-total:		<hr/> Nil <hr/>

**GROUP III — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP
IN HONG KONG**

No.	Property	Capital Value in existing state as at 31 May 2007 RMB
15.	Flat B, 19/F King Kwong Mansion, 8 King Kwong Street, Happy Valley Hong Kong	No commercial value
16.	Flat 1905, 19/F Block F, Healthy Gardens 560 King's Road North Point Hong Kong	No commercial value
17.	Office Unit No. 3805, 38/F, Central Plaza, No. 18 Harbour Road Wanchai Hong Kong	No commercial value
	Sub-total:	<u>Nil</u>
	Total :	<u>322,864,000</u>

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
1. Land, various buildings and structures located at No. 47 Fengshou Road Shijiazhuang City Hebei Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 134,147.495 sq.m., on which are constructed 45 buildings and various ancillary structures completed in various stages between 1993 and 1996.</p> <p>The buildings have a total gross floor area of approximately 151,352.27 sq.m.</p> <p>The buildings mainly include workshops, office building and storehouse.</p> <p>The structures mainly include roads, walls and sheds.</p> <p>The land use rights of the property were granted for terms expiring on 19 September 2046, 8 March 2055 and 21 January 2052.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	185,984,000

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts, the land use rights of 3 parcels of land with the respective site areas of 87,724.811 sq.m., 10,514 sq.m. and 36,141.76 sq.m. were contracted to be granted to 河北製藥廠(a company formerly owned by SPG), 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company) and 河北製藥(集團)有限公司 (a company formerly owned by SPG) for terms of 50 years for industrial use.
- Pursuant to 3 State-owned Land Use Rights Certificates — Chang An Guo Yong (2003) Zi Di No. 082, Qiao Dong Guo Yong (2005) Di No. 030 and Chang An Guo Yong (2001) Zi Di No. 047, the land use rights of 3 parcels of land with a total site area of approximately 134,147.495 sq.m. were granted to 中諾藥業(石家莊)有限公司 (a subsidiary of the Company) and 河北中潤製藥有限公司 (a subsidiary of the Company) for terms expiring on 19 September 2046, 8 March 2055 and 21 January 2052 for industrial use.

3. Pursuant to 6 Building Ownership Certificates —Shi Fang Quan Zheng Chang Zi Di Nos. 160000012 to 160000017, the building ownership rights of 19 buildings with a total gross floor area of approximately 44,468.75 sq.m. are owned by 中諾藥業(石家莊)有限公司 (a subsidiary of the Company).

For the remaining 26 buildings with a total gross floor area of approximately 106,883.52 sq.m., we have not been provided with any building ownership certificate.

4. In the valuation of this property, we have attributed no commercial value to the 26 buildings with a total gross floor area of approximately 106,883.52 sq.m. without any building ownership certificate. However, for reference purpose, we are of the opinion that the capital value of the 26 buildings (excluding the land) as at the date of valuation would be RMB155,312,000 assuming all relevant title ownership certificates had been obtained and the buildings could be freely transferred.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

(i) The building ownership rights and land use rights of the property (excluding those parts of the property mentioned in note 4) can be used, transferred, leased and mortgaged by 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company) and 石藥集團河北中潤製藥有限公司 (a subsidiary of the Company) respectively during the prescribed land use rights term in accordance with the PRC law.

(ii) The building ownership rights and land use rights of the property (excluding those parts of the property mentioned in note 4) do not subject to any mortgage or other encumbrances.

(iii) The building ownership rights of the buildings as mentioned in note 4 can be occupied, used, getting interest (right to handle is subject to limitation) by 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company) and 石藥集團河北中潤製藥有限公司 (a subsidiary of the Company). 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company) and 石藥集團河北中潤製藥有限公司 (a subsidiary of the Company) have no legal impediment in obtaining the relevant title certificates.

(iv) The following taxes and/or fees have to be paid if the properties were sold

- | | | | |
|-----|---|---|--|
| (a) | 營業稅 (Business Tax) | : | 5% of the remaining amount by deducting the original acquisition price from all of the income |
| (b) | 企業所得稅
(Enterprise Profit Tax) | : | Calculated by including the income of the selling of the property into the taxable amount of the enterprise |
| (c) | 成市維護建設稅
(Town Maintenance
Construction Tax) | : | 7% for city district and 5% for county and town district |
| (d) | 教育費附加
(Education Addition Fee) | : | 3% of Business Tax |
| (e) | 土地增值稅
(Land Value Added Tax) | : | Four levels progressive rate:
Tax amount = Increased amount X Relevant tax rate
Increased amount = Transferring income — Project amount
Transferring income includes money income, entity income and other income
Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount. |
| (f) | 印花稅 (Stamp Duty) | : | 0.05% of Selling Price of the property |
| (g) | 住房轉讓手續費
(Housing Transferring
Service Fee) | : | RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share) |

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
2. Land and various buildings located at No. 188 Gongnong Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 6,292.305 sq.m., on which are constructed 2 buildings completed in various stages between 1991 and 2004.</p> <p>The buildings have a total gross floor area of approximately 4,999 sq.m.</p> <p>The buildings mainly include office building and storehouse.</p> <p>The land use rights of the property were granted for terms expiring on 1 February 2054 and 8 July 2073.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	16,668,000

Notes:

- Pursuant to 2 State-owned Land Use Rights Grant Contracts, the land use rights of 2 parcels of land with the respective site areas of 1,376.116 sq.m. and 4,728.616 sq.m. were contracted to be granted to 中諾藥業(石家莊)有限公司(a subsidiary of the Company) for two respective terms of 50 years and 70 years for industrial use and residential use.
- Pursuant to 2 State-owned Land Use Rights Certificates —Qiao Xi Guo Yong (2004) Di No. 016 and Qiao Xi Guo Yong (2004) Di No. 025, the land use rights of 2 parcels of land with a total site area of approximately 6,292.305 sq.m. were granted to 中諾藥業(石家莊)有限公司(a subsidiary of the Company) for terms expiring on 1 February 2054 and 8 July 2073 for industrial and residential uses respectively.
- Pursuant to a Building Ownership Certificate — Shi Fang Quan Zheng Xi Zi Di No. 460000005, the building ownership rights of a building with a gross floor area of approximately 3,684 sq.m. are owned by 中諾藥業(石家莊)有限公司 (a subsidiary of the Company).

For the remaining building with a gross floor area of approximately 1,315 sq.m., we have not been provided with any building ownership certificate.

- In the valuation of this property, we have attributed no commercial value to the building with a gross floor area of approximately 1,315 sq.m. without any building ownership certificate. However, for reference purpose, we are of the opinion that the capital value of the building (excluding the land) as at the date of valuation would be RMB592,000 assuming relevant title ownership certificate had been obtained and the building could be freely transferred.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- (i) The building ownership rights and land use rights of the property (excluding those parts of the property mentioned in note 4) can be used, transferred, leased and mortgaged by 石藥集團中諾藥業(石家莊)有限公司(a subsidiary of the Company) during the prescribed land use rights term in accordance with the PRC law.
 - (ii) The building ownership rights and land use rights of the property (excluding those parts of the property mentioned in note 4) do not subject to any mortgage or other encumbrances.
 - (iii) The building ownership rights of the building as mentioned in note 4 can be occupied, used, getting interest (right to handle is subject to limitation) by 石藥集團中諾藥業(石家莊)有限公司(a subsidiary of the Company). 石藥集團中諾藥業(石家莊)有限公司(a subsidiary of the Company) has no legal impediment in obtaining the relevant title certificate.
 - (iv) The following taxes and/or fees have to be paid if the properties were sold
 - (a) 營業稅 (Business Tax) : 5% of the remaining amount by deducting the original acquisition price from all of the income
 - (b) 企業所得稅 (Enterprise Profit Tax) : Calculated by including the income of the selling of the property into the taxable amount of the enterprise
 - (c) 成市維護建設稅 (Town Maintenance Construction Tax) : 7% for city district and 5% for county and town district
 - (d) 教育費附加 (Education Addition Fee) : 3% of Business Tax
 - (e) 土地增值稅 (Land Value Added Tax) : Four levels progressive rate:
 Tax amount = Increased amount X Relevant tax rate
 Increased amount = Transferring income — Project amount
 Transferring income includes money income, entity income and other income
 Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount.
 - (f) 印花稅 (Stamp Duty) : 0.05% of Selling Price of the property
 - (g) 住房轉讓手續費 (Housing Transferring Service Fee) : RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share)

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
3. Land, various buildings and structures located at No. 88 Yangzi Road Economy Development Zone Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 117,346.44 sq.m., on which are constructed 3 buildings and various ancillary structures completed in 2005.</p> <p>The buildings have a total gross floor area of approximately 22,806 sq.m.</p> <p>The buildings mainly include workshops, office building and canteen.</p> <p>The structures mainly include roads, walls and greenery.</p> <p>The land use rights of the property were granted for a term of 50 years expiring in 2055.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	44,475,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract, the land use rights of a parcel of land with a site area of 266,742 sq.m. were contracted to be granted to 恩必普藥業有限公司 (a subsidiary of the Company), for a term of 50 years for industrial use.
2. Pursuant to a State-owned Land Use Rights Certificate — Gao Guo Tu Yong (2006) Di No. 0001, the land use rights of a parcel of land with a site area of approximately 117,346.44 sq.m. were granted to 石藥集團恩必普藥業有限公司 (a subsidiary of the Company) for a term expiring in 2055 for industrial use.
3. For the 3 buildings with a total gross floor area of approximately 22,806 sq.m., we have not been provided with any building ownership certificate.
4. In the valuation of this property, we have attributed no commercial value to the 3 buildings with a total gross floor area of approximately 22,806 sq.m. without any building ownership certificate. However, for reference purpose, we are of the opinion that the capital value of the 3 buildings (excluding the land) as at the date of valuation would be RMB47,722,000 assuming all relevant title ownership certificates had been obtained and the buildings could be freely transferred.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

- (i) The land use rights of the property can be used, transferred, leased and mortgaged by 石藥集團恩必普藥業有限公司 (a subsidiary of the Company) during the prescribed land use rights term in accordance with the PRC law.
- (ii) The land use rights of the property do not subject to any mortgage or other encumbrances.
- (iii) The building ownership rights of the buildings as mentioned in note 4 can be occupied, used, getting interest (right to handle is subject to limitation) by 石藥集團恩必普藥業有限公司 (a subsidiary of the Company). 石藥集團恩必普藥業有限公司 (a subsidiary of the Company) has to apply for the relevant title certificate.
- (iv) The following taxes and/or fees have to be paid if the properties were sold
 - (a) 營業稅 (Business Tax) : 5% of the remaining amount by deducting the original acquisition price from all of the income
 - (b) 企業所得稅 (Enterprise Profit Tax) : Calculated by including the income of the selling of the property into the taxable amount of the enterprise
 - (c) 成市維護建設稅 (Town Maintenance Construction Tax) : 7% for city district and 5% for county and town district
 - (d) 教育費附加 (Education Addition Fee) : 3% of Business Tax
 - (e) 土地增值稅 (Land Value Added Tax) : Four levels progressive rate:
 Tax amount = Increased amount X Relevant tax rate
 Increased amount = Transferring income — Project amount
 Transferring income includes money income, entity income and other income
 Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount.
 - (f) 印花稅 (Stamp Duty) : 0.05% of Selling Price of the property
 - (g) 住房轉讓手續費 (Housing Transferring Service Fee) : RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share)

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
4. Land, various buildings and structures located at No. 236 Huanghe Road Gaoxin District Shijiazhuang City Hebei Province The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 228,506.811 sq.m., on which are constructed 58 buildings and various ancillary structures completed in various stages between 1996 and 2006.</p> <p>The buildings have a total gross floor area of approximately 155,600.49 sq.m.</p> <p>The buildings mainly include workshops, office building and storehouse.</p> <p>The structures mainly include roads, walls and ponds.</p> <p>The land use rights of 3 parcels of land of the property were granted for various terms expiring on 7 April 2025, 25 December 2032 and 19 May 2032.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	75,737,000

Notes:

- Pursuant to 4 State-owned Land Use Rights Grant Contracts, the land use rights of 4 parcels of land with the respective site areas of 40,935 sq.m., 31,296 sq.m., 29,233 sq.m. and 127,867.027 sq.m. were contracted to be granted to 維生藥業(石家莊)有限公司(a subsidiary of the Company) and 維泰化工(石家莊)有限公司(a subsidiary of the Company) with expiry dates on 7 April 2025 and 19 May 2032 for industrial use.
- Pursuant to 3 State-owned Land Use Rights Certificates — Shi Kai (Dong) Guo Yong (2005) Zi Di Nos. 103 and 104, Shi Kai (Dong) Guo Yong (2006) Di No. 116, the land use rights of 3 parcels of land with a total site area of approximately 100,639.784 sq.m. were granted to 維生藥業(石家莊)有限公司(a subsidiary of the Company) and 維泰化工(石家莊)有限公司(a subsidiary of the Company) for terms expiring on 7 April 2025, 25 December 2032 and 19 May 2032 for industrial use.

For the remaining parcel of land with a site area of approximately 127,867.027 sq.m., we have not been provided with any Land Use Rights Certificate.

- For the 58 buildings with a total gross floor area of approximately 155,600.49 sq.m., we have not been provided with any building ownership certificate.

4. In the valuation of this property, we have attributed no commercial value to the 58 buildings with a total gross floor area of approximately 155,600.49 sq.m. without any building ownership certificate and the parcel of land with a site area of approximately 127,867.027 sq.m. without land use rights certificate. However, for reference purpose, we are of the opinion that the capital value of the 58 buildings and the parcel of land as at the date of valuation would be RMB278,803,000 assuming the building ownership certificates and granted land use rights certificate had been obtained and the property could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- (i) The land use rights of the property (excluding those parts of the property mentioned in note 4) can be used, transferred, leased and mortgaged by 石藥集團維生藥業(石家莊)有限公司(a subsidiary of the Company) and 維泰化工(石家莊)有限公司(a subsidiary of the Company) during the prescribed land use rights term in accordance with the PRC law.
 - (ii) The land use rights of the property (excluding those parts of the property mentioned in note 4) do not subject to any mortgage or other encumbrances.
 - (iii) The building ownership rights and land use rights of the property as mentioned in note 4 can be occupied, used, getting interest (right to handle is subject to limitation) by 石藥集團維生藥業(石家莊)有限公司(a subsidiary of the Company) and 維泰化工(石家莊)有限公司(a subsidiary of the Company). 石藥集團維生藥業(石家莊)有限公司(a subsidiary of the Company) and 維泰化工(石家莊)有限公司(a subsidiary of the Company) have no legal impediment in obtaining the relevant title certificates.
 - (iv) The following taxes and/or fees have to be paid if the properties were sold
 - (a) 營業稅 (Business Tax) : 5% of the remaining amount by deducting the original acquisition price from all of the income
 - (b) 企業所得稅 (Enterprise Profit Tax) : Calculated by including the income of the selling of the property into the taxable amount of the enterprise
 - (c) 城市維護建設稅 (Town Maintenance Construction Tax) : 7% for city district and 5% for county and town district
 - (d) 教育費附加 (Education Addition Fee) : 3% of Business Tax
 - (e) 土地增值稅 (Land Value Added Tax) : Four levels progressive rate:
 Tax amount = Increased amount X Relevant tax rate
 Increased amount = Transferring income — Project amount
 Transferring income includes money income, entity income and other income
 Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount.
 - (f) 印花稅 (Stamp Duty) : 0.05% of Selling Price of the property
 - (g) 住房轉讓手續費 (Housing Transferring Service Fee) : RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share)

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2007 RMB
5. Land, various buildings and structures located at Tuodian Industrial Park Yanshan Camp Tuoketuo County Inner Mongolia Autonomous Region The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 666,840 sq.m., on which are constructed 11 buildings and various ancillary structures completed in various stages between 2005 and 2007.</p> <p>The buildings have a total gross floor area of approximately 69,914.1 sq.m.</p> <p>The buildings mainly include workshops and storehouse.</p> <p>The structures mainly include well, waster depot and sheds.</p> <p>The property also comprises a building which was under construction (the "CIP") as at the date of valuation.</p> <p>The CIP is scheduled to be completed in October 2007. The planned gross floor area of the building upon completion will be approximately 4,650 sq.m.</p> <p>The building cost is estimated to be approximately RMB5,600,000, of which approximately RMB61,000 has been paid up to the date of valuation.</p> <p>The land use rights of the property were granted for a term of 50 years expiring on 30 June 2056.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	No commercial value

Notes:

- Pursuant to an agreement entered into between 內蒙古呼和浩特市托克托縣人民政府 (an independent third party) and 石藥集團中潤製藥 (內蒙古) 有限公司 (a subsidiary of the Company), the land use rights of a parcel of land with a site area of 666,670 sq.m. were contracted to be granted to 石藥集團中潤製藥 (內蒙古) 有限公司 (a subsidiary of the Company) for a term of 50 years for industrial use.

2. Pursuant to a State-owned Land Use Rights Certificate — Tuo Guo Yong (2006) Di No. 0820, the land use rights of a parcel of land with a site area of approximately 400,040 sq.m. were granted to 石藥集團中潤製藥(內蒙古)有限公司(a subsidiary of the Company) for a term expiring on 30 June 2056 for industrial use.

For the remaining parcel of land with a site area of approximately 266,800 sq.m., we have not been provided with any Land Use Rights Certificate.

3. For the 11 buildings with a total gross floor area of approximately 69,914.1 sq.m., we have not been provided with any building ownership certificate.
4. In the valuation of this property, we have attributed no commercial value to the 11 buildings with a total gross floor area of approximately 69,914.1 sq.m. without any building ownership certificate; the parcel of land with a site area of approximately 266,800 sq.m. without any land use rights certificate; the parcel of land with a site area of 400,040 sq.m. of which the right to handle is subject to limitation and the CIP without any construction permit. However, for reference purpose, we are of the opinion that the capital value of the 11 buildings, the two parcels of land and the CIP as at the date of valuation would be RMB167,756,000 assuming all relevant building ownership certificates, granted land use rights certificate and construction permits had been obtained and could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

(i) The land use rights of the property with a site area of 400,040 sq.m. can be occupied, used, getting interest (the right to handle is subject to limitation) by 石藥集團中潤製藥(內蒙古)有限公司(a subsidiary of the Company) during the prescribed land use rights term in accordance with the PRC law. The land use rights do not subject to any mortgage or other encumbrances.

(ii) The building ownership rights of the buildings with a total gross floor area of approximately 69,914.1 sq.m. and land use rights of the land with a site area of approximately 266,800 sq.m. can be occupied, used and getting interest (the right to handle is subject to limitation) by 石藥集團中潤製藥(內蒙古)有限公司(a subsidiary of the Company). 石藥集團中潤製藥(內蒙古)有限公司(a subsidiary of the Company) has no legal impediment in obtaining the relevant title certificates.

(iii) 石藥集團中潤製藥(內蒙古)有限公司(a subsidiary of the Company) has to apply for the relevant construction permits of the CIP.

(iv) The following taxes and/or fees have to be paid if the properties were sold

- | | | | |
|-----|---|---|--|
| (a) | 營業稅 (Business Tax) | : | 5% of the remaining amount by deducting the original acquisition price from all of the income |
| (b) | 企業所得稅
(Enterprise Profit Tax) | : | Calculated by including the income of the selling of the property into the taxable amount of the enterprise |
| (c) | 城市維護建設稅
(Town Maintenance
Construction Tax) | : | 7% for city district and 5% for county and town district |
| (d) | 教育費附加
(Education Addition Fee) | : | 3% of Business Tax |
| (e) | 土地增值稅
(Land Value Added Tax) | : | Four levels progressive rate:
Tax amount = Increased amount X Relevant tax rate
Increased amount = Transferring income — Project amount
Transferring income includes money income, entity income and other income
Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount. |
| (f) | 印花稅 (Stamp Duty) | : | 0.05% of Selling Price of the property |
| (g) | 住房轉讓手續費
(Housing Transferring
Service Fee) | : | RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share) |

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
6. Various buildings and structures located Tuodian Industrial Park Yanshan Camp Tuoketuo County Inner Mongolia Autonomous Region The PRC	<p>The property comprises 22 buildings and various ancillary structures completed in various stages between 2005 and 2007.</p> <p>The buildings have a total gross floor area of approximately 62,257.87 sq.m.</p> <p>The buildings mainly include workshops, office building, canteen and dormitory.</p> <p>The structures mainly include roads, walls, well, chimney and ponds.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	No commercial value

Notes:

1. For the 22 buildings with a total gross floor area of approximately 62,257.87 sq.m., we have not been provided with any building ownership certificate.
2. In the valuation of this property, we have attributed no commercial value to the 22 buildings with a total gross floor area of approximately 62,257.87 sq.m. without any building ownership certificate and structures. However, for reference purpose, we are of the opinion that the capital value of the 22 buildings and structures (excluding the land) as at the date of valuation would be RMB156,396,000 assuming all relevant title ownership certificates had been obtained and the buildings and structures could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The buildings of the property can be occupied, used and getting interest (the right to handle is subject to limitation) by 石藥集團中禾製藥(內蒙古)有限公司(a subsidiary of the Company) and 內蒙古中興源污水處理有限公司(a subsidiary of the Company). 石藥集團中禾製藥(內蒙古)有限公司(a subsidiary of the Company) and 內蒙古中興源污水處理有限公司(a subsidiary of the Company) have no legal impediment in obtaining the relevant title certificates.

(ii) The following taxes and/or fees have to be paid if the properties were sold

- (a) 營業稅 (Business Tax) : 5% of the remaining amount by deducting the original acquisition price from all of the income
- (b) 企業所得稅
(Enterprise Profit Tax) : Calculated by including the income of the selling of the property into the taxable amount of the enterprise
- (c) 成市維護建設稅
(Town Maintenance
Construction Tax) : 7% for city district and 5% for county and town district
- (d) 教育費附加
(Education Addition Fee) : 3% of Business Tax
- (e) 土地增值稅
(Land Value Added Tax) : Four levels progressive rate:
Tax amount = Increased amount X Relevant tax rate
Increased amount = Transferring income — Project amount
Transferring income includes money income, entity income and other income
Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount.
- (f) 印花稅 (Stamp Duty) : 0.05% of Selling Price of the property
- (g) 住房轉讓手續費
(Housing Transferring
Service Fee) : RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share)

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
7. A building and various structures located at No. 276 Zhongshan West Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	<p>The property comprises a building and various ancillary structures completed in various stages between 1982 and 2002.</p> <p>The building has a gross floor area of approximately 4,843.58 sq.m.</p> <p>The building is a scientific research building.</p> <p>The structures include roads and conduit.</p>	The property is currently occupied by the Group for production ,office and ancillary purposes.	No commercial value

Notes:

1. Pursuant to a Building Ownership Certificate — Shi Fang Quan Zheng Xi Zi Di No. 450000109, the building ownership rights of a building with a gross floor area of approximately 4,843.58 sq.m. are owned by 石家莊製藥集團製藥技術開發有限公司(a company formerly owned by SPG).
2. In the valuation of this property, we have attributed no commercial value to the building with a gross floor area of approximately 4,843.58 sq.m. and structures of which the title is under transferring to 石藥集團中奇製藥技術有限公司(a subsidiary of the Company). However, for reference purpose, we are of the opinion that the capital value of the buildings and structures (excluding the land) as at the date of valuation would be RMB7,278,000 assuming all relevant title ownership certificates had been obtained and the building and structures could be freely transferred.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The title of the property is under transferring to 石藥集團中奇製藥技術有限公司(a subsidiary of the Company). 石藥集團中奇製藥技術有限公司(a subsidiary of the Company) can occupy, use and get interest (the right to handle is subject to limitation) from the property.

- (ii) The property does not subject to any mortgage or other encumbrances.
- (iii) The following taxes and/or fees have to be paid if the properties were sold
- (a) 營業稅 (Business Tax) : 5% of the remaining amount by deducting the original acquisition price from all of the income
- (b) 企業所得稅 (Enterprise Profit Tax) : Calculated by including the income of the selling of the property into the taxable amount of the enterprise
- (c) 成市維護建設稅 (Town Maintenance Construction Tax) : 7% for city district and 5% for county and town district
- (d) 教育費附加 (Education Addition Fee) : 3% of Business Tax
- (e) 土地增值稅 (Land Value Added Tax) : Four levels progressive rate:
 Tax amount = Increased amount X Relevant tax rate
 Increased amount = Transferring income — Project amount
 Transferring income includes money income, entity income and other income
 Progressive rate equals to 30% if the Increased amount does not exceed 50% of the Project amount; 40% if the Increased amount exceeds 50% but does not exceed 100% of the Project amount; 50% if the Increased amount exceeds 100% but does not exceed 200% of the Project amount; 60% if the Increased amount exceeds 200% of the Project amount.
- (f) 印花稅 (Stamp Duty) : 0.05% of Selling Price of the property
- (g) 住房轉讓手續費 (Housing Transferring Service Fee) : RMB3 per square meter for newly completed commodity house (pay by Transferor); RMB6 per square meter for existing stock house (pay by both parties on 50% share)

VALUATION CERTIFICATE

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2007 RMB
8. Land, various buildings and structures located at No. 6 Huaxing Road Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 32,027.476 sq.m., leased to the Group (“Leased Land”), on which are constructed 34 buildings and various ancillary structures with a total gross floor area of approximately 27,418.15 sq.m. Among these buildings, the buildings with a total gross floor area of approximately 17,940.65 sq.m. are leased to the Group (“Leased Buildings”) and the buildings with a total gross floor area of approximately 9,477.5 sq.m. are held by the Group (“Owned Buildings”).</p> <p>The buildings were completed in various stages between 1988 and 2004.</p> <p>The buildings and various ancillary structures mainly include workshops, office building, canteen, wall and road.</p>	The property is occupied by the Group for office and production purposes.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between 石家莊製藥集團有限公司 (the controlling shareholder of the Company) and 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company), the Leased Land and Leased Buildings were rented to 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company) for a term commencing from 1 August 2005 and expiring on 31 July 2008 at an annual rent of RMB1,110,000.
2. The 2 buildings of the property with a total gross floor area of approximately 9,477.5 sq.m. and various ancillary structures were held by 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company). We have not been provided with any title certificate to these buildings, we, therefore, do not attribute any commercial value to them. However, for reference purpose, we are of the opinion that the capital value of these buildings and structures (excluding the land) as at the date of valuation would be RMB7,465,000 assuming all relevant title ownership certificates had been obtained and the buildings and structures could be freely transferred.
3. We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - (i) The tenancy agreement is valid, binding and enforceable under the PRC laws.
 - (ii) The property can be occupied, used and getting interest by the Group.
 - (iii) 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company) has to apply for the relevant title certificate of the buildings as mentioned in note 2.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
9. Land, various buildings and structures located at No. 188 Gongnong Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 14,332.7 sq.m., leased to the Group (“Leased Land”), on which are constructed 10 buildings and various ancillary structures with a total gross floor area of approximately 22,423.41 sq.m. Among these buildings, the buildings with a total gross floor area of approximately 21,883.81 sq.m. are leased to the Group (“Leased Buildings”) and the buildings with a total gross floor area of approximately 539.6 sq.m. are held by the Group (“Owned Buildings”).</p> <p>The buildings were completed in various stages between 2002 and 2004.</p> <p>The buildings and various ancillary structures mainly include workshops, office building, canteen, wall and road.</p>	The property is occupied by the Group for office and production purposes.	No commercial value

Note:

- Pursuant to a Tenancy Agreement entered into between 石家莊製藥集團有限公司 (the controlling shareholder of the Company) and 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company), the Leased Land and Leased Buildings were rented to 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company) for a term commencing from 5 July 2005 and expiring on 5 June 2008 at an annual rent of RMB4,903,141 (including Properties 9, 10 and 11).
- The 2 buildings of the property with a total gross floor area of approximately 539.6 sq.m. and various ancillary structures were held by 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company). We have not been provided with any title certificate to these buildings, we therefore do not attribute any commercial value to them. However, for reference purpose, we are of the opinion that the capital value of these buildings and structures (excluding the land) as at the date of valuation would be RMB1,178,000 assuming all relevant title ownership certificates had been obtained and the buildings and structures could be freely transferred.
- We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - The tenancy agreement is valid, binding and enforceable under the PRC laws.
 - The property can be legally occupied, used and getting interest by the Group.
 - 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company) has to apply for the relevant title certificate of the buildings as mentioned in note 2.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
10. Land and various buildings located at No. 496 Heping East Road Chang'an District Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 12,604 sq.m., on which are constructed various buildings with a total gross floor area of approximately 6,881.66 sq.m.</p> <p>The buildings mainly include workshops, office building and canteen.</p>	The property is occupied by the Group for office and production purposes.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between 石家莊製業集團有限公司 (the controlling shareholder of the Company) and 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company), the property was rented to 石藥集團中諾藥業 (石家莊) 有限公司 (a subsidiary of the Company) for a term commencing from 5 July 2005 and expiring on 5 June 2008 at an annual rent of RMB4,903,141 (including Properties 9, 10 and 11).
2. We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The tenancy agreement is valid, binding and enforceable under the PRC laws.
 - (ii) The property can be legally occupied, used and getting interest by the Group.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
11. Land and building located at No. 2 Jingshitiao Road Qiaoxi District Shijiazhuang City Hebei Province The PRC	The property comprises a parcel of land with a site area of approximately 1,217 sq.m., on which is constructed a building with a gross floor area of approximately 1,635.22 sq.m. The building is a dormitory building.	The property is occupied by the Group for residential purpose.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between 石家莊製藥集團有限公司 (the controlling shareholder of the Company) and 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company), the property was rented to 石藥集團中諾藥業(石家莊)有限公司 (a subsidiary of the Company) for a term commencing from 5 July 2005 and expiring on 5 June 2008 at an annual rent of RMB4,903,141 (including Properties 9, 10 and 11).
2. We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The tenancy agreement is valid, binding and enforceable under the PRC laws.
 - (ii) The property can be legally occupied, used and getting interest by the Group.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
12. Land, various buildings and structures located No. 47 Fengshou Road Shijiazhuang City Hebei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 22,419.78 sq.m., leased to the Group (“Leased Land 1”), on which are constructed 6 buildings and various ancillary structures with a total gross floor area of approximately 3,257.22 sq.m., which are held by the Group (“Owned Buildings”).</p> <p>The buildings were completed in various stages between 2000 and 2005.</p> <p>The buildings and various ancillary structures mainly include composite building, machine room and ponds.</p> <p>The property also comprises a parcel of vacant land with a site area of approximately 16,000 sq.m. (“Leased Land 2”).</p>	The property is currently occupied by the Group for production purposes.	No commercial value

Note:

- Pursuant to 2 Tenancy Agreements entered into between 石家莊橋東區桃園鎮桃園村民委員會 (independent third party) and 石藥集團河北中潤藥業有限公司 (a subsidiary of the Company), the Leased Land 1 and Leased Land 2 were rented to 石藥集團河北中潤藥業有限公司 (a subsidiary of the Company) for a term commencing from 1 January 2005 and expiring on 31 December 2006 at an annual rent of RMB773,490 and for a term commencing from 1 January 2007 and expiring on 31 December 2026 at an annual rent of RMB480,000 respectively.
- 5 buildings of the property with a total gross floor area of approximately 2,407.22 sq.m. and various ancillary structures were held by 石藥集團河北中潤藥業有限公司 (a subsidiary of the Company) and a building of the property with a gross floor area of approximately 850 sq.m. was held by 石藥集團河北中潤化工有限公司 (a subsidiary of the Company). We have not been provided with any title certificate to these buildings, we therefore do not attribute any commercial value to them. However, for reference purpose, we are of the opinion that the capital value of these buildings and structures (excluding the land) as at the date of valuation would be RMB29,075,000 assuming all relevant title ownership certificates had been obtained and the buildings and structures could be freely transferred.
- We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - The nature of the land is farm land. It should apply for approval of change in nature and granting procedures.
 - The property can be occupied, used and getting interest (right to handle is subject to limitation) by the Group. The Group should apply for the relevant title certificates of the buildings.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
13. Land, various buildings and structures located at Yinxing Fertilizer Plant Douyu Huafei Chang Road Shijiazhuang City Hebei Province The PRC	<p>The property comprises a site and various buildings and structures erected thereon (“Leased Property”) and 7 buildings with a total gross floor area of approximately 2,550.92 sq.m. erected thereon (“Owned Buildings”).</p> <p>The buildings were completed in about 2005.</p> <p>The buildings and structures mainly include workshops, office building, canteen and storehouse.</p>	The property is occupied by the Group for office and production purposes.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between 石家莊市銀星化肥廠(an independent third party) and 河北中潤製藥有限公司(a subsidiary of the Company), the Leased Property was rented to 河北中潤製藥有限公司 for a term commencing from 1 February 2004 and expiring on 1 February 2014 at an annual rent of RMB120,000.
2. 7 buildings of the property with a total gross floor area of approximately 2,550.92 sq.m. were held by 河北中潤生態環保有限公司(a subsidiary of the Company). We have not been provided with any title certificate to these buildings, we, therefore, do not attribute any commercial value to them. However, for reference purpose, we are of the opinion that the capital value of these buildings (excluding the land) as at the date of valuation would be RMB2,036,000 assuming all relevant title ownership certificates had been obtained and the buildings could be freely transferred.
3. We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - (i) The Leased Property can be occupied, used and getting interest by the Group.
 - (ii) The Group can occupy, use, get interest (right to handle is subject to limitation) from the Owned Buildings. However, the Group should apply for the relevant title certificates of the Owned Buildings.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
14. A building located at No. 276 Zhongshan West Road Shijiazhuang City Hebei Province The PRC	The property comprises a building with a gross floor area of approximately 6,700 sq.m. The building is an office building.	The property is occupied by the Group for office purpose.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between 石家莊製藥集團歐意藥業有限公司 (an independent third party) and 維生藥業(石家莊)有限公司 (a subsidiary of the Company), the property was rented to 維生藥業(石家莊)有限公司 (a subsidiary of the Company) for a term commencing from 1 September 2004 and expiring on 31 August 2007 at an annual rent of RMB1,977,840.
2. We have been provided with a legal opinion on the legality of the lease agreements to the properties issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The tenancy agreement is valid, binding and enforceable under the PRC laws.
 - (ii) The property can be occupied, used and getting interest by the Group.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP
IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2007 RMB
15. Flat B, 19/F King Kwong Mansion, 8 King Kwong Street, Happy Valley Hong Kong	<p>The property comprises a unit on the 19th floor of a 22-storey composite building completed in about 1989.</p> <p>The property has a gross floor area of approximately 401 sq.ft. (37.25 sq.m.).</p> <p>The property is rented to China Pharmaceutical Group Limited from Fong Kwan Ho, Jonia / Hew Yew Wah, independent third parties, for a term of 1 year commencing from 10 July 2006 and expiring on 9 July 2007, at a monthly rent of HK\$8,400 inclusive of rates, government rent and management fees.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. The registered owner of the property is Sunny Profit Trading Limited (an independent third party) vide Memorial No. 07032701990229 dated 2 March 2007.
2. The property is subject to a Deed of Mutual Covenant vide Memorial No. UB4146214 dated 28 June 1989.
3. The property is subject to a legal charge in favour of Hang Seng Bank Limited vide Memorial No. 07032701990237 dated 2 March 2007.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2007 RMB
16. Flat No. 1905, 19/F Block F, Healthy Gardens, 560 King's Road, North Point, Hong Kong	<p>The property comprises a unit on the 19th floor of a 26-storey residential building completed in about 1979.</p> <p>The property has a gross floor area of approximately 507 sq.ft. (47.10 sq.m.).</p> <p>The property is rented to Golden Wing Limited (a subsidiary of the Company) from Chow Siu Chun, an independent third party, for a term of 2 years commencing from 25 September 2006 and expiring on 24 September 2008, at a monthly rent of HK\$9,000 (inclusive of rates, government rent and management fees).</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. The registered owner of the property is Chow Siu Chun (an independent third party) vide Memorial No. UB7436850 dated 27 February 1998.
2. The property is subject to a Deed of Mutual Covenant vide Memorial No. UB1851629 dated 28 February 1980.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value
			in existing state as at 31 May 2007 RMB
17. Office Unit No. 3805, 38/F, Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong	<p>The property comprises a unit on the 38th floor of a 78-storey commercial building completed in about 1992.</p> <p>The unit has a saleable area of approximately 4,887 sq.ft. (454.01 sq.m.).</p> <p>The property is rented to China Pharmaceutical Group Limited from Cheer City Properties Limited and Protasan Limited, independent third parties, for a term of 2 years commencing from 2 June 2006 and expiring on 1 June 2008, at a monthly rent of HK\$156,384 (exclusive of rates and management fees).</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is Cheer City Properties Limited (1/2) (an independent third party) and Protasan Limited (1/2) (an independent third party) vide Memorial No. UB7436850 dated 27 February 1998.
2. The property is subject to a Debenture and Mortgage and a Supplement to security documents by Cheer City Properties Limited (Re 1/2 share) in favour of Hang Seng Finance Limited "Agent" in its own right and as agent for and on behalf of the banks vide Memorial No. UB8037273 and UB8813738 dated 27 March 2002 and 29 October 2002 respectively.

1. RESPONSIBILITY STATEMENT

The information contained in this Composite Offer Document (other than those relating to SPG after and including Completion, Legend Holdings, the Offeror, the terms and conditions of the General Offer and the Offeror's intention regarding the Group) is supplied by the Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that relating to SPG after and including Completion, Legend Holdings, the Offeror and SASAC) contained in this document and confirm, having made all reasonable inquiries, that to the best of their knowledge, the opinions (other than those expressed by SPG after and including Completion, Legend Holdings, the Offeror and SASAC) expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than those relating to SPG after and including Completion, Legend Holdings, the Offeror and SASAC) not contained in this document, the omission of which would make any statement in this document misleading.

The directors of Legend Holdings jointly and severally accept full responsibility for the accuracy of the information (other than that relating to SPG prior to Completion and the Company) contained in this document and confirm, having made all reasonable inquiries, that to the best of their knowledge, the opinions (other than those expressed by SPG prior to Completion and the Company) expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than those relating to SPG prior to Completion and the Company) not contained in this document, the omission of which would make any statement in this document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information (other than those relating to SPG prior to Completion and the Company) contained in this document and confirm, having made all reasonable inquiries, that to the best of their knowledge, the opinions expressed in this document (other than those expressed by SPG prior to Completion and the Company) have been arrived at after due and careful consideration and that there are no other facts (other than those relating to SPG prior to Completion and the Company) not contained in this document, the omission of which would make any statement in the document misleading.

2. SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:

HK\$300,000,000 divided into 3,000,000,000 Shares

Issued and fully paid up or credited as fully paid up:

HK\$153,812,466.10 divided into 1,538,124,661 Shares

No Shares have been issued since 31 December 2006 and up to the Latest Practicable Date. All the issued Shares rank pari passu in all respects including its rights and entitlements as to dividends, voting rights and return of capital.

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for the Shares.

(b) Listing

The Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal in the Shares being proposed or to be sought on, any other stock exchange.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors

At the Latest Practicable Date, save as disclosed in section 3(a) of this appendix, none of the Directors or chief executive of the Company had, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provision of the SFO) or are required to be entered in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Interest in Shares:

Name of director	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
Mr. Cai Dongchen	Beneficial owner	2,000,000	0.13%
Mr. Chak Kin Man	Beneficial owner	4,000	0.00026%

(b) Interests of substantial shareholders

So far as is known to the Directors, as at the Latest Practicable Date, other than the interests and short positions of the Directors and chief executives of the Company as disclosed above, the following persons had the following interests and short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meeting of any member of the Group:

Name of substantial shareholder	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
聯想控股有限公司 (Legend Holdings Limited)	Interest of a controlled corporation	783,316,161 (Note)	50.93%
聯想控股有限公司 職工持股會 (Employees' Shareholding Society of Legend Holdings Ltd)	Interest of a controlled corporation	783,316,161 (Note)	50.93%
SPG	Beneficial owner and controlled corporation	783,316,161 (Note)	50.93%

Note: In respect of the 783,316,161 shares, 773,436,399 shares are held by SPG and 9,879,762 shares are held by CCPCL, a wholly-owned subsidiary of SPG. The entire shareholding interest of SPG is held by Legend Holdings Limited.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any other person (other than a Director or chief executive of the Company), who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

(c) Interests in the Company

As at the Latest Practicable Date, Legend Holdings, the Offeror and parties acting in concert with any of them, held 783,316,161 Shares through SPG, representing approximately 50.93 per cent. of the total issued share capital of the Company, which were acquired by Legend Holdings under the Agreement. Save as aforesaid, during the period commencing six months immediately prior to the Announcement up to and including the Latest Practicable Date, neither the Offeror, Legend Holdings or parties acting in concert with any of them, had dealt in any securities of the Company.

Save as disclosed above, during the period commencing six months immediately prior to the Announcement up to and including the Latest Practicable Date, directors of the Offeror and Legend Holdings, have not had any interest in any securities of the Company.

As at the Latest Practicable Date, save for the agreement in relation to the Loan Facility, there was no agreement, arrangement or understanding between the Offeror and any other person for the transfer, charge or pledge of the beneficial interests in the Shares acquired in pursuance of the General Offer.

Security provided by the Offeror in relation the Loan Facility includes:

- (i) Charge over US\$ time deposit in the amount equivalent to HK\$550 million in the name of the Offeror and such charged deposit should be applied to repay the Loan Facility;
- (ii) Legal charge over all Shares purchased through the General Offer from the proceeds of the Loan Facility only if the drawdown amount in aggregate is equivalent to or over HK\$550 million; and
- (iii) Equitable charge over all shares of the Offeror.

(d) Interests in the Offeror

As at the Latest Practicable Date, neither the Company nor any Directors owned or controlled any shares of the Offeror.

(e) Other interests

As at the Latest Practicable Date,

- (i) none of the subsidiaries, pension fund of the Company or its subsidiaries owned or controlled any securities in the Company;
- (ii) none of the advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders owned or controlled any securities in the Company;
- (iii) no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, or any person acting in concert with it, or the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate;
- (iv) no Shares, options, warrants, derivatives or securities convertible into Shares were managed on a discretionary basis by fund managers connected with the Company; and
- (v) none of the Directors has any intention to accept the General Offer.

4. DEALINGS IN SECURITIES

During the period commencing six months immediately prior to the Announcement up to and including the Latest Practicable Date,

- (i) neither the Company nor any of the Directors had dealt for value in the securities of the Offeror or the Company;
- (ii) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries, nor any of the advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders had dealt for value in any securities of the Company;
- (iii) no persons who had any arrangement of the kind referred to in note 8 to Rule 22 of the Takeovers Code with the Offeror, the Company or with any person who is acting in concert with the Offeror, the Company or with any person who is an

associate of the Offeror or an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate had dealt for value in any securities in the Company; and

- (iv) no fund manager (other than exempt fund manager) who managed on a discretionary basis connected with the Company had dealt for value in any securities in the Company.

5. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last trading day for each of the six calendar months immediately preceding the commencement of the offer period and ending on the Latest Practicable Date:

Date	Closing price per Share HK\$
30 November 2006	1.21
29 December 2006	1.10
31 January 2007	1.27
28 February 2007	1.37
30 March 2007	1.32
30 April 2007	1.73
31 May 2007	3.00
29 June 2007	2.51
Latest Practicable Date	3.15

The closing price of the Shares quoted on the Stock Exchange on 7 May 2007, being the last business day immediately preceding the Announcement, was HK\$1.83 per Share. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$3.11 per Share on 25 May 2007 and HK\$0.94 per Share on 7 November 2006 respectively.

6. MATERIAL LITIGATION

As disclosed in the announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. It is alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is also alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs purported to bring these cases on behalf of direct purchasers under federal antitrust laws of the United States and

indirect purchasers under various state antitrust laws. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints in the United States. As at the Latest Practicable Date, four antitrust complaints have been served on the Company and two antitrust complaints have been served on the subsidiary in different courts. Our legal adviser has successfully consolidated all such cases to be heard in the Federal Court of New York.

On 3 May 2006, the first court meeting was held before a judge of the U.S. District Court for the Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it seeks to represent. On 5 June 2007, the court heard the defendants' motions to dismiss based on the legal principles of act of state, foreign sovereign compulsion and international comity. The court has taken those motions under advisement and it is not known when a ruling will be forthcoming.

According to the latest timetable fixed by the court, submissions concerning whether the direct purchaser case may proceed as a class action will be made in May to August 2007, fact discovery is scheduled to be concluded by 29 February 2008, expert discovery is scheduled to be concluded by 19 September 2008 and a pre-trial hearing will be held on 11 November 2008. The action is still in the stage of class discovery. The court has set 2 August 2007 as the last day for the defendants to file their responses to plaintiffs' motions for class certification.

The Directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The outcome of the antitrust complaints cannot be estimated with certainty at this stage.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

As at the Latest Practicable Date, no material contract (not being contracts entered into in the ordinary course of business) was entered into by any members of the Group after the date two years prior to the date of the Announcement and up to and including the Latest Practicable Date.

8. SERVICE CONTRACTS

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of two years from 1 January 2007, particulars of which are set out below:

- (a) their terms of appointments are subject to the provisions of retirement and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company; and
- (b) the service fee per annum of Mr. Lee Ka Sze, Carmelo is HK\$264,000 (the previous remuneration was HK\$240,000), of Mr. Huo Zhenxing is HK\$66,000 (the previous remuneration was HK\$60,000), of Mr. Qi Moujia is HK\$66,000 (the previous remuneration was HK\$60,000), of Mr. Guo Shichang is HK\$66,000 (the previous remuneration was HK\$60,000) and of Mr. Chan Siu Keung Leonard is HK\$132,000 (the previous remuneration was HK\$120,000), subject to review by the Board.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries or associated companies (i) which is continuous with a notice period of 12 months or more; (ii) which is of a fixed term with more than 12 months to run irrespective of the notice period; or (iii) which (being either continuous or of a fixed term) had been entered into or amended within six months prior to the date of the Announcement. In particular, no variable remuneration is payable under the letters of appointment of the non-executive Director and the independent non-executive Directors.

9. ARRANGEMENTS AFFECTING DIRECTORS OF THE COMPANY

As at the Latest Practicable Date, there is no benefit (other than statutory compensation) to be given to any Directors as compensation for loss of office or otherwise in connection with the General Offer.

As at the Latest Practicable Date, there is no agreement or arrangement between any Directors and any other persons, which is conditional upon the outcome of the General Offer or is otherwise connected with the General Offer.

As at the Latest Practicable Date, there is no material contract entered into by the Offeror in which any Director has a material personal interest.

There is no irrevocable commitment to accept or reject the General Offer which has been received by the Offeror or any parties acting in concert with it.

There is no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or party acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the General Offer.

There is no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the General Offer.

Mr. Lee Ka Sze, Carmelo, one of the Directors, is a partner of Woo Kwan Lee & Lo, legal adviser of the Company with respect to Hong Kong law in connection with the General Offer, which firm will receive normal professional fees.

10. CONSENTS AND QUALIFICATIONS

The following are qualifications of experts who have given opinions, letters or advice which are contained in this document:

CIMB-GK	licensed by the SFC for carrying out Types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
Goldbond Capital	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Sallmanns (Far East) Limited	professional property valuer

Each of Goldbond Capital, CIMB-GK and Sallmanns (Far East) Limited has given and has not withdrawn its respective written consent to the issue of this document with the inclusion herein of its letter and the references to its name, in the forms and contexts in which they appear.

11. GENERAL

- (a) The registered office of the Company is situated at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Board 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. The company secretary of the Company is Mr. Lee Ka Sze, Carmelo.

- (b) The registered address of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The board of directors of the Offeror comprises three executive directors, namely Mr. John Huan Zhao, Mr. Qiu Zhongwei and Mr. Wang Shunlong. The correspondence address of the Offeror is c/o Right Lane Limited, a wholly-owned subsidiary of Legend Holdings, 5/F Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (C) The registered address of Legend Holdings is 10/F, Tower A, Raycom Info Tech Park, No.2 Ke Xue Yuan Nanlu, Haidian District, Beijing 100080, PRC. The board of directors of Legend Holdings comprises five executive directors, namely Mr. Zeng Maochao, Mr. Liu Chuanzhi, Mr. Li Qin, Mr. Zhu Linan and Mr. Chen Guodong; one non-executive director, namely Mr. Yang Bailing. The correspondence address of Legend Holdings is c/o Right Lane Limited, a wholly-owned subsidiary of Legend Holdings, 5/F Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (d) The registered office of Goldbond Capital International Limited is situated at 39/F., Tower 1 Lippo Centre 89 Queensway, Hong Kong.
- (e) The registered office of CIMB-GK is situated at 25/F., Central Tower 28 Queen's Road Central Hong Kong.
- (f) The English text of this document shall prevail over the Chinese text for the purpose of interpretation.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection on the website www.irasia.com/listco/hk/cpg/index.htm of the Company and www.sfc.hk of the SFC and at the principle place of business of the Company in Hong Kong, Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from 10:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) while the General Offer remains open for acceptance:

- (a) memorandum and articles of association of the Company and the Offeror;
- (b) annual reports of the Group for the two years ended 31 December 2006;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 24 of this document;
- (d) the letter from CIMB-GK, the independent financial adviser to the Independent Board Committee, the text of which is set out on pages 25 to 45 of this document;

- (e) the letter from Goldbond Capital, the financial adviser to the Offeror, the text of which is set out on pages 11 to 23 of this document;
- (f) the valuation report and certificates from Sallmanns (Far East) Limited, the valuer providing the valuation report on property interests held by the Group as at 31 May 2007, the text of which is set out on pages III-1 to III-32 of this document;
- (g) letters of consent from Goldbond Capital, CIMB-GK and Sallmanns (Far East) Limited in the paragraph headed “Consents and qualifications” in this Appendix;
- (h) the letters of appointment as referred in the paragraph headed “Service Contracts” in this Appendix; and
- (i) the Concert Party Agreement.