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## THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, 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 circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 1093)**

### DISCLOSEABLE AND CONNECTED TRANSACTION

**Independent financial adviser to the Independent Board Committee  
and Independent Shareholders**



**CIMB**

**CIMB-GK Securities (HK) Limited**

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A notice convening the Extraordinary General Meeting of China Pharmaceutical Group Limited to be held at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 12 October 2007 at 10:00 a.m. is set out on pages 24 to 25 of this circular. Whether or not you propose to attend the Meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the registered office of the Company at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

Hong Kong, 20 September 2007

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## DEFINITIONS

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

“Acquisition”	the acquisition by Zhonghe Pharmaceutical of the entire equity interest in Zhongkang Sugar from the Vendors pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 30 August 2007 entered into between Zhonghe Pharmaceutical and the Vendors in relation to the Acquisition
“Announcement”	the announcement of the Company dated 30 August 2007 relating to the Acquisition
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which licensed banks are generally open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities
“CCPCL”	China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG incorporated in Hong Kong
“CIMB-GK”	CIMB-GK Securities (HK) Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Acquisition
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	China Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange

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## DEFINITIONS

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“Completion”	completion of the Acquisition pursuant to the Agreement
“Consideration”	the consideration payable by Zhonghe Pharmaceutical to the Vendors for the entire equity interest in Zhongkang Sugar under the Agreement
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition
“EGM Notice”	the notice convening the EGM as set on pages 24 to 25 of this circular
“Hong Yuan”	河北宏源化工有限公司 (Hebei Hong Yuan Chemical Co. Limited), a company established in the PRC and 75% equity interest of which is owned by SPG and the remaining 25% is owned by a wholly-owned subsidiary of SPG
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	the guaranteed profit of RMB20,000,000 under the Profit Guarantee
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard
“Independent Shareholders”	Shareholders other than the SPG Group and its associates
“Latest Practicable Date”	17 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“PRC GAAP”	the generally accepted accounting principles in the PRC
“Profit Guarantee”	the profit guarantee provided by the Vendors to Zhonghe Pharmaceutical as described under the paragraph headed “Profit Guarantee” in the Letter from the Board of this circular
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	shares of HK\$0.10 each of the Company
“SPG”	Shijiazhuang Pharmaceutical Group Company Limited, a limited liability company established in the PRC, the controlling shareholder of the Company and beneficially owned by Legend Holdings Limited
“SPG Group”	SPG together with its subsidiaries excluding the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	shall have the meaning ascribed to it under the Companies Ordinance
“substantial shareholder”	shall have the meaning ascribed to it under the Listing Rules
“Vendors”	SPG and Hong Yuan
“Zhonghe Pharmaceutical”	石藥集團中禾製藥(內蒙古)有限公司 (Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited), a foreign investment company established in the PRC and a wholly-owned subsidiary of the Company
“Zhongkang Sugar”	石藥集團內蒙古中抗糖業有限公司 (Shijiazhuang Pharma Group Inner Mongolia Zhongkang Sugar Co. Limited), a limited liability company established in the PRC and 99% of equity interest of which is owned by SPG and the remaining 1% is owned by Hong Yuan

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## DEFINITIONS

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

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

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

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## LETTER FROM THE BOARD

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

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 1093)**

*Executive Directors:*

CAI Dongchen  
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

20 September 2007

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **1. INTRODUCTION**

The Board refers to the announcement of the Company dated 30 August 2007 relating to the Acquisition whereby the Board announced that on 30 August 2007, Zhonghe Pharmaceutical, a wholly-owned subsidiary of the Company, entered into the Agreement with SPG and Hong Yuan to acquire the entire equity interest in Zhongkang Sugar. The Acquisition constitutes a discloseable and connected transaction of the Group.

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## LETTER FROM THE BOARD

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The purposes of this circular are: (i) to provide you with further information regarding the Acquisition; (ii) to set out the letter of advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition; (iii) to set out the recommendation and opinion of the Independent Board Committee after taking into consideration of the advice of CIMB-GK in relation to the terms of the Acquisition; and (iv) to give you notice of the EGM to consider and if thought fit, to approve the resolution relating to the Acquisition at the EGM.

### 2. THE AGREEMENT

#### Date

30 August 2007

#### Parties

Vendors: SPG; and

Hong Yuan.

Purchaser: Zhonghe Pharmaceutical

#### Asset to be acquired

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

#### Consideration

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

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



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## LETTER FROM THE BOARD

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### **Conditions precedent**

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

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

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

### **Completion**

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

### **Profit Guarantee**

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

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## LETTER FROM THE BOARD

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

The Company will make further announcement in the event that the Profit Guarantee is not met. Details of the Profit Guarantee and the opinion from the independent non-executive Directors as to whether the Vendors have fulfilled their obligations under the Profit Guarantee will be included in the subsequent annual report of the Company.

### 3. INFORMATION ON ZHONGKANG SUGAR

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

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

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

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

Zhongkang Sugar will become a wholly-owned subsidiary of the Company upon Completion and its results, assets and liabilities will be consolidated in the accounts of the Group. In light of the premium of the Consideration over the net asset value of Zhongkang Sugar as at 31 July 2007, a goodwill will be recognized. The goodwill will be subject to the annual impairment review in accordance with the Hong Kong Financial Reporting Standards.

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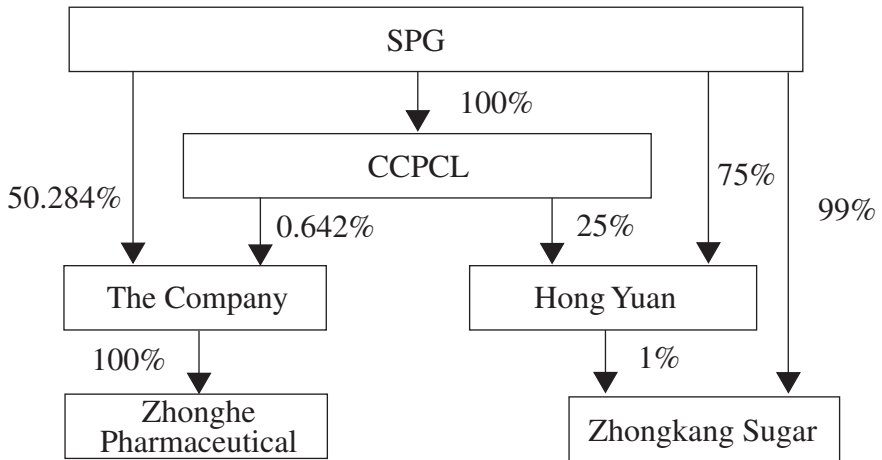
## LETTER FROM THE BOARD

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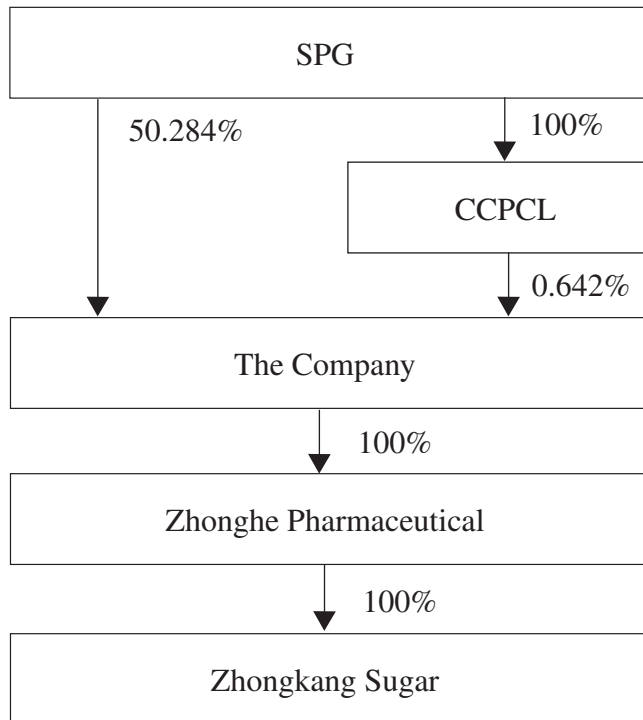
### 4. SHAREHOLDING STRUCTURE OF ZHONGKANG SUGAR IMMEDIATELY PRIOR TO AND AFTER COMPLETION OF THE ACQUISITION

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

#### Immediately prior to Completion



#### Immediately after Completion



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## LETTER FROM THE BOARD

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### 5. REASONS FOR AND BENEFITS OF THE ACQUISITION

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

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

As disclosed in the announcements of the Company dated 31 December 2004 and 21 February 2005 and the circular of the Company dated 24 January 2005, the Group entered into continuing connected transactions with Zhongkang Sugar in relation to the purchase of liquid glucose and corn syrup from Zhongkang Sugar for a period of 3 years from 1 January 2005 to 31 December 2007. These transactions were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 21 February 2005. Upon completion of the Acquisition, these transactions will cease to be continuing connected transactions of the Company. The number of existing continuing connected transactions of the Group will be greatly reduced.

The Directors (including the independent non-executive Directors) consider that the terms of the Acquisition have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof are fair and reasonable and are in the best interests of the Group and the Shareholders as a whole. The Board recommends that the Independent Shareholders should vote in favour of the resolution as set out in the EGM Notice.

### 6. LISTING RULES REQUIREMENTS

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as the applicable percentage ratios exceed 5% but are below 25%. As SPG and its associates (as defined in the Listing Rules) beneficially own an aggregate of approximately 50.926% of the issued share capital of the Company as at the Latest

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## LETTER FROM THE BOARD

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Practicable Date, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

### 7. INFORMATION ON THE COUNTERPARTIES

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

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

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

### 8. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 73 of the Articles of Association of the Company, at any general meeting resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands) demanded:

- (a) by the chairman of the meeting;
- (b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by any member or members present in person or by proxy and holding Share conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### 9. EXTRAORDINARY GENERAL MEETING

Set out on pages 24 to 25 of this circular is the notice convening the EGM at which ordinary resolution will be proposed to approve the Acquisition.

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## LETTER FROM THE BOARD

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SPG, being the controlling Shareholder, beneficially owning approximately 50.926% of the share capital of the Company at the Latest Practicable Date, and its associates will abstain from voting on the resolutions approving the Acquisition to be proposed at the EGM.

The votes to be taken at the EGM will be taken by poll, an announcement of the results of which will be published on the Business Day following the EGM.

### 10. ACTION TO BE TAKEN

A proxy form for use at the EGM is enclosed herein. Whether or not you intend to attend the EGM, you are requested to complete the proxy form and return it to the registered office of the Company at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM. Delivery of a proxy form will not preclude Shareholders from attending and voting in person at the EGM if they so wish.

### 11. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee, having taken into account the advice of CIMB-GK, considers that the terms of the Acquisition are on normal commercial terms in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the resolution as set out in the EGM Notice.

Your attention is also drawn to the additional information set out in the appendix to this circular.

By Order of the Board  
**CAI Dongchen**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular.*



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)**

20 September 2007

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to the circular of the Company dated 20 September 2007 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned.

CIMB-GK has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 14 to 18 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 5 to 12 of the Circular and the general information set out in the appendix.

Having taken into account the terms of the Acquisition, and the advice given by CIMB-GK, we consider that the terms of the Acquisition are on normal commercial terms in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Acquisition to be proposed at the EGM.

Yours faithfully,

**HUO Zhenxing**

**QI Moujia**

**GUO Shichang**

**CHAN Siu Keung, Leonard**

*Independent Board Committee*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from CIMB-GK prepared for the purpose of incorporation in this circular:*



**CIMB-GK Securities (HK) Limited**

25/F., Central Tower  
28 Queen's Road Central  
Hong Kong

20 September 2007

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

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board as contained in the circular of the Company to the Shareholders dated 20 September 2007 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

An independent board committee comprising Messrs. Huo Zhenxing, Qi Moujia, Guo Shichang and Chan Siu Keung, Leonard, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Agreement. Any vote of the Independent Shareholders at the EGM shall be taken by poll. SPG with a material interest in the Agreement and its respective associates will abstain from voting in relation to the resolution approving the Agreement and the transactions contemplated thereunder.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of the Circular. We consider that we have reviewed sufficient information and documents to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Agreement in order to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 Circular. 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 Company or Zhongkang Sugar or any of its respective subsidiaries or associates.

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion on the Agreement, we have considered the following principal factors and reasons:

#### Background and reasons

The Group is principally engaged in the manufacture and sale of pharmaceutical products. Pursuant to the Agreement, Zhonghe Pharmaceutical has agreed to acquire from the Vendors the 100% equity interest in Zhongkang Sugar. Zhongkang Sugar is principally engaged in the manufacture and sale of corn refined products (including liquid glucose and corn syrup).

We noted from the announcements of the Company dated 31 December 2004 and 21 February 2005 and the circular of the Company dated 24 January 2005 that the Group has been purchasing liquid glucose and corn syrup from Zhongkang Sugar, whereby such transactions constituted connected transactions and relevant annual caps for up to the year ending 31 December 2007 have been approved by the Independent Shareholders on 21 February 2005. The audited results of Zhongkang Sugar for the two years ended 31 December 2006 and the audited results for the seven months ended 31 July 2007 based on the generally accepted accounting principles in the PRC are set out below:

	<b>Year ended</b> <b>31 December</b> <b>2005</b> <b>(Audited)</b> <i>RMB</i>	<b>Year ended</b> <b>31 December</b> <b>2006</b> <b>(Audited)</b> <i>RMB</i>	<b>For the seven</b> <b>months ended</b> <b>31 July</b> <b>2007</b> <b>(Audited)</b> <i>RMB</i>
Net profit (loss) before taxation	(956,084)	3,450,942	7,510,077
Net profit (loss) after taxation	(956,084)	3,450,942	7,510,077

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have been advised by the Directors that the operations of Zhongkang Sugar are complementary and related to the business of the Group, as evidenced by the existing continuing connected transactions. Almost all of the liquid glucose and corn syrup used by the production plants of the Group in Inner Mongolia are sourced from Zhongkang Sugar. The amount of purchases of liquid glucose and corn syrup by the Group from Zhongkang Sugar for the two years ended 31 December 2006 amounted to approximately RMB89,926,000 (equivalent to approximately HK\$92,623,780) and RMB159,333,000 (equivalent to approximately HK\$164,112,990) respectively. We understand from the Directors that the substantial increase in the performance of Zhongkang Sugar in the first seven months ended 31 July 2007 was due to the increase in the production capacity and production efficiency of Zhongkang Sugar. We note that pursuant to the Agreement, the Vendors have guaranteed to Zhonghe Pharmaceutical that the audited net profit of Zhongkang Sugar for the year ending 31 December 2007 will not be less than RMB20 million (the “Guaranteed Profit”) according to the generally accepted accounting principles and standards in Hong Kong.

The Directors advised that the production site of Zhongkang Sugar is adjacent to the plants of the Group in Inner Mongolia, and Zhongkang Sugar is the only manufacturer in neighbouring area that is capable of producing quality liquid glucose and corn syrup which meet the quantity requirement of the plants of the Group in Inner Mongolia. We understand from the Directors that to source from other manufacturers outside Inner Mongolia would mean higher production cost for the Group as it would need to incur extra transportation costs to transport the raw materials to the plants of the Group in Inner Mongolia. In this regard, we concur with the views of the Directors that vertical integration as a result of the Acquisition will ensure a more reliable and efficient supply of high quality raw materials at lower cost to the Group.

We also noted that upon Completion, all existing transactions between the Group and Zhongkang Sugar will cease to be continuing connected transactions of the Company and the number of existing continuing connected transaction of the Group will be greatly reduced.

In view of the foregoing, in particular the fact that the Group has been sourcing raw materials from Zhongkang Sugar for the Group’s production since its establishment and that Zhongkang Sugar is capable of producing quality products to the Group, we consider that entering into of the Agreement is in the interest of the Company and the Shareholders as a whole.

### **The Consideration**

The consideration (the “Consideration”) of RMB130 million was determined following arm’s length negotiations between all parties to the Agreement and represents a price-to-earnings multiple (“PER”) of 6.5 times the Guaranteed Profit. The Consideration also represents approximately 1.5 times the net asset value of Zhongkang Sugar as at 31 July 2007 of approximately RMB84.0 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness of the Consideration, we have, to our best efforts, identified and review two comparable companies listed on the Main Board of the Stock Exchange whose principal business is engaged in similar business as those of Zhongkang Sugar (the “Listed Comparables”). The following table sets out the comparison between the Consideration with those of the Listed Comparables:

Name of the Listed Comparables	Market capitalisation (HK\$ in million) <i>(Note 1)</i>	PER based on 2006 results (“PER”) (times) <i>(Note 2)</i>	(Discount)/ premium of the closing price to net asset value per share (times) <i>(Note 2)</i>
Global Bio-Chem Technology Group Co., Ltd	7,814.5	15.6	1.5
Xiwang Sugar Holdings Limited	<u>3,251.8</u>	<u>11.2</u>	<u>2.7</u>
 The Acquisition		 <b>6.5</b> <i>(note 3)</i>	 <b>1.5</b> <i>(note 4)</i>

*Notes:*

1. Calculated based on the closing price of the shares of the Listed Comparables as of the Last Trading Day.
2. Calculated based on the closing price of the shares of the Listed Comparables as of the Last Trading Day and their respective latest annual/interim report.
3. Calculated based on the Consideration and the Guaranteed Profit.
4. Calculated based on the Consideration and the net asset value of Zhongkang Sugar as at 31 July 2007.

As noted from the table above, the PER and the price to net asset value as implied under the Acquisition are comparable with those of the Listed Comparables. Although the PER of 6.5 times as implied under the Acquisition is based on the Guaranteed Profit, in the event that such guarantee cannot be fulfilled, the Vendors will reimburse Zhonghe Pharmaceutical with an amount in cash equal to the shortfall between the Guaranteed Profit and the actual net profit of Zhongkang Sugar for the year ending 31 December 2007 times the same multiple of 6.5.

Having taken into account the above, we consider that the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### POSSIBLE FINANCIAL EFFECT

#### Earnings and net asset value

Zhongkang Sugar will become a wholly owned subsidiary of the Company upon Completion and its profit as well as asset base will be consolidated into the Group. In light of the premium of the Consideration over the net asset value of Zhongkang Sugar as at 31 July 2007, a goodwill will be recognized. The Directors advised that the goodwill will be subject to the annual impairment review in accordance with the Hong Kong Financial Reporting Standards.

#### Working capital

Based on the interim results of the Group for the six months ended 30 June 2007, the cash and bank balances of the Group as at 30 June 2007 amounted to approximately RMB406.5 million. The Directors consider that notwithstanding the payment of the Consideration, the Group would have sufficient working capital to meet its business operations following Completion.

### RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

**Flavia Hung**

*Executive Vice President*

*Senior Vice President*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF DIRECTORS' INTEREST

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares and debentures of the Company or the shares and debentures of any associated corporation of the Company (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

### Interests and short positions in Shares, underlying shares and debentures of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Long/short position	Approximate percentage of the issued share capital of the Company
Cai Dongchen	Beneficial Owner	2,000,000	Long	0.13%
Chak Kin Man	Beneficial Owner	4,000	Long	0.00026%

Save as disclosed above, as at the Latest Practicable Date, there was no outstanding share options or derivative instruments granted to the Directors and none of the Directors and the chief executive of the Company had any interest or short positions in the Shares or underlying Shares or interest in debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

None of the Directors or CIMB-GK has any direct or indirect interest in any assets which have since 31 December 2006 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group.

None of the Directors is materially interested in any contract or arrangement entered subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date the following persons (other than Directors or the chief executive of the Company), so far as is known to any Director, were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of substantial shareholder	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Capital
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 as at the Latest Practicable Date.

Save as disclosed, so far as are known to the Directors, there is no person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries or held any option in respect of such capital.

#### 4. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
<b>CIMB-GK</b>	a licensed corporation for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

CIMB-GK has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

CIMB-GK is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

#### 6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or is not terminable within one year without payment of compensation (other than statutory compensation).

#### 7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their associates has any interest in a business which competes or may compete with the business of the Group.

#### 8. GENERAL

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

- (c) The qualified accountant of the Company is Mr. Chak Kin Man, CPA.
- (d) The share registrar and transfer office of the Company is Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) 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 Acquisition, which firm will receive normal professional fees.
- (f) The English text of this circular shall prevail over the Chinese text.

## 9. LITIGATION

As disclosed in the announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries were 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 three antitrust complaints have been served on the subsidiary in different courts. The legal adviser of the Group 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 the vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought 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.



Submissions concerning whether the direct purchaser case may proceed as a class action took place in May to August 2007. According to the latest timetable fixed by the court, 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 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 reliably estimated with reasonable 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.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (d) the letter issued by CIMB-GK, the text of which is set out on pages 14 to 18 of this circular; and
- (e) the written consent of CIMB-GK referred to in paragraph 4 in this appendix.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 1093)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of the shareholders of CHINA PHARMACEUTICAL GROUP LIMITED (the “**Company**”) will be held at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 12 October 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT:**

- (a) the agreement dated 30 August 2007 entered into between Shijiazhuang Pharmaceutical Group Company Limited and 河北宏源化工有限公司 (Hebei Hong Yuan Chemical Co. Limited) as vendors (together the “**Vendors**”) and 石藥集團中禾製藥(內蒙古)有限公司 (Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited) (“**Zhonghe Pharmaceutical**”), a wholly-owned subsidiary of the Company, as purchaser (a copy of which is produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification, the “**Agreement**”) whereby, among others, Zhonghe Pharmaceutical conditionally agreed to acquire the entire equity interest in 石藥集團內蒙古中抗糖業有限公司 (Shijiazhuang Pharma Group Inner Mongolia Zhongkang Sugar Co. Limited), be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;
- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute all such documents, instruments and agreements and to take all such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement and all other matters incidental thereto.”

By Order of the Board  
**CAI Dongchen**  
*Chairman*

Hong Kong, 20 September 2007

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the registered office of the Company at Room 3805, 38th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.
- (5) The Ordinary Resolution as set out above will be determined by way of a poll.