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**THIS 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.

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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)**

## **CONTINUING CONNECTED TRANSACTIONS**

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



**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, 28 December 2007 at 10:00 a.m. is set out on pages 22 to 23 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, 11 December 2007

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# CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
1. Introduction .....	5
2. Continuing Connected Transactions .....	6
3. Proposed Annual Caps .....	8
4. Reasons for the Transactions .....	8
5. Listing Rules Requirements .....	8
6. Information on the Counterparties .....	9
7. Procedures for Demanding a Poll .....	9
8. Extraordinary General Meeting .....	9
9. Action to be Taken .....	10
10. Recommendation .....	10
<b>Letter from the Independent Board Committee</b> .....	11
<b>Letter from the Independent Financial Adviser</b> .....	13
<b>Appendix — General Information</b> .....	18
<b>Notice of the Extraordinary General Meeting</b> .....	22

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 29 November 2007 relating to the Continuing Connected Transactions
“associate(s)”	has the meaning ascribed to it under 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
“Caps”	the annual caps of the Continuing Connected Transactions
“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 Continuing Connected Transactions and the Caps
“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 Main Board of Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions between the Group and Hong Yuan in respect of the purchase of chemical products as contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement
“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 Continuing Connected Transactions and the Caps
“EGM Notice”	the notice convening the EGM as set on pages 22 to 23 of this circular

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## DEFINITIONS

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“Group”	the Company together with its subsidiaries
“Hebei Zhongrun”	石藥集團河北中潤製藥有限公司 (Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co. Limited), a Sino-foreign equity joint venture company established in the PRC and 99.21% of the equity interest of which is owned by the Company and the remaining 0.79% is owned by SPG
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Yuan”	河北宏源化工有限公司 (Hebei Hong Yuan Chemical Co. Limited), a company established in the PRC and 100% of the equity interest of which is indirectly owned by SPG
“Independent Board Committee”	an independent committee of the Board comprising 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
“Independent Third Party”	persons who, to the best of the Directors’ knowledge, are not connected persons of the Company (as defined in the Listing Rules) and are third parties independent of the Company and its connected persons
“Latest Practicable Date”	6 December 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
“New Zhonghe Agreement”	the product sales and purchase agreement dated 29 November 2007 entered into between Hong Yuan and Zhonghe Pharmaceutical in relation to the sale and purchase of chemical products for the period from 1 January 2008 to 31 December 2010

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## DEFINITIONS

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“New Zhongrun Agreement”	the product sales and purchase agreement dated 29 November 2007 entered into between Hong Yuan and Hebei Zhongrun in relation to the sale and purchase of chemical products for the period from 1 January 2008 to 31 December 2010
“PRC”	the People’s Republic of China
“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 Group”	SPG together with its subsidiaries excluding the Group
“SPG”	石藥集團有限公司 (Shijiazhuang Pharmaceutical Group Company Limited), a limited liability company established in the PRC and the controlling Shareholder and beneficially owned by Legend Holdings Limited
“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
“Zhonghe Agreement”	the product sales and purchase agreement dated 31 December 2004 entered into between Hong Yuan and Zhonghe Pharmaceutical in relation to the sale and purchase of chemical products for the period from 1 January 2005 to 31 December 2007
“Zhonghe Pharmaceutical”	石藥集團中禾製藥 (內蒙古) 有限公司 (Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited), a foreign investment company established in the PRC and a wholly-owned subsidiary of the Company
“Zhongrun Agreement”	the product sales and purchase agreement dated 31 December 2004 entered into between Hong Yuan and Hebei Zhongrun in relation to the sale and purchase of chemical products for the period from 1 January 2005 to 31 December 2007

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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

11 December 2007

*To the Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **1. INTRODUCTION**

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

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## LETTER FROM THE BOARD

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Agreement were approved by the Shareholders at the extraordinary general meeting of the Company held on 21 February 2005. The Zhonghe Agreement and the Zhongrun Agreement will terminate on 31 December 2007.

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

The purposes of this circular are: (i) to provide you with further information regarding the Continuing Connected Transactions; (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 Continuing Connected Transactions and the Caps; (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 Continuing Connected Transactions and the Caps; and (iv) to give you notice of the EGM to consider and if thought fit, to approve the resolution relating to the Continuing Connected Transactions and the Caps at the EGM.

## 2. CONTINUING CONNECTED TRANSACTIONS

### (i) Purchase of chemical products by Hebei Zhongrun

Parties: (1) Hebei Zhongrun; and

(2) Hong Yuan.

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



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## LETTER FROM THE BOARD

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**(ii) Purchase of chemical products by Zhonghe Pharmaceutical**

Parties: (1) Zhonghe Pharmaceutical; and

(2) Hong Yuan

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

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

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

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## LETTER FROM THE BOARD

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### 3. PROPOSED ANNUAL CAPS

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

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

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

### 4. REASONS FOR THE TRANSACTIONS

By entering into the Continuing Connected Transactions, the Group will be benefited from having a reliable source of supply of raw materials from Hong Yuan. The Directors (including the independent non-executive Directors) consider that the terms of the Continuing Connected Transactions have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof and the Caps are fair and reasonable and are in the best interests of the Group and the Shareholders as a whole.

### 5. LISTING RULES REQUIREMENTS

As the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting requirements under Rules 14A.45 and 14A.46 of the Listing Rules, the annual review requirement under Rules 14A.37 to 14A.41 of the Listing Rules and are subject to independent shareholders' approval at general meeting by way of poll under Rule 14A.35(4) of the Listing Rules. The Company will seek approval from the Independent Shareholders of the Continuing Connected Transactions and the Caps on the condition that for each of the three financial years ending 31 December 2010, the annual aggregate value of the Continuing Connected Transactions will not exceed RMB237,377,000 (equivalent to approximately HK\$244,498,000), RMB298,812,000 (equivalent to approximately HK\$307,776,000) and RMB373,337,000 (equivalent to approximately HK\$384,537,000) respectively.

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## LETTER FROM THE BOARD

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### 6. 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 and 100% of the equity interest of which is indirectly owned by SPG.

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.

### 7. 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; or
- (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.

### 8. EXTRAORDINARY GENERAL MEETING

Set out on pages 22 to 23 of this circular is the notice convening the EGM at which ordinary resolution will be proposed to approve the Continuing Connected Transactions and the Caps.

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 resolution approving the Continuing Connected Transactions and the Caps to be proposed at the EGM.

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## LETTER FROM THE BOARD

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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.

### 9. 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.

### 10. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 11 to 12 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 Continuing Connected Transactions are on normal commercial terms in the ordinary and usual course of business of the Group and the terms thereof and the Caps 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 Board and the Independent Board Committee recommend 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)**

11 December 2007

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 11 December 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 Continuing Connected Transactions 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 Continuing Connected Transactions. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 13 to 17 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 5 to 10 of the Circular and the general information set out in the appendix.

Having taken into account the terms of the Continuing Connected Transactions, and the advice given by CIMB-GK, we consider that the terms of the Continuing Connected Transactions are on normal commercial terms in the ordinary and usual course of business of the Group and the terms thereof and the Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Continuing Connected Transactions and the Caps 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

11 December 2007

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Caps contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement. Details of the terms of the Continuing Connected Transactions are set out in the letter from the Board contained in the circular of the Company dated 11 December 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.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and senior management of the Company. The Directors have declared in a responsibility statement set out in the Appendix to the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the Directors' 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 despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained and the Directors' representations made in the Circular 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 Company, SPG or any of its subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion for the Continuing Connected Transactions (including the Caps) contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement, we have considered the following principal factors and reasons:

#### **Background and rationale**

The Group is principally engaged in the manufacture and sale of pharmaceutical products while Hong Yuan is principally engaged in the manufacture and sale of chemical products.

Each of Hebei Zhongrun and Zhonghe Pharmaceutical has been engaged in similar transactions with Hong Yuan since 2005 pursuant to the Zhonghe Agreement and the Zhongrun Agreement, respectively, which will expire on 31 December 2007. On 29 November 2007, Hebei Zhongrun and Zhonghe Pharmaceutical entered into the New Zhongrun Agreement and the New Zhonghe Agreement with Hong Yuan, respectively, in relation to purchase of chemical products, including but not limited to D (-) parahydroxy phenylglycine dane salt and D (-) phenylglycine dane salt as raw materials for the production of antibiotics including but not limited to amoxicillin, ampicillin and ampicillin sodium.

The Directors consider that by entering into the Continuing Connected Transactions, the Group will have a reliable source of supply of the quality raw materials from Hong Yuan.

Given the above and the fact that i) the nature of the Continuing Connected Transactions relates to the Group's principal business and operations; and ii) the Continuing Connected Transactions contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement will be based on normal commercial terms on an arm's length basis as elaborated below, we consider that the Continuing Connected Transactions are in the interest of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Basis of determination**

#### *The New Zhonghe Agreement and the New Zhongrun Agreement*

Pursuant to the New Zhonghe Agreement and the New Zhongrun Agreement, the purchase prices of chemical products to be paid by the Group to Hong Yuan will be reached after arm's length negotiation between the Group and Hong Yuan by reference to market price either on normal commercial terms or, if there is no available comparison, on terms no less favourable than those which may be obtained by the Group from the Independent Third Party. Based on information provided by the Company, we note that the unit purchase prices of chemical products charged by Hong Yuan to the Group were not less favorable than those charged by Independent Third Party to the Group.

#### *Views*

Having considered the above, we consider that the terms of the New Zhonghe Agreement and the New Zhongrun Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

#### *Caps*

For the years ended 31 December 2005, 2006 and the nine months ended 30 September 2007, the annual aggregate value of the chemical products purchased by the Group contemplated under the Zhonghe Agreement and the Zhongrun Agreement amounted to approximately RMB79,033,000 (equivalent to approximately HK\$81,404,000), RMB117,561,000 (equivalent to approximately HK\$121,088,000) and RMB95,371,000 (equivalent to approximately HK\$98,232,000) respectively. The annual caps under the Zhonghe Agreement and Zhongrun Agreement for the three financial years ended 31 December 2007 are HK\$147,840,000, HK\$206,080,000 and HK\$236,992,000 respectively.

The following table sets out the respective proposed Caps for the New Zhonghe Agreement and the New Zhongrun Agreement for the three years ending 31 December 2010.

<b>Caps for the year ending 31 December</b>		
<b>2008</b>	<b>2009</b>	<b>2010</b>
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
237,377,000	298,812,000	373,337,000

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The proposed Caps have been principally determined by the Directors with reference to the following factors:

1. the current market prices of the chemical products (allowing for 15% increase in the market prices for each of 2008, 2009 and 2010);
2. the expected production output of amoxicillin, ampicillin and ampicillin sodium of the Group; and
3. the new purchase of D(-) phenylglycine dane salt from Hong Yuan by the Group for the production of ampicillin and ampicillin sodium.

As advised by the Directors, the purchase price of D(-) parahydroxy phenylglycine dane salt has increased in recent months. Based on information provided by the Company, we noted such recent increase in price of D(-) parahydroxy phenylglycine dane salt. The Directors also advised that due to the projected growth in market demand for amoxicillin and the available unutilized production capacity of the Group, the Company expects to increase its output of amoxicillin.

### *Views*

Given the above, we are of the view that the Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. However, as the Caps relate to future events and are based on assumptions which may or may not remain valid for the entire period up to 31 December 2010, consequently, we express no opinion as to how closely the actual amount to be incurred under the Continuing Connected Transactions contemplated under the New Zhonghe Agreement and the New Zhongrun Agreement will correspond with the Caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we consider that the New Zhonghe Agreement and the New Zhongrun Agreement are in the interests of the Company and the Shareholders as a whole, and the terms thereof including the Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the New Zhonghe Agreement and the New Zhongrun Agreement as well as the adoption of the Caps.

Yours faithfully,

For and on behalf of

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

**Alex Lau**

*Executive Vice President*

**Flavia Hung**

*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	Capacity	Number of issued ordinary shares held	Long/short position	Approximate percentage of the issued share capital of the Company
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 China Charmaine Pharmaceutical Company Limited, 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>
CIMB-GK	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 share registrar and transfer office of the Company is Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (b) 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 Continuing Connected Transactions, which firm will receive normal professional fees.
- (c) The English text of this circular shall prevail over the Chinese text.

**9. 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 New Zhonghe Agreement and the New Zhongrun Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 11 to 12 of this circular;
- (c) the letter issued by CIMB-GK, the text of which is set out on pages 13 to 17 of this circular; and
- (d) the written consent of CIMB-GK referred to in paragraph 4 in this appendix.



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

*(Incorporated in Hong Kong under the Companies Ordina*

**(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, 28 December 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 product sales and purchase agreement dated 29 November 2007 entered into between each of 石藥集團河北中潤製藥有限公司 (Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co. Limited) (“**Hebei Zhongrun**”), a subsidiary of the Company, with 河北宏源化工有限公司 (Hebei Hong Yuan Chemical Co. Limited) (“**Hong Yuan**”) (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 “**Zhongrun Agreement**”), and the product sales and purchase agreement dated 29 November 2007 entered into between 石藥集團中禾製藥(內蒙古)有限公司 (Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited) and Hong Yuan (a copy of which is produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification, the “**Zhonghe Agreement**”) in respect of the purchase of certain chemical products (the “**Continuing Connected Transactions**”) be and are hereby approved, ratified and confirmed and the annual limits for the Continuing Connected Transactions for the three financial years ending 31 December 2010 being RMB237,377,000, RMB298,812,000 and RMB373,337,000 respectively and any transactions which may be entered into pursuant to or in connection with the Continuing Connected Transactions be and are hereby generally and unconditionally approved; and



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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to do such further acts and things and execute further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or to give effect to the Continuing Connected Transactions.”

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

Hong Kong, 11 December 2007

*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.