THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **CHINA PHARMACEUTICAL GROUP LIMITED**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

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)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; INCREASE OF AUTHORISED SHARE CAPITAL; POTENTIAL CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

中國銀河國際
CHINA GALAXY INTERNATIONAL

A letter from the Board is set out on pages 11 to 63 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 64 of this circular. A letter from China Galaxy International Securities (Hong Kong) Co., Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 65 to 144 of this circular.

A notice convening an extraordinary general meeting of the Company (the "**EGM**") to be held at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong at 10:00 a.m. on October 19, 2012, is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the extraordinary general meeting is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong Share Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting (or any adjourned meeting thereof) should you so desire.

Hong Kong, September 27, 2012

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

"Acquisition"	the acquisition of the entire issued share capital of the Target by the Company from the Seller pursuant to the terms of the Sale and Purchase Agreement;
"Aipu"	河北愛普醫藥藥材有限公司(Hebei Aipu Pharmaceutical Co., Ltd.*), a company established in the PRC with limited liability and owned as to 70% by Zhongcheng, and a connected person of the Company;
"Amendment Agreement"	the amendment agreement entered into between the Seller, the Company and the Guarantor on September 24, 2012 to amend and supplement the Sale and Purchase Agreement;
"Asset Swap"	the acquisition of 100% equity interest in Hong Yuan by the Company and the disposal of 100% equity interest in CSPC NBP (excluding CSPC OYY Group and CSPC XNW) by the Company pursuant to the Asset Swap Agreement, the completion of the disposal of CSPC NBP (excluding CSPC OYY Group and CSPC XNW) took place on July 20, 2009;
"Asset Swap Agreement"	the agreement dated May 22, 2009 entered into by CCPCL and the Company in relation to the Asset Swap;
"associate"	has the meaning ascribed to it in the Listing Rules;
"Board"	the board of Directors;
"Bondholder"	the holder of any Convertible Bonds;
"Business Day"	a day (other than a Saturday) on which banks in Hong Kong are open to conduct business in Hong Kong generally throughout their normal business hours;
"BVI"	the British Virgin Islands;
"Capital Increase"	the proposed increase in the authorised share capital of the Company from HK$300,000,000 divided into 3,000,000,000 Shares to HK$3,000,000,000 divided into 30,000,000,000 Shares by the creation of 27,000,000,000 additional Shares;

"CCPCL"	China Charmaine Pharmaceutical Company Limited, a company incorporated in Hong Kong and wholly owned by SPG;
"Capitalization Issue"	the issue of one (1) ordinary share in the Target to the Seller on June 30, 2012 made upon the capitalization of certain sums standing to the credit of the account of the Target;
"Class I drug"	in case of traditional Chinese medicine, active ingredients and its preparation extracted from plant, animal and minerals which have not been marketed in the PRC; in case of biological products, any biological product which has not been marketed domestically or outside PRC; in case of chemical drugs, any drug which has not been marketed domestically or outside of the PRC, including (a) active pharmaceutical ingredients (APIs) and its preparations made by synthesis or semi-synthesis, (b) new and effective monomers and its preparation extracted from natural materials or by fermentation, (c) optical isomers and its preparations obtained from known drugs by chiral separation or synthesis etc., (d) drugs with fewer components derived from marketed multi-component drugs, (e) new compound preparations, and (f) preparations already marketed in the PRC but with a newly added indication not yet approved domestically or outside PRC;
"Company"	China Pharmaceutical Group Limited（中國製藥集團有限公司）, a company incorporated in Hong Kong with limited liability, whose shares are listed on the main board of the Stock Exchange (stock code: 1093);
"Completion"	completion of the Acquisition;
"Completion Date"	the date when the Completion would take place pursuant to the Sale and Purchase Agreement;
"connected person"	has the meaning ascribed to it in the Listing Rules;

"Consideration"	the aggregate consideration of HK$8,980,000,000 payable by the Company in respect of the Acquisition under the Sale and Purchase Agreement;
"Consideration Shares"	the 1,195,655,037 new Shares to be allotted and issued to the Seller (or, at the request of the Seller, the Guarantor or its wholly owned subsidiaries);
"Consideration Shares Amount"	HK$2,271,744,570.30;
"Conversion Price"	HK$2.15;
"Conversion Share(s)"	new Share(s) which may fall to be allotted and issued upon conversion of the Convertible Bonds at the initial Conversion Price;
"Convertible Bonds"	the convertible bonds in an aggregate amount of US$860,032,747.40 to be issued by the Company to the Seller (or, at the request of the Seller, the Guarantor or its wholly-owned subsidiaries) as part of the Consideration upon Completion, consisting of the Tranche I Bonds and the Tranche II Bonds;
"Convertible Bonds Amount"	US$860,032,747.40 (equivalent to approximately HK$6,708,255,429.70);
"Convertible Bonds Instrument"	the instrument constituting the Convertible Bonds to be issued by the Company upon Completion;
"CSPC NBP"	石藥集團恩必普藥業有限公司 (CSPC NBP Pharmaceutical Co., Ltd.), a wholly foreign owned enterprise with limited liability established under the laws of the PRC and wholly owned by the Target;
"CSPC OYY"	石藥集團歐意藥業有限公司 (CSPC Ouyi Pharmaceutical Co., Ltd.*), a limited liability company established under the laws of the PRC and wholly owned by CSPC NBP;

"CSPC OYY Subsidiaries"	石藥歐意國際製藥有限公司(Shiyao Ouyi International Pharmaceutical Co., Ltd.*), which is wholly owned by CSPC OYY, 石藥集團歐意進出口貿易有限公司 (CSPC Ouyi Import and Export Trade Co., Ltd.,*), which is wholly owned by CSPC OYY and 石家莊製藥集團華盛製藥有限公司(Shijiazhuang Pharmaceutical Group Huasheng Pharmaceutical Co., Ltd.*), 55% equity interests of which is owned by CSPC OYY and 45% equity interests of which is owned by CCPCL;
"CSPC OYY Group"	CSPC OYY and CSPC OYY Subsidiares;
"CSPC XNW"	石藥集團新諾威製藥股份有限公司(CSPC XNW Pharmaceutical Joint Stock Company Limited*), a limited liability company established under the laws of the PRC and owned as to 98.69% by CSPC NBP;
"Current Market Price"	means in respect of the Shares on a particular date, the average closing price per Share quoted on the daily quotation sheets of the Stock Exchange for the five (5) Trading Days immediately preceding such date;
"Dragon Merit"	Dragon Merit Holdings Limited, a limited company incorporated in Hong Kong and wholly owned by the Target;
"Directors"	the directors of the Company;
"Disclosure Letter"	the letter to be issued by the Seller to the Company together with the bundle of documents attached to it;
"EGM"	the extraordinary general meeting of the Company to be held to approve, among other things, the Transactions and the Capital Increase;
"Enlarged Group"	the Group (including the Target Group) following Completion;
"Extended Maturity Date"	the last Business Day (as defined in the Convertible Bonds Instrument) of the 365-day period immediately following the Initial Maturity Date;

"Force Majeure Event"	any event, series of events, circumstances, change or prospective change beyond the control of a reasonable business operator in the same line of business of that of the Target Group, including, without limitation, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, the imposition of economic sanctions, strike, lock-out, fire, explosion, flooding, earthquake, civil commotion, riot, public disorder, act of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism;
"Group"	the Company and its subsidiaries;
"GMP standard"	Good Manufacturing Practice, a set of guidelines and regulations, issued from time to time pursuant to the Law of the PRC on the Administration of Pharmaceuticals（中華人民共和國藥品管理法）as part of quality assurance which is designated to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled with conformity to the quality and standards appropriate for their intended use;
"Guarantor"	the Seller's guarantor, Massive Top Limited, a limited liability company incorporated in Hong Kong and owned as to 75% by MRL;
"H Fund"	Hony Capital Fund III, L.P., a Cayman Islands exempted limited partnership;
"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., Ltd.*), a company established under the laws of the PRC and wholly owned by the Company;
"Independent Board Committee"	the committee of independent non-executive Directors, comprising Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard, established to advise the Independent Shareholders in respect of the Acquisition;

"Independent Financial Adviser" or "China Galaxy International"	China Galaxy International Securities (Hong Kong) Co., Limited, an independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition;
"Independent Shareholders"	the Shareholders other than MGL, CCPCL, Mr. Cai Dongchen and Mr. Chak Kin Man who are required to abstain from voting at the EGM pursuant to the Listing Rules;
"Initial Maturity Date "	the fifth anniversary of the issuance date of the Convertible Bonds;
"Issue Price"	the issue price of HK$1.90 per Consideration Share;
"Latest Practicable Date"	September 21, 2012;
"Last Trading Day"	June 15, 2012, being the final day of trading prior to suspension of trading in the Shares and the last trading day for the Shares before the announcement of the Company in relation to, among others, a very substantial acquisition and connected transaction was published on June 26, 2012;
"Legend Holdings"	聯想控股有限公司(Legend Holdings Limited*), an investment holding company established in the PRC;
"Listed Comparables"	Sihuan Pharmaceutical Holdings Group Ltd. (Stock Code: 460), Sino Biopharmaceutical Ltd. (Stock Code: 1177), United Laboratories International Holdings Ltd. (Stock Code: 3933) and Lee's Pharmaceutical Holdings Ltd. (Stock Code: 950), shares of which are all listed on the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"MGL"	Massive Giant Group Limited, a limited liability company incorporated in the BVI and wholly owned by the Guarantor;
"MOHRSS"	中華人民共和國人力資源和社會保障部(Ministry of Human Resources and Social Security of China);

"MRL"	March Rise Limited, a limited liability company incorporated in the BVI and wholly owned by H Fund;
"NRDL"	國家基本醫療保險、工傷保險和生育保險藥品目錄 (National Reimbursed Drug List*) released by MOHRSS from time to time;
"NRDL (2009)"	國家基本醫療保險、工傷保險和生育保險藥品目錄(2009年版) (National Reimbursed Drug List*) released by MOHRSS on November 27, 2009;
"Net Profit"	for any fiscal year, means the amount of profit after tax of the Target Group as stated in the audited consolidated financial statements of the Target prepared in accordance with Hong Kong financial reporting standards for such fiscal year;
"Outstanding Bonds"	all the Convertible Bonds issued other than (a) those which have been cancelled in accordance with the Convertible Bonds Instrument; (b) those mutilated or defaced Convertible Bonds which have been surrendered in exchange for replacement Convertible Bonds pursuant to the Convertible Bonds Instrument; or (c) those Convertible Bonds alleged to have been lost, stolen or destroyed and in respect of which replacement Convertible Bonds have been issued pursuant to the Convertible Bonds Instrument;
"Outstanding Payment"	a sum of RMB637,393,000 (equivalent to HK$777,309,000) payable by the Target Group to the SPG Group, which represents the aggregate consideration in respect of certain Reorganizational steps, involving a transfer of 100% equity interests in CSPC NBP to Dragon Merit, a transfer of 100% equity interests in CSPC OYY to CSPC NBP and a transfer of 98.69% equity interests of CSPC XNW to CSPC NBP. For the avoidance of doubt, as disclosed in the Target Group's consolidated balance sheet in Appendix II of this circular, as at May 31, 2012, the Target Group owed SPG Group other payables (current) in the amount of HK$817,859,000, such sum has included the Outstanding Payment in the sum of RMB637,393,000 (equivalent to HK$777,309,000);

"Potential Continuing Connected Transactions"	certain continuing connected transactions as referred to in "(b) Potential Continuing Connected Transactions" of the "Letter from the Board" of this circular;
"PRC" or "China"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan;
"Public Float"	the Shares held in the public hands, including the Shares beneficially owned by the Shareholders other than any connected person of the Company or any person whose acquisition of securities has been financed directly or indirectly by such connected person or who is accustomed to take instructions from such connected person in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in his name or otherwise held by him;
"Reorganization"	the reorganization of the Target Group, which involved, (i) a transfer of 75% equity interests in CSPC NBP to CCPCL, (ii) a transfer of 100% equity interests in CSPC NBP to Dragon Merit, (iii) a transfer of 100% equity interests in CSPC OYY to CSPC NBP and (iv) a transfer of 98.69% equity interests of CSPC XNW to CSPC NBP;
"Sale and Purchase Agreement"	the agreement dated June 17, 2012 entered into between the Seller, the Company and the Guarantor in respect of the Acquisition, as amended and varied from time to time;
"Sale Shares"	two (2) ordinary shares in the share capital, representing 100% of the total issued share capital, of the Target;
"Seller"	Joyful Horizon Limited, a company incorporated in the BVI and wholly owned by the Guarantor;
"Seller Group"	the Seller and all of its affiliates, excluding the Target Group;
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company;

"Shareholder(s)"	the shareholder(s) of the Company;
"SFDA"	國家食品藥品監督管理局(State Food and Drug Administration of China);
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"SPG"	石藥集團有限公司 (Shijiazhuang Pharmaceutical Group Company Limited*), a company established in the PRC and wholly owned by the Guarantor;
"SPG Group"	SPG and its subsidiaries, excluding the Target Group;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary"	has the meaning ascribed to that term in the Listing Rules;
"Target"	Robust Sun Holdings Limited, a company incorporated in the BVI and wholly owned by the Seller;
"Target Group"	the Target and its subsidiaries and, each of the Target and subsidiaries, a "Target Company";
"Tranche I Bonds"	the first tranche of the Convertible Bonds in an original aggregate principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) to be issued pursuant to the terms under the Convertible Bonds Instrument;
"Tranche II Bonds"	the second tranche of the Convertible Bonds in an original aggregate principal amount of US$86,003,274.70 (equivalent to HK$670,825,542.66) to be issued pursuant to the terms under the Convertible Bonds Instrument;
"Transactions"	the Acquisition, the issue of Consideration Shares and the issue of Convertible Bonds;
"Yinhu"	石藥銀湖制藥有限公司(Shijiazhuang Pharma Yinhu Pharmaceutical Co., Ltd.*), a company established in the PRC with limited liability and a subsidiary of the Company;

"Zhongcheng"	石藥集團河北中誠醫藥有限公司 (Shijiazhuang Pharma Group Hebei Zhongcheng Pharmaceutical Co., Ltd.*), a company established in the PRC with limited liability and an indirect subsidiary of MGL;
"Zhongchengxin"	河北中誠信擔保保證有限公司 (Hebei Zhongchengxin Guarantee Co., Ltd.*), a limited liability company established under the laws of the PRC and indirectly wholly owned by CCPCL;
"Zhongnuo"	石藥集團中諾藥業(石家莊)有限公司(Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company;
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong;
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC;
"US$"	United States dollar(s), the lawful currency of the United States of America; and
"%"	per cent.

Note: the exchange rates between United States dollars and Hong Kong dollars and RMB and Hong Kong Dollars used in this circular are US$1.00 = HK$7.80 and RMB0.82 = HK$1.0, respectively. The provision of such exchange rate does not mean that Hong Kong dollars could be converted into the United States dollars or RMB or vice versa at such exchange rate or at all.

** The English names are for identification purposes only.*

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:
Mr. CAI Dongchen
Mr. FENG Zhenying
Mr. CHAK Kin Man
Mr. PAN Weidong
Mr. ZHAO John Huan
Mr. WANG Shunlong
Mr. WANG Huaiyu
Mr. LU Jianmin
Mr. WANG Zhenguo

Non-Executive Directors:
Mr. LEE Ka Sze, Carmelo

Independent Non-Executive Directors:
Mr. HUO Zhenxing
Mr. Qi Moujia
Mr. GUO Shichang
Mr. CHAN Siu Keung, Leonard

Registered office:
Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Principal place of business in Hong Kong:
Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

September 27, 2012

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; INCREASE OF AUTHORISED SHARE CAPITAL; POTENTIAL CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company in relation to unusual price and trading volume movement on June 11, 2012 and the announcement of the Company in relation to, among others, a very substantial acquisition and connected transaction on June 26, 2012. On June 17, 2012, the Company entered into the Sale and Purchase Agreement with the Seller and the Guarantor, pursuant to which the Company conditionally agreed to acquire, and the Seller conditionally agreed to sell, the Sale Shares, being the entire issued share capital of the Target for a total consideration of HK$8,980,000,000. Upon Completion, the Target will become a wholly-owned subsidiary of the Company.

The Acquisition constitutes a very substantial acquisition and a connected transaction under the Listing Rules. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Associates of the Seller (to the best of the Company's knowledge, namely MGL, CCPCL, Mr. Cai Dongchen and Mr. Chak Kin Man) will be required to abstain from voting on the resolution(s) approving the Acquisition at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, the Potential Continuing Connected Transactions and the Capital Increase; (ii) a letter from the Independent Board Committee in relation to the Acquisition; (iii) a letter from the Independent Financial Adviser in relation to the Acquisition; (iv) financial information of the Group; (v) financial information of the Target Group; (vi) unaudited pro forma financial information of the Enlarged Group; (vii) the notice of the EGM; and (viii) other information as required under the Listing Rules.

II. THE SALE AND PURCHASE AGREEMENT AND THE AMENDMENT AGREEMENT

The Sale and Purchase Agreement (as amended and supplemented by the Amendment Agreement) is legally binding and its terms and conditions are described below:

Date : June 17, 2012 (the date of the Amendment Agreement being September 24, 2012)

Parties :

(a) the Company, as buyer;

(b) the Seller; and

(c) the Guarantor.

The Target is wholly owned by the Seller, which is directly wholly owned by the Guarantor. The Guarantor, through CCPCL and MGL, is indirectly interested in an aggregate of approximately 54.81% of the issued share capital of the Company as at the Latest Practicable Date.

Amendment Agreement : The parties to the Sale and Purchase Agreement, namely, the Company, the Seller and the Guarantor entered into the Amendment Agreement on September 24, 2012. The Amendment Agreement was entered into in order to document the amendment to the terms of the Sale and Purchase Agreement as set forth below:

(i) *Increase in the issued share capital of the Target*

As at the date of the Sale and Purchase Agreement, the entire issued share capital of the Target comprised one (1) ordinary share in the share capital of the Target. As at the date of this circular, the entire issued share capital of the Target comprised two (2) ordinary shares in the share capital of the Target. The reason for such increase was due to the Capitalization Issue. Prior to the Sale and Purchase Agreement was entered into, the Target Group underwent a Reorganization, involving a transfer of 100% equity interests in CSPC NBP to Dragon Merit, 100% equity interests in CSPC OYY and 98.69% equity interests in CSPC XNW to CSPC NBP, the consideration in respect of such transfers of equity interests was RMB637,393,000 (i.e. the Outstanding Payment) and are payable in cash. As a result of the Reorganization and as documented in the Sale and Purchase Agreement, the Target Group has a liability in the amount of the Outstanding Payment. The Outstanding Payment is a liability of the Target Group and upon Completion, the Target Group will become part of the Enlarged Group and the Target Group's liability will become the Enlarged Group's liability, and the Enlarged Group will be liable and committed to pay the Outstanding Payment after Completion. Pursuant to the Amendment Agreement, the Outstanding Payment is payable by the Target Group at a time determined by the Target Group and/or the Company at its sole and absolute discretion. Given that such liability was incurred as a result of the Target Group's Reorganization and should not be borne by the Company, the Company has requested for and the Seller has agreed pursuant to the Sale and Purchase Agreement to deposit the Outstanding Payment to Dragon Merit as a condition precedent to Completion, and the Seller Group had, shortly after the Sale and Purchase Agreement, satisfied such condition precedent by injection of funds in the amount of RMB639,800,000 (equivalent to HK$780,244,000) to the Target Group by way of the issue of one (1) ordinary share in the share capital of the Target to the Seller, namely the Capitalization Issue, thus providing the Target Group with the required funds to settle the Outstanding Payment without creating another liability in the Target Group. Therefore, the Company, the Seller and the Guarantor entered into the Amendment Agreement to reflect the increase of the entire issued share capital of the Target from one (1) share to two (2) shares.

Save for Consideration (namely, the issuance of the Consideration Shares and the Convertible Bonds), the Group is not liable to pay any other committed amount for the Acquisition.

(ii) Business dealings between the Company and Seller Group post-Completion

It transpired to the Company and the Seller after the Sale and Purchase Agreement was entered into that certain business contracts, the Potential Continuing Connected Transactions and certain payables and receivables between the members of the Seller Group and the Group that arose in the ordinary course of business of the Group would survive and subsist post-Completion. Therefore, the Company, the Seller and the Guarantor entered into the Amendment Agreement to reflect such business dealings between the Seller Group and the Group post-Completion. Please see "(b) Potential Continuing Connected Transactions" of the "Letter from the Board" for further details on the Potential Continuing Connected Transactions.

Assets to be acquired : The Sale Shares, being the entire issued share capital of the Target, which carries on the business of the manufacture and sale of pharmaceutical products through its subsidiaries with the major assets of the Target Group being office premises, plants, production machinery and equipment, automobiles and certain intangible rights including land use rights, trademarks, patents and know-how.

Consideration : The maximum Consideration is HK$8,980,000,000 and shall be satisfied by the Company on the Completion Date in the following manner:

(i) the Consideration Shares Amount of HK$2,271,744,570.30 shall be paid by way of allotment and issue of the Consideration Shares; and

(ii) the Convertible Bonds Amount of HK$6,708,255,429.70 (comprising Tranche I Bonds in the principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) and Tranche II Bonds in the principal amount of US$86,003,274.70 (equivalent to HK$670,825,542.66)) shall be paid by way of issue of the Convertible Bonds.

The maximum Consideration of HK$8,980,000,000 was arrived at after arm's length negotiations between the Company and the Seller after taking into account all the relevant factors as set out below as a whole. Even though the Company considered some qualitative and subjective factors in determining the Consideration, it did not attribute specific amounts to, or quantify the value of individual factor nor did it use one particular price-to-earnings multiple in arriving at the maximum Consideration amount.

(a) The Target Group's net profit after tax for the five months ended May 31, 2011 and May 31 2012 of approximately HK$137 million and HK$220 million, respectively, which would represent growth of approximately 60.5% on a year over year basis.

(b) The nature and scope of the business and future prospect of the Target Group (being CSPC OYY Group, CSPC NBP and CSPC XNW), the synergies presented by the Acquisition in that the Target Group would enable the Group to expand the high-end finished drugs business and reduce its current reliance on intermediates and bulk drug products. These intermediates and bulk drug products are commodity-like products with volatile product prices and profit margins. In particular, in recent years, there was substantial addition of production capacity of vitamin C and antibiotics in the industry, and both the vitamin C and antibiotic markets have been increasingly facing excess market supply and low product price levels. As a result, the Group is currently faced with a difficult operating environment due to its reliance on intermediates and bulk drug products and has been incurring loss since the fourth quarter of 2011. For the six months ended June 30, 2012, the Group recorded audited loss after taxation of HK$130 million.

In contrast, the finished drugs market in PRC has been rapidly growing in the past decade. The Company considers the Target Group's principal business, being high-end finished drugs business together with its solid customer base and broad distribution network, demonstrates significant growth potential and the Acquisition would enable the Group to reduce its current reliance on intermediates and bulk drugs, expand into the high-end finished drugs business, release the existing pressure of the Group and increase the competitiveness of the Group as a whole.

(c) The benchmark level of net profit of the Target Group of HK$600 million for the year ending December 31, 2012 and HK$800 million for the year ending December 31, 2013, being two benchmarks that effectively provide for the maximum Consideration of HK$8,980,000,000, convert to a price-to-earnings multiples of 14.97 and 11.23 times, respectively, which is within the norm indicated by the Listed Comparables with an average price-to-earnings multiple of 16.9 times, based on their respective closing prices as of the Last Trading Day and their estimated or projected earnings for 2012 as published by S&P Capital IQ.

The Company considered the benchmarks figures of HK$600 million and HK$800 million to be fair and reasonable in light of (i) the different Consideration amounts payable as a result of fixing the benchmark figures at HK$600 million and HK$800 million as the benchmark levels in triggering the adjustment provisions in the Convertible Bonds Instrument and (ii) their implied price-to-earnings multiples of the Target Group, which would be within the norm of or lower than the average price-to-earnings multiple of the Listed Comparables of approximately 16.9 times (based on their respective closing prices as of the Last Trading Day and their estimate or projected earnings for 2012 as published by S&P Capital IQ) as long as the Net Profit of the Target Group for the year ended December 31, 2012 is greater than HK$430,000,000, which is only an illustrative figure included in this circular solely for the purpose of demonstrating when the corresponding price-to-earnings multiple would be within the norm of or lower than the average price-to-earnings multiple of the Listed Comparables.

The Company identified the Listed Comparables by exercising its subjective judgment using the selection criteria set out below: (i) China-based pharmaceutical companies listed on the Stock Exchange with businesses shared similar characteristics with that of the Target Group; (ii) the selected company's key product include finished chemical products; (iii) the selected company has sophisticated sales and marketing capabilities for finished drugs, including a strong nationwide distribution network covering hospitals and medical institutions; and (iv) the selected company has achieved relatively higher growth rates. The Directors consider the Listed Comparables to represent an exhaustive list of comparable companies under the above selection criteria.

S&P Capital IQ is a publicly available database and a provider of multi-asset class data, research and analytics. The Directors consider such database to be a meaningful and well recognized source of information.

Although care has been taken in the reproduction of price-to-earnings multiples of the comparable companies based on the estimated or projected earnings of the comparable companies for 2012, the Company has not independently verified and the earnings data may not be consistent with the foregoing companies' own estimates or projections of their financial results. No representation is made as to the accuracy or fairness of such data and it should not be unduly relied upon.

(d) The historical performance of the Target Group's business, the Target Group's net profit after tax for the year ended December 31, 2011 of approximately HK$357 million, converting into a price-to-earnings multiple of approximately 25.1 times based on the maximum Consideration of HK$8,980,000,000 which is within the norm of the average price-to-earnings multiple of the Listed Comparables of approximately 25.6, based on their respective closing prices as of the Last Trading Day and their net profit after taxation for 2011.

(e) The different amounts of Consideration payable by the Company in accordance with the terms and conditions of the Convertible Bonds Instrument based on the financial performance of the Target Group in 2012 and 2013 and the corresponding price-to-earnings multiple of the Target Group as set forth below:

(1) HK$8,980,000,000, translating into the Target Group's Net Profit for the year ending December 31, 2012 and December 31, 2013 being equal to or exceeds HK$600 million and HK$800 million, respectively, thereby converting into a price-to-earnings multiple of the Target Group of approximately 14.97 times based on the benchmark level of net profit of HK$600 million for the year ending December 31, 2012 and a total Consideration of HK$8,980,000,000;

(2) HK$8,309,174,457 (as reduced by deducting the Tranche II Bonds of HK$670,825,542.66 from the maximum Consideration of HK$8,980,000,000 in the event the benchmark level of net profit being HK$800 million for the year ending December 31, 2013 is not met), translating into the Target Group's Net Profit for the year ending December 31, 2012 being equal to or exceeds HK$600 million, thereby converting into a price-to-earnings multiple of the Target Group of approximately 13.85 times based on the benchmark level of net profit of HK$600 million for the year ending December 31, 2012 and a total Consideration of HK$8,309,174,457.

If the Target Group's Net Profit for the year ending December 31, 2012 is less than HK$600 million, the Consideration will be reduced through the cancellation of all or a portion of the Tranche I Bonds by multiplying (A) the original principal amount of the Tranche I Bonds by (B) a fraction where the numerator is the Target Group's actual Net Profit for the year ended December 31, 2012 and the denominator is HK$600 million (see "2. THE SALE AND PURCHASE AGREEMENT AND THE AMENDMENT AGREEMENT — Convertible Bonds — Adjustment of Principal Amount of Tranche I Bonds").

The Company took into account of (i) the different implied price-to-earnings multiples of the Target Group resulting from different amounts of Consideration payable as a result of the adjustment provisions and (ii) the amount of Consideration which the Company is agreeable to pay if the Target Group's Net Profit for the year ending December 31, 2012 and 2013 is less than HK$600 million and HK$800 million, respectively in determining the maximum Consideration amount. The Directors believe that the maximum Consideration amount is fair and reasonable and are in the interests of the Company and its Independent Shareholders as a whole in that the total Consideration payable by the Company will be reduced if the net profits of the Target Group for the years ending December 31, 2012 and 2013 are less than HK$600 million and HK$800 million, respectively.

In certain limited circumstances, namely, the occurrence of a Force Majeure Event which adversely affects the Target Group's Net Profit for the year ending December 31, 2013, the Target Group's Net Profit for the year ending December 31, 2014 may be taken into account instead of the Target Group's Net Profit for the year ending December 31, 2013 in determining the potential adjustment to the Tranche II Bonds (but not the Tranche I Bonds). (See "2. THE SALE AND PURCHASE AGREEMENT AND THE AMENDMENT AGREEMENT — Convertible Bonds — Condition to Convertibility of Tranche II Bonds" below).

(f) The significant premium represented by the maximum Consideration as compared with the consideration of Asset Swap (involving the acquisition of Hong Yuan and the disposal of CSPC NBP) in 2009 being HK$125 million. The Asset Swap in 2009 involved the disposal of CSPC NBP and the Acquisition is in respect of the entire Target Group which comprises CSPC OYY Group, CSPC NBP and CSPC XNW. The combined audited profit before tax of CSPC OYY Group, CSPC NBP and CSPC XNW for each of the three years ended December 31, 2011 and five months ended May 31, 2012 and the percentage attributable by each of CSPC OYY Group, CSPC NBP and CSPC XNW and their respective average attributions against their combined audited profit before tax for the three years and five months ended May 31, 2012 are set out below:

	For the year ended December 31, 2009		For the year ended December 31, 2010		For the year ended December 31, 2011		For the five months ended May 31, 2012		Average	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
CSPC OYY Group	91,955	58.0	144,707	70.3	201,918	48.3	131,803	47.7	570,383	53.9
CSPC NBP	(10,654)	(6.7)	14,020	6.8	144,438	34.5	113,716	41.1	261,520	24.7
CSPC XNW	77,143	48.7	47,004	22.9	71,782	17.2	30,952	11.2	226,881	21.4
Comined audited profit before tax of CSPC OYY Group, CSPC NBP and CSPC XNW	158,444	100	205,731	100	418,138	100	276,471	100	1,058,784	100

In addition, CSPC NBP transformed from a loss making entity at the time of the previous disposal with recorded audited losses (before and after taxation) of approximately RMB21.70 million and RMB20.49 million for the two years ended December 31, 2007 and December 31, 2008 to an entity with audited profit before taxation of HK$14.02 million and HK$144.44 million for the two years ended December 31, 2010 and 2011, respectively. Apart from the turnaround from a loss making entity to a profit making entity, the sales and marketing force and the management of CSPC NBP had substantially improved since the Asset Swap. Please see "Previous Disposal of CSPC NBP by the Company" of the "Letter from the Board" for further details of changes implemented to CSPC NBP since the Asset Swap.

(g) The Company noted that combined net asset value of the Target Group of HK$961 million as at December 31, 2011 and the net tangible asset value of the Target Group of HK$950 million as at the Completion Date as warranted by the Seller represent approximately 9.3 and 9.5 times of the maximum Consideration of HK$8,980,000,000, respectively. The finished drugs manufacturing businesses, such as the Target Group, are generally asset-light as the property, plant and equipment required for their production and other operations in China are relatively low compared to other types of businesses, such as industrial or automotive manufacturers. The value of finished drugs businesses lie in the drug product variety, brand and market recognition of the drug product, its marketing, sales and distribution capabilities, including the strength of its sales and marketing teams and its network and coverage among hospital and the recognition of their scientific and technical expertise within the pharmaceutical industry. Therefore, the Company did not use the net tangible asset ratio as a basis for evaluating the Target Group and the Consideration as it considers such financial parameter to be inappropriate in assessing the value of the Target Group's business.

In view of the above and in particular that there will be no cash outlay for the Acquisition, the Directors consider the terms and conditions of the Acquisition to be fair and reasonable and in the interests of the Company and its Independent Shareholders as a whole.

The figures of HK$600 million and HK$800 million are not to be considered as a profit guarantee, forecast or estimate of future profits of the Target Group as each of such figure are solely determined based on the experience of the Directors and the senior management of the Company and only serves as benchmarks, after arms-length negotiation between the Company and the Seller, for the purpose of calculating the possible downward adjustment to the maximum Consideration. The maximum Consideration is capped and the maximum Consideration payable would be in the interest of the Company and its Independent Shareholders as a whole.

The Directors consider that the figures of HK$600 million and HK$800 million do not represent the level of net profit of the Target Group anticipated by the Company for the year ended December 31, 2012 or any future period and were not determined based on any estimate, projection, forecast of profits or losses or previous profits or losses or any valuation or assets or business or discounted cash flows or projection of profits, earnings or cash flows of the Target Group.

Consideration Shares : The Consideration Shares represent (i) approximately 78.16% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 43.87% of the issued share capital of the Company as increased by the allotment and issue of the Consideration Shares; and (iii) approximately 20.45% of the issued share capital of the Company as increased by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming issuance of the maximum number of Conversion Shares and no adjustment to the principal amount of the Convertible Bonds and the Conversion Price).

The Consideration Shares will be allotted and issued to the Seller (or, at the Seller's request, to the Guarantor or any of its wholly owned subsidiaries) pursuant to a specific mandate of the Company to be sought at the EGM and will rank *pari passu* with the Shares in issue.

There are no restrictions on any subsequent sale of the Consideration Shares.

Convertible Bonds : The Company will issue Convertible Bonds in an aggregate principal amount of US$860,032,747.40 (equivalent to HK$6,708,255,429.70) to the Seller (or, at the Seller's request, to the Guarantor or any of its wholly-owned subsidiaries) to settle the Convertible Bonds Amount due at Completion in two tranches as follows:

(i) Tranche I Bonds in an aggregate principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06), which is subject to adjustment by reference to the profit-after-tax of the Target Group for the year ending December 31, 2012; and

(ii) Tranche II Bonds in an aggregate principal amount of US$86,003,274.70 (equivalent to HK$670,825,542.66), which is subject to forfeiture by reference to the profit-after-tax of the Target Group for the year ending December 31, 2013 or, in certain circumstances (described below) for the year ending December 31, 2014.

The principal terms of the Convertible Bonds are as follows:

Issuer : The Company.

Bondholder : The Seller (or the Guarantor or one or more wholly-owned subsidiaries of the Guarantor).

Interest : Nil.

Conversion Price	:	HK$2.15 per Conversion Share (subject to adjustment).
Transferability	:	The Convertible Bonds may not be transferred without the prior written consent of the Company (acting in its sole and absolute discretion), save where such transfer is made to the Guarantor or any of its wholly-owned subsidiaries.
No Redemption Right	:	Bondholders have no right to require the Company to repay the principal amount of the Convertible Bonds in cash, or to redeem or repurchase the Convertible Bonds, whether at maturity or otherwise.
Adjustment to Principal Amount of Tranche I Bonds	:	If the Target Group's Net Profit for the year ending December 31, 2012 is less than HK$600 million, the aggregate principal amount of the Tranche I Bonds shall be reduced to by multiplying the original aggregate principal amount of US$774,029,472.70 by the following fraction:

$$\frac{A}{B}$$

where:

A is the Target Group's Net Profit for the year ending December 31, 2012; and

B is HK$600 million;

such adjustment of the principal amount of the Tranche I Bonds will be made at the close of business on the date of the announcement of the Company's consolidated financial results for the year ending December 31, 2012 pursuant to the terms and conditions of the Convertible Bonds Instrument. For the avoidance of doubt, if there is a net loss for the Target Group for the year ending December 31, 2012, the principal amount under the Tranche I Bonds will be reduced to zero.

If the Target Group's Net Profit for the year ending December 31, 2012 is less than HK$600 million, the Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules and will include details in its published annual report and accounts for the year ending December 31, 2012, under which the independent non-executive Directors of the Company will provide an opinion thereon.

Condition to Convertibility of Tranche II Bonds : The Tranche II Bonds are not convertible prior to the day immediately following the date of announcement of the Company's audited financial results for the year ended December 31, 2013 (the "Tranche II Exercise Date"). If the Target Group's Net Profit for the year ending December 31, 2013 is less than HK$800 million, then the Tranche II Bonds shall be deemed to be cancelled in accordance with the Convertible Bonds Instrument and Bondholders shall not be entitled to any consideration, remedy or compensation whatsoever with respect to such cancellation; provided that if the Target Group's Net Profit for the year ending December 31, 2013 is adversely affected by a Force Majeure Event, then the Tranche II Exercise Date shall be deferred until the day immediately following the date of announcement of the Company's audited financial results for the year ended December 31, 2014 and the Tranche II Bonds shall be cancelled if the Target Group's Net Profit for the year ending December 31, 2014 is less than HK$800 million. Pursuant to the terms and conditions of the Convertible Bonds Instrument, neither the Company nor the Bondholder has discretion to determine if any circumstance is a Force Majeure Event and the Net Profit of the Target Group for the year ended December 31, 2013 is adversely affected. Should either party consider the existence of a Force Majeure Event which adversely affects the Net Profit of the Target Group for the year ended December 31, 2013, the other party will consider whether to agree or not to agree. If the Company and the Bondholder have different views, there is a dispute in connection with the Convertible Bonds Instrument. Such dispute shall be settled and resolved by way of arbitration pursuant to the terms and conditions of the Convertible Bonds Instrument.

For the avoidance of doubt, (i) the right to delay the Tranche II Exercise Date by reason of a Force Majeure Event shall not be available when determining the Target Group's Net Profit for the year ending December 31, 2014; (ii) the adjustment (if any) to the principal amount of the Tranche I Bonds shall not be subject to any deferral by reason of a Force Majeure Event; and (iii) if there is a net loss for the Target Group for the year ending December 31, 2013 or, if applicable, December 31, 2014, the principal amount under the Tranche II Bonds will be reduced to zero as the Tranche II Bonds will be cancelled if the Target Group's Net Profit for the year ending December 31, 2013 or, if applicable, December 31, 2014 is less than HK$800 million.

If the Target Group's Net Profit for the year ending December 31, 2013 or, if applicable, December 31, 2014 is less than HK$800 million, the Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules and will include details in its next published annual report and accounts for the year ending December 31, 2013, under which the independent non-executive Directors of the Company will provide an opinion thereon.

Conversion Rights : The Tranche I Bonds will become convertible only after the announcement of the Company's consolidated financial results for the year ending December 31, 2012.

Subject to the satisfaction of the condition to the convertibility of the Tranche II Bonds, the Tranche II Bonds will become convertible only after the announcement of the Company's consolidated financial results for the year ending December 31, 2013 or, if applicable, for the year ending December 31, 2014.

Minimum Public Float Requirement	:	The conversion rights attached to the Convertible Bonds are subject to a further requirement that the Public Float of the Company must at all times comply with the requirements of Rule 8.08 of the Listing Rules. If the conversion of any Convertible Bonds would cause the Public Float of the Company to fall below the prescribed percentage, namely 25%, of its total issued share capital, the aggregate principal amount of the Convertible Bonds to be converted shall be reduced by such amount as necessary for the Public Float of the Company to comply with Rule 8.08 of the Listing Rules.
Maturity Date	:	The Initial Maturity Date of the Convertible Bonds will be the fifth anniversary of the date of issue of the Convertible Bonds. Except as described below, all Outstanding Bonds on the Initial Maturity Date will be mandatorily converted at the Conversion Price applicable at that time.

If any Outstanding Bonds at the Initial Maturity Date cannot be converted as a result of the minimum Public Float requirement described above, then such conversion shall only be allowed to the extent and in the amount which would comply with the Public Float requirement and the maturity date for such unconverted Outstanding Bonds shall be automatically extended to the Extended Maturity Date. If any Outstanding Bonds remain unconverted at the close of business on the Extended Maturity Date, whether by reason of the minimum Public Float requirement or otherwise, all such unconverted Convertible Bonds shall be deemed to be cancelled, and Bondholders shall not be entitled to any consideration, remedy or compensation whatsoever with respect to such cancellation.

Adjustments to Conversion Price : The Conversion Price will be subject to adjustment in certain events, including consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, capital distribution, payment of dividends, issues of rights or options over Shares (at less than 95% of the Current Market Price per Share on the Last Trading Day preceding the date of the announcement of the terms of such issue or grant), rights issues of other securities; issues of Shares at less than 95% of the Current Market Price; other issues of securities at less than 95% of the Current Market Price; modification of rights of conversion, other offers to Shareholders pursuant to which Shareholders are generally entitled to participate and acquire securities, etc.

Voting rights	:	Bondholders shall not be entitled to attend or vote at general meeting of the Company.
Listing	:	The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange.
Governing Law and Jurisdiction	:	Any dispute arising out of or in connection with the Convertible Bonds Instrument (including, but not limited to, whether the Target Group's Net Profit is adversely affected by a Force Majeure Event) shall be submitted to arbitration.

Conversion Shares : The maximum number of Shares that are issuable under the Convertible Bonds in accordance with the terms thereof (assuming no adjustment to the principal amount of the Convertible Bonds and the Conversion Price) is 3,120,118,804 Conversion Shares, representing (i) approximately 203.96% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 53.38% of the issued share capital of the Company as increased by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming issuance of the maximum number of Conversion Shares and no adjustment to the principal amount of the Convertible Bonds and the Conversion Price).

The 3,120,118,804 Conversion Shares are expected to be allotted and issued under the specific mandate to be granted by the Shareholders at the EGM.

There are no restrictions on any subsequent sale of the Conversion Shares.

The allotment and issue of the Conversion Shares will not result in a change of control of the Company.

The Issue Price and the Conversion Price : The Issue Price is HK$1.90 per Share and the Conversion Price is HK$2.15 per Share. The Issue Price and the Conversion Price were determined based on arm's length negotiations between the Company and the Seller by reference to the prevailing market prices of the Shares as shown in the following table:

Reference Prices	Issue Price representing	Conversion Price representing
The closing price of HK$2.05 per Share as quoted on the Stock Exchange on the Last Trading Day	A discount of approximately 7.32%	A premium of approximately 4.88%
The average closing price of approximately HK$1.91 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including Last Trading Day	A discount of approximately 0.52%	A premium of approximately 12.57%
The average closing price of approximately HK$1.65 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day	A premium of approximately 15.15%	A premium of approximately 30.30%
The average closing price of approximately HK$1.53 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day	A premium of approximately 24.18%	A premium of approximately 40.52%
The audited consolidated net asset value per Share attributable to the Shareholders of approximately HK$3.86 as at December 31, 2011	A discount of approximately 50.78%	A discount of approximately 44.30%

Conditions Precedent : Completion of the Acquisition is conditional upon, among others:

(i) the passing of all necessary resolutions including but not limited to the resolutions of Independent Shareholders at the EGM;

(ii) all requisite filings or registrations having been made with, and all requisite governmental authorizations on terms and conditions satisfactory to the Company have been obtained from all applicable governmental entities, or other third parties which are necessary in connection with the execution and performance of the Sale and Purchase Agreement and any transaction contemplated herein;

(iii) the Stock Exchange granting or agreeing to grant approval for the listing of and permission to deal in the Consideration Shares and the Conversion Shares and such listing and permission remaining in full force and effect and not subsequently revoked;

(iv) each of the warranties under the Sale and Purchase Agreement being accurate until the Completion Date;

(v) all third party consents to the transfer of Sale Shares pursuant to the Sale and Purchase Agreement that are required under any contracts, commitment or undertaking to which any member of the Target Group is a party having been obtained;

(vi) the Company in its sole and absolute determination being satisfied with its due diligence investigation in respect of the Target Group;

(vii) the Seller and the Company having agreed the Disclosure Letter, the form of which shall be satisfactory to the Company at its sole and absolute discretion; and

(viii) the completion of the Reorganization and the payment in full of all amount payable by the Target Group and the Seller Group in connection with or pursuant to the Reorganization, except for the Outstanding Payment. Upon Completion, the Target Group will become part of the Enlarged Group and the Target Group's liability will become the Enlarged Group's liability, and the Enlarged Group will be liable and committed to pay the Outstanding Payment after Completion. Given that the Outstanding Payment was incurred as a result of the Target Group's Reorganization and should not be borne by the Company, the Seller shall deposit the Outstanding Payment to Dragon Merit as a condition precedent to Completion for the purpose of settlement of the Outstanding Payment.

Except for the conditions set out in the above (i) to (iii), the Company may at any time waive in whole or in part any of the conditions by written notice to the Seller. As at the date hereof, the Company has not received any notification from the Seller that there is any conditions precedent under the Sale and Purchase Agreement which cannot be satisfied and the Company does not anticipate a waiver of any condition precedent under the Sale and Purchase Agreement.

Seller's and Guarantor's Warranties : The warranties in the Sale and Purchase Agreement include, inter alia, accuracy of the information disclosed by the Seller and the Target Group, capacity of the Seller and the Guarantor, the Sale Shares and the Target Group, the accounts of the Target Companies, legal compliance and litigation of the Target Companies, the assets of the Target Companies, the net tangible asset value of the Target Group being not less than HK$950 million, the titles to intellectual property rights owned by the Target Companies, the information technology owned by or licensed to the Target Companies and the compliance of applicable laws and taxation legislation by the Target Companies.

The Guarantor warrants under the Sale and Purchase Agreement that each of the warranties given by the Seller is true and accurate and not misleading as at the date of the Sale and Purchase Agreement and as at the Completion Date.

No options granted to the Company	:	No option or other right is granted to the Company to sell all or any part of the Target Group back to the Seller, the Guarantor and their associates.
No changes to the Board or senior management	:	There is no proposed change to the Company's existing composition of the Board or the senior management upon completion.
Completion	:	Subject to the fulfillment or waiver of the conditions precedent to Completion, on the 5th Business Day following the fulfillment or waiver of all of the conditions precedent under the Sale and Purchase Agreement (other than those conditions that by their terms are intended to or may be fulfilled at Completion) at the Company's solicitors' office or at such other place and/or on such other date as the Company and the Seller may agree in writing.
Termination	:	If any of the obligations of the Seller or the Company under the Sale and Purchase Agreement is not complied with on the Completion Date, the party not in default may terminate the Sale and Purchase Agreement by notice to the other party without liability on its part, whereupon all of the provisions of the Sale and Purchase Agreement shall cease to have effect.
Application for Listing	:	An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares.

III. REASONS FOR AND THE BENEFITS OF THE ACQUISITION

Expanding the finished drugs business and reducing the reliance on contribution from the intermediates and bulk drugs

One of the main reasons of the Acquisition is to expand the Group's presence in the increasingly competitive finished drugs market in PRC. The Group is principally engaged in the manufacture and sale of pharmaceutical products and has two operational segments, namely, (i) intermediates and bulk drugs business and (ii) finished drugs business.

For the financial year ended December 31, 2011, the manufacture and sale of intermediates and bulk drug products, which include vitamin C series and antibiotics series, contributed 65.58% of the Group's overall revenue. These intermediates and bulk drugs are commodity-like products with volatile product prices and profit margins. With a substantial addition of production capacity of vitamin C and antibiotics in the industry, both the vitamin C and antibiotic markets have been increasingly facing excess market supply and low product price levels for recent years.

In contrast, the finished drugs market in PRC has been rapidly growing in the past decade. With its solid customer base and broad distribution network, the finished drugs business of the Target Group has significant growth potential. After the Acquisition, it is expected that contribution from the finished drugs business to the Group's business will increase, thus reducing the current reliance on intermediates and bulk drugs. The Directors believe that such a development could secure a more stable flow of business for, and reduce volatility in, the Group's finance performance.

Enhancing the product mix of the Group and providing growth drivers to the Group

In order to enhance the profitability of the Group, the Directors have continued to review its existing businesses and strived to improve the business operations of the Group by proactively seeking potential investment opportunities that could diversify its existing products portfolio. The Target Group manufactures a number of products which have enormous growth potential. The Target Group's pharmaceutical products, including "Butylphthalide Soft Capsules", "Azithromycin Capsules", and "Oxiracetam Capsules", are recognized products in the PRC pharmaceutical market and the Directors believe that they have significant growth potential. It is expected that these products will become the major growth drivers of the Group in the coming years.

Enlarging the earning base of the Group and relieving the existing pressure of the Group

The oversupply of both vitamin C and antibiotics series products in the market is expected to remain. In addition, government policies will continue to adversely affect the antibiotic industry. At present, the Group is faced with a difficult operating environment and has been incurring loss since the fourth quarter of 2011. For the six months ended June 30, 2012, the Group recorded audited loss after taxation of HK$130 million. Based on the audited accounts of each of CSPC OYY (excluding the CSPC OYY Subsidiaries), CSPC NBP and CSPC XNW for the financial year ended December 31, 2011, the profit-before-tax of these three companies are HK$201,918,000, HK$144,438,000 and HK$71,782,000, respectively. The Acquisition is expected to expand the earning base of the Group, enhance the Group's profitability and relieve the pressure imposed by the challenging market conditions faced by the Group.

Improving the overall competitiveness of the Group

Amid ongoing reforms in the pharmaceutical industry in the PRC, large companies are in better position to compete and benefit from government policies. The Acquisition will enable the Group to expand its presence in the market and better benefit from these market trends. The Company believes that the Acquisition will improve the overall competitiveness of the Group.

Based on the above, the Directors (excluding the independent non-executive Directors whose views will be included under the letter from the Independent Board Committee in this circular and the views of each of Mr. Cai Dongchen, Mr. Feng Zhengying, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin and Mr. Wang Zhenguo, who had abstained from voting on the resolutions of the Acquisition at the relevant board meeting) believe that the terms of the Transactions are on normal commercial terms, are fair and reasonable and are in the interests of the Company and its Independent Shareholders as a whole.

IV. RISK FACTORS OF THE ACQUISITION

The following are the main risks associated with the Acquisition:

Economic, political and social conditions in the PRC

As the market and all of the operations of the Target Group are located in the PRC, its business prospects, results of operations and financial performance are, to a great extent, subject to the economic, political and legal developments in the PRC.

While the PRC has been growing rapidly, it may not be able to sustain such a growth rate. In addition, any future calamities, including natural disasters, outbreaks of contagious diseases and political or social unrest may adversely affect the economic growth in the PRC and therefore the business and financial performance of the Target Group.

Losses leading to substantial damages resulting from product liability, personal injury or wrongful death claims

The nature of pharmaceutical business exposes the Target Group to the risk of product liability, personal injury or wrongful death claims, which are regulated by the PRC Civil law, the Product Quality Law of the PRC and the PRC Law of Consumer Rights Protection. A substantial claim or a substantial number of claims against the Target Group, if successful, or a general perception that its products may be defective, even if unjustified, could have a material adverse effect on its business and financial performance.

Research and development activities may not result in the successful development of a new product

The success of pharmaceutical business depends, to a large extent, on the ability to enhance existing products and to develop new products. The development process for pharmaceutical products is complex and uncertain, as well as time-consuming and costly. It is affected by many factors which are beyond the Target Group control, including failure to meet clinical safety, efficacy or other standards and requirements, failure to obtain regulatory approvals or inability to manufacture and commercialize sufficient quantities of the product economically. In addition, the Target Group cannot guarantee the market acceptance of its products. If its product development and research efforts fail to develop commercially successful products, its business and financial condition may be adversely affected.

Flexibility to raise or set prices is limited by state-imposed price control measures

The prices of certain pharmaceutical products in the PRC are subject to the control of the relevant state and provincial price administration authorities. The actual price for any given price-controlled product set by manufacturers, wholesalers and retailers cannot exceed the price ceiling imposed in accordance with the applicable government price control rules.

Hence, the Target Group may not be able to increase, at its discretion the prices of certain of their products above the controlled price ceiling without prior governmental approval and do not have unfettered freedom to maximize their profits.

Present or future environmental regulations or enforcement

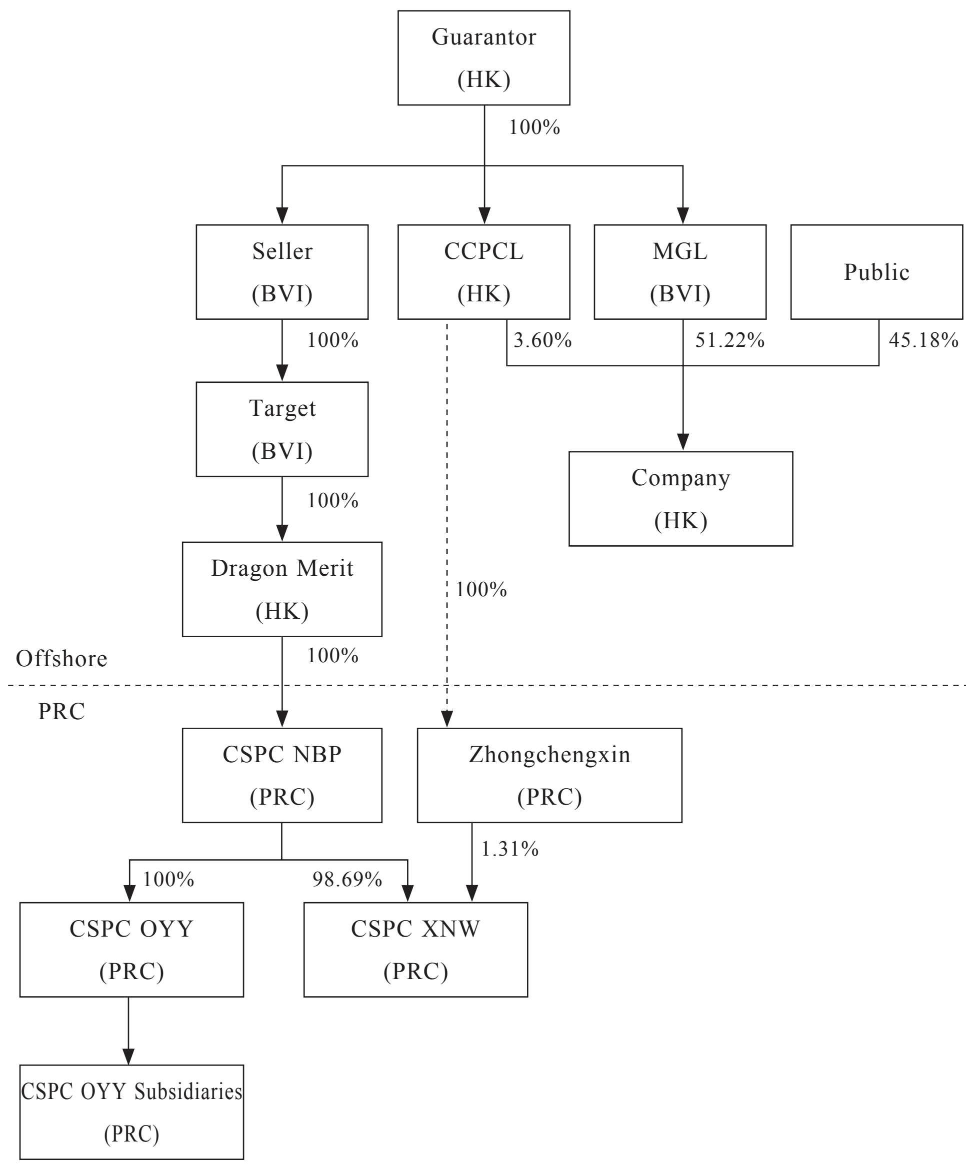
The production processes of the Target Group may produce sewage, industrial waste and toxic chemicals. Such chemicals may, if not properly handled, endanger the health of the Target Group's production personnel and the environment surrounding the production premises.

The operations of the Target Group are subject to environmental laws and regulations of the PRC. Changes, if any, in the relevant environmental laws and regulations could result in the Target Group having to incur substantial capital expenditure to replace, upgrade or supplement its existing facilities. If any such change occurs, there may be an adverse impact on the Target Group's business and profitability.

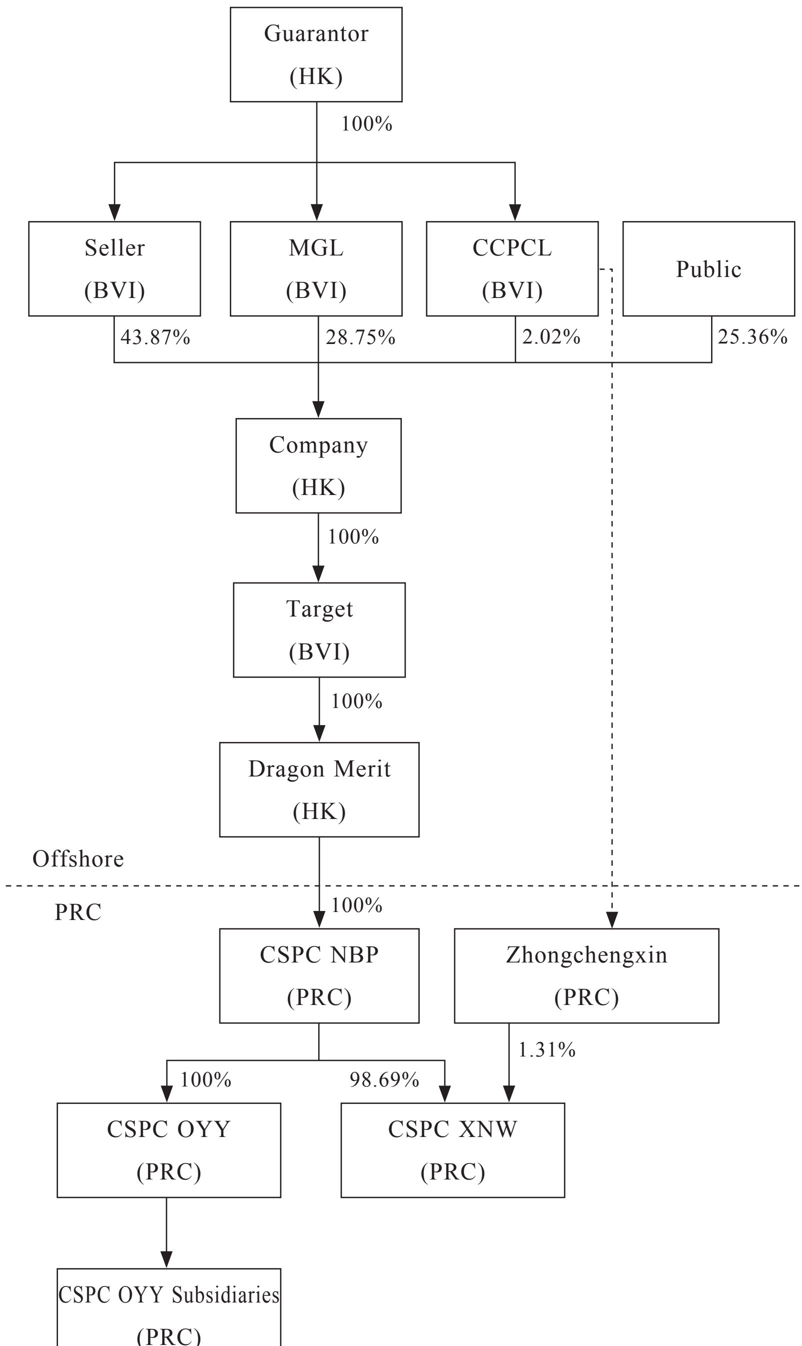
V. INFORMATION ON THE PARTIES

(a) Shareholding Structure of the Target Group

The following is the simplified shareholding structure of the Company and the Target as at the Latest Practicable Date:



The following is the simplified shareholding structure chart of the Company and the Target immediately following Completion (immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds):



(b) The Reorganization

For the purpose of the Acquisition, the Reorganization involved (i) a transfer of 75% equity interests in CSPC NBP from CSPC OYY to CCPCL, as a result of which CSPC NBP becomes a wholly-owned subsidiary of CCPCL; (ii) a transfer of 100% equity interests in CSPC NBP from CCPCL to Dragon Merit, as a result of which CSPC NBP becomes a wholly-owned subsidiary of Dragon Merit; (iii) a transfer of 100% equity interests in CSPC OYY from SPG to CSPC NBP, as a result of which CSPC OYY becomes a wholly-owned subsidiary of CSPC NBP; and (iv) transfer of 98.69% shares of CSPC XNW from SPG to CSPC NBP, as a result of which CSPC XNW becomes a non-wholly-owned subsidiary of CSPC NBP. The above mentioned transfers have been completed in accordance with the Reorganization plans in May 2012.

The shareholding structure of each of CSPC NBP, CSPC OYY and CSPC XNW before and after the Reorganization is set out in the table below:

	Before the Reorganization	**After the Reorganization**
CSPC NBP	as to 75% held by CSPC OYY; as to 25% held by CCPCL	100% held by Dragon Merit
CSPC OYY	100% by SPG	100% held by CSPC NBP
CSPC XNW	as to 98.69% held by SPG; as to 1.31% held by Zhongchengxin	as to 98.69% held by CSPC NBP; as to 1.31% held by Zhongchengxin

(c) Information on the Target Group

(i) The Group

The Group is principally engaged in the manufacture and sale of pharmaceutical products.

(ii) The Seller

The Seller, being an investment holding company, carries on the business of the manufacture and sale of pharmaceutical products through its subsidiaries.

(iii) The Guarantor

The Guarantor, also being an investment holding company carries on the business of manufacture and sale of pharmaceutical products through its subsidiaries.

(iv) The Target Group

The Target Group consists of CSPC OYY (and CSPC OYY Subsidiaries), CSPC NBP and CSPC XNW. The Target Group is mainly engaged in the manufacture and sale of Oxiracetam Capsule and Oxiracetam Powder Injection with a brand name "OuLaining", (Oxiracetam Capsule is a first-to-market generic drugs which treats dysmnesia and mental retardation resulting from mild to moderate vascular dementia, senile dementia and brain trauma and Oxiracetam Powder Injection is an exclusive formulation drug and has the same applicability as OuLaining Capsule), Levamlodipine Maleate Tablet with a brand name "Xuanning" (a patent drug which treats hypertension), Butylphthalide Soft Capsule and Butylphalide Injection with a brand have "NBP" (a Class I patent drug for treating acute ischemic stroke), patent or generic drugs as well as active pharmaceutical-ingredients (APIs) including azithromycin, caffeine, and aminophylline.

CSPC OYY (and CSPC OYY Subsidiaries)

CSPC OYY (and CSPC OYY Subsidiaries) has been established since 2001 and is principally engaged in the manufacture and sale of finished drugs and active pharmaceutical ingredients (APIs). It has advanced pharmaceutical manufacturing facilities designed in accordance with the GMP standard, and one of which also complies with United States Food and Drug Administration's current Good Manufacturing Practices. CSPC OYY owns "歐意" brand, which is among the "China Well-known Brands". The key pharmaceutical products of CSPC OYY (and the CSPC OYY Subsidiaries) include Oxiracetam with a brand name, "OuLaining" and Levamlodipine Maleate with a brand name, "Xuanning".

- "OuLaining" product series is available in the form of capsule and powder injection and its main active ingredient is Oxiracetam for the treatment of dysmnesia and mental retardation resulting from mild to moderate vascular dementia, senile dementia and brain trauma. OuLaining Capsule was the best selling oxiracetam capsule drug in PRC with market share of 57% in 2011, and was sold in approximately 2,000 hospitals. OuLaining Capsule is currently listed in the provincial reimbursed drug list in 12 provinces across the PRC. The powder injection form was launched by CSPC OYY in 2010, and is, as at the Latest Practicable Date, an exclusive formulation product in the market and has the same applicability as Ou Laining Capsule.

- "Xuanning" product series is available in the form of tablet (regular tablet) as well as dispersible tablet, and their main ingredient was Levamlodipine Maleate for the treatment of hypertension. CSPC OYY has obtained 4 patents in relation to preparation and medical use of Levamlodipine Maleate, including a United States granted preparation patent. "Xuanning" tablet is listed in the NRDL (2009) as well as the individual pricing drug catalogue. In addition, "Xuanning" was one of the leading products in China Levamlodipine market, accounting for 25% in terms of market share in 2011, and was sold in approximately 3,000 hospitals across the PRC for the same year.

CSPC NBP

CSCP NBP is a pharmaceutical enterprise in the PRC, primarily engaged in the research and manufacture of drugs relating to central nervous system. Its key product, "NBP" (Butylphthalide Soft Capsule and Butylphthalide Injection), is Class I patent drug in the PRC for the treatment of acute isechemic stroke. On December 23, 2009, Butylphthalide Soft Capsule was awarded the second-grade for the National Science and Technology Progress Award by the State Council of the PRC. As at the Latest Practicable Date, Butylphthalide Soft Capsule remains to be one of a small number of pharmaceutical products honoured with this award. As of May 31, 2012, CSPC NBP has applied for and obtained two patents with four patent applications pending in relation to preparation and medical use of Butylphthalide in the PRC.

Butylphthalide Soft Capsule became listed in the NRDL (2009) on November 27, 2009. Although Butylphthalide was listed in the Pricing Medicine Catalogue of National Development and Reform Commission ("**NDRC**") promulgated on March 5, 2010, the NDRC has not specified a maximum retail price for it. Therefore, as at the Latest Practicable Date, Butylphthalide Soft Capsule remains not subject to government price controls.

NRDL and the National Science and Technology Progress Award

To the best of the Company's knowledge, the admission of a pharmaceutical product to the NRDL and the National Science and Technology Progress Award are two different processes controlled by different governmental departments of the PRC. MOHRSS is the leading department which organizes and supervises the design and the update of the NRDL with assistance from SFDA and other governmental departments, whereas the award of the National Science and Technology Progress Award is organized by the Ministry of Science and Technology of the PRC. The exposure draft of《2009年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案》(The Program for the Revision of the NRDL of 2009*) published by MOHRSS on July 31, 2009 noted that 300 consultants are responsible for providing comments on the categorization of medicine and the establishment of the selection criteria for the NRDL (2009) whereas approximately 20,000 assessors are responsible for voting for the medicine to be admitted to the NRDL (2009). To the best of the Company's knowledge, (i) the admission of Butylphthalide Soft Capsule to the NRDL (2009) and the award of National Science and Technology Progress Award are unrelated to each other and (ii) none of the Company, CCPCL (the counterparty to the Asset Swap) and their respective associates were one of, or related to, those 300 consultants and 20,000 assessors. In addition, the National Science and Technology Progress Award is an honorary award, the Company considers it honorary for Butylphthalide Soft Capsule to be awarded with such award National Science and Technology Progress Award, nonetheless such award is insignificant in terms of increasing the sales of Butylphthalide Soft Capsule and irrelevant for Butylphthalide Soft Capsule to be admitted to the NRDL (2009).

In May 12, 1999, the Ministry of Labour and Social Security (which has been merged into MOHRSS) and six other government departments jointly published the notice in connection with the administration of the NRDL, which stated that the NRDL should in principle be updated once every two years. In 2004, the NRDL was updated for the first time since it was created. In July 22, 2009, the General Office of the State Council of the PRC published《醫藥衛生體制五項重點改革2009年工作安排》(Five Key Reform Working Arrangement for Healthcare System 2009*) noting that the update of NRDL shall be accomplished before the end of November 2009. On July 31, 2009, the exposure draft of《2009年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案》

(The Program for the Revision of the NRDL of 2009*) was published by MOHRSS. On November 27, 2009, the NRDL (2009) was promulgated (when Butylphthalide Soft Capsule was included). Since then, the NRDL has not been further updated.

The Company first became aware of the admission of Butylphthalide Soft Capsule to the NRDL (2009) on November 27, 2009 (the date when the NRDL (2009) with Butylphthalide Soft Capsule included was released). The Company did not submit or apply nor did it have the right to submit to the MOHRSS and SFDA with respect to the admission of Butylphthalide Soft Capsule to NRDL (2009), and the relevant PRC government entities do not accept any application for admission to the NRDL (2009) and do not permit private sector entities like the Company to be involved in such decision making process. In particular, none of the Company, its associates, and to the best of the Company's knowledge, CCPCL and its associates, was (i) in contact with the NRDL committee or any relevant government official regarding the admission or possible admission of Butylphalide Soft Capsule to the NRDL (2009) during the preparation of the NRDL (2009), and (ii) requested to provide any information on Butylphthalide Soft Capsule in such preparation process. Our PRC legal adviser, Dacheng Law Offices, is of the opinion that the relevant PRC government entities do not accept any application for admission to the NRDL and do not permit private sector companies to be involved in such decision making process. However, the update of the NRDL is initiated by the PRC government, Dacheng Law Offices has advised the Company that it is unable to speculate the timeline concerning the preparation and publication of a NRDL from the project announcement to the official publication of the revised NRDL. The principle administration provision governing the admission to the NRDL is set out in the exposure draft of《2009年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案》(The Program for the Revision of the NRDL of 2009*) published by MOHRSS on July 31, 2009, which stated that the update of the NRDL shall not be subject to any application or recommendation.

SPG submitted the application for the National Science and Technology Progress Award in February 2009. SPG submitted such application since the chance of CSPC NBP being awarded is higher given SPG's presence in the pharmaceutical industry in China and it was agreed between the Company and SPG that SPG shall submit such application for and on behalf of CSPC NBP. On June 2, 2009, the National Office for Science and Technology Awards announced that Butylphthalide Soft Capsule has passed the preliminary review. In mid-July, Butylphthalide Soft Capsule participated in the final review. On July 31, 2009, the National Office for Science Technology Awards published the recommended award list (subject to validation by the National Science and Technology Progress Award commission). The Company first became aware that Butylphthalide Soft Capsule is likely to be awarded on July 31, 2009. The State Council of the PRC awarded Butylphthalide Soft Capsule as a second-grade pharmaceutical product under the National Science and Technology Progress Award on December 23, 2009 (the date when such award was presented to SPG). The Company was not aware of any pending or likely award between the time the application was submitted (February 2009) and the date when the recommended award list was published by the National Office for Science and Technology Awards (July 31, 2009).

The Company and to the best of the Company's knowledge, CCPCL and its associates, had no knowledge about the fact that Butylphthalide Soft Capsule would be admitted or likely to be admitted to the NRDL (2009) and it was not aware of the admission or any pending admission of Butylphthalide Soft Capsule to the NRDL (2009) anytime before NRDL (2009) was published on November 27, 2009 and any pending or likely award of the National Science and Technology Progress Award between the time the application was submitted (February 2009) and the date when the recommended award list was published by the National Office for Science and Technology Awards (July 31, 2009).

In particular, the Company was not aware of such admission or award or any pending or likely admission or award when the Company contemplated or negotiated the Asset Swap in 2009 and, in particular, as at May 22, 2009 (the date of the announcement in respect of the Asset Swap) and July 3, 2009 (the date of the circular in respect of the Asset Swap) respectively.

The Company considered the inability for Butylphthalide Soft Capsule to be listed in the NRDL was an important factor for its failure to gain market share at the time of Asset Swap and was material information in the interests of the Shareholders to disclose in the announcement and the circular with respect to the Asset Swap. The National Science and Technology Progress Award is an honorary award to the Company but such award does not have an impact on the sales of Butylphthalide Soft Capsule or the future prospect of CSPC NBP or the admission of

Butylphthalide Soft Capsule to the NRDL, it was not in the interests of the Shareholders to disclose the application to the National Science and Technology Progress Award in the announcement and the circular with respect to the Asset Swap. The Board, having made all reasonable enquiries, confirms to the best of their knowledge and belief that the information contained in the Company's announcement of May 22, 2009 and the Company's circular of June 12, 2009 was accurate and complete in all material respects and not misleading as required by Rule 2.13 of the Listing Rules.

CSPC XNW

The PRC has accounted for 80% of the global supply for caffeine, and CSPC XNW is the largest supplier for caffeine in China for the year ended December 31, 2011. In 2011, CSPC XNW had caffeine production capacity of 11,000 tons per annum, and has exported 4,949 tons of caffeine, accounting for approximately 45% of the total caffeine exported by China in the year of 2011. Pursuant to the Regulations on the Control of Anesthetic and Psychoactive Drugs in China, enterprises engaged in the manufacturing of caffeine are required to be approved and supervised by the SFDA. Customers of CSPC XNW for its caffeine include international brand names, as well as global distributors.

(iv) Financial information of the Target Group

Based on the audited accounts of CSPC OYY, the net asset value of CSPC OYY was RMB377,794,000 as at December 31, 2011. The following is a summary of the revenue and net profits of CSPC OYY for the two financial years ended December 31, 2011:

	For the year ended December 31, 2010 *RMB'000*	**For the year ended December 31, 2011** *RMB'000*
Revenue	933,278	1,138,336
Net profits/(loss) before tax and extraordinary items	132,502	167,354
Net profits/(loss) after tax and extraordinary items	113,745	142,448

Based on the audited accounts of CSPC NBP, the net asset value of CSPC NBP was RMB220,426,000 as at December 31, 2011. The following is a summary of the revenue and net profits of CSPC NBP for the two financial years ended December 31, 2011:

	For the year ended December 31, 2010	**For the year ended December 31, 2011**
	RMB'000	*RMB'000*
Revenue	157,879	323,767
Net profits/(loss) before tax and extraordinary items	13,989	116,533
Net profits/(loss) after tax and extraordinary items	13,989	105,547

Based on the audited accounts of CSPC XNW, the net asset value of CSPC XNW was RMB235,164,000 as at December 31, 2011. The following is a summary of the revenue and net profits of CSPC XNW for the two financial years ended December 31, 2011:

	For the year ended December 31, 2010	**For the year ended December 31, 2011**
	RMB'000	*RMB'000*
Revenue	447,600	529,038
Net profits/(loss) before tax and extraordinary items	53,379	77,681
Net profits/(loss) after tax and extraordinary items	45,240	66,029

Based on the audited accounts of the CSPC OYY Subsidiaries, the aggregate net asset value of the CSPC OYY Subsidiaries was RMB71,006,676 as at December 31, 2011. The following is a summary of the revenue and net profits of the CSPC OYY Subsidiaries for the two financial years ended December 31, 2011:

	For the year ended December 31, 2010	**For the year ended December 31, 2011**
	RMB'000	*RMB'000*
Revenue	28,508	27,816
Net profits/(loss) before tax and extraordinary items	65	347
Net profits/(loss) after tax and extraordinary items	(468)	295

Note:

(1) The audited accounts of each of CSPC NBP, CSPC XNW and CSPC OYY were prepared in accordance with the generally accepted accounting principles in the PRC.

(2) The financial statements of CSPC NBP, CSPC OYY and CSPC XNW for the two years ended December 31, 2011 have not reflected the effect of the Reorganization.

(3) The financial statements of CSPC OYY for the two years ended December 31, 2011 have not included the financial information of CSPC OYY Subsidiaries nor the financial information of CSPC NBP.

The representations and warranties given by the Seller in the Sale and Purchase Agreement include, among other things, a warranty that the net tangible asset value of the Target Group will be no less than HK$950 million as of the Completion Date, which will be determined by the Company with reference to the supporting materials to be provided by the Seller (including the management accounts of the Target Group as of the Completion Date), and one of the conditions to Completion is all the warranties (including the warranty that the net tangible asset value of the Target Group will be no less than HK$950 million) under the Sale and Purchase Agreement being accurate until the Completion Date.

(v) Previous Disposal of CSPC NBP by the Company

Reference is made to the announcements and circular of the Company in relation to, among others, the disposal of CSPC NBP dated May 22, 2009, July 3, 2009 and June 12, 2009, respectively. Pursuant to the Asset Swap Agreement, the Company transferred its entire equity interest in CSPC NBP to CCPCL in exchange for the transfer of the entire equity interest in Hong Yuan from CCPCL to the Company. The consideration of the Asset Swap was HK$125,000,000 and was satisfied by the Company transferring its entire equity interest in CSPC NBP in exchange for CCPCL's entire equity interest in Hong Yuan. For the avoidance of doubt, CSPC NBP only became the shareholder of CSPC XNW and CSPC OYY after the Reorganization which took place in May 2012 and the entity disposed by the Company at the time of Asset Swap was CSPC NBP alone (without CSPC OYY and CSPC XNW being its subsidiaries) and the Acquisition is in respect of the entire Target Group which comprise CSPC OYY, CSPC NBP and CSPC XNW. The combined audited profit before tax of CSPC OYY Group, CSPC NBP and CSPC XNW for each of the three years ended December 31, 2011 and five months ended May 31, 2012 and the percentage attributable by each of CSPC OYY Group, CSPC NBP and CSPC XNW and their respective average attributions against their combined audited profit before tax for the three years and five months ended May 31, 2012 are set out below:

	For the year ended December 31, 2009		**For the year ended December 31, 2010**		**For the year ended December 31, 2011**		**For the five months ended May 31, 2012**		**Average**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
CSPC OYY Group	91,955	58.0	144,707	70.3	201,918	48.3	131,803	47.7	570,383	53.9
CSPC NBP	(10,654)	(6.7)	14,020	6.8	144,438	34.5	113,716	41.1	261,520	24.7
CSPC XNW	77,143	48.7	47,004	22.9	71,782	17.2	30,952	11.2	226,881	21.4
Combined audited profit before tax of CSPC OYY Group, CSPC NBP and CSPC XNW	158,444	100	205,731	100	418,138	100	276,471	100	1,058,784	100

Before the Asset Swap, the Group had been purchasing chemical products from Hong Yuan for the production of pharmaceutical products. The chemical products purchased from Hong Yuan were used as raw materials for the production of antibiotics, which was considered to be an opportunity to naturally grow its business since the acquisition of Hong Yuan would ensure a reliable supply of raw materials for the manufacture of pharmaceutical products of the Group at lower costs.

At the time of the Asset Swap, CSPC NBP was a loss making entity which had recorded losses (before and after taxation) of approximately RMB21.70 million and RMB20.49 million for the two years ended December 31, 2007 and December 31, 2008, respectively. The continued loss incurred by CSPC NBP at the time of Asset Swap was mainly due to low sales volume, high marketing costs, intense market competition and ineffective marketing and sales strategies. The Company's sales and distribution team focused on the marketing and sales of common generic finished drugs, such as amoxicillin capsules and ceftriaxone sodium injections, as opposed to Butylphthalide Soft Capsule, which is considered to be high-end drug and Butylphthalide Soft Capsule was the only drug of this nature within the Group at the time of the Asset Swap. The target end-users, the network required for and the nature of marketing, sales and distribution of generic finished drugs like amoxicillin capsules and ceftriaxone sodium injections and higher-end finished drugs like Butylphthalide Soft Capsule are different. Generic finished drugs of the Group will not be marketed amongst the top-tier national hospitals, instead they would be mostly marketed by tapping end-user market in county hospitals, township health centers and community healthcare service centers and since these generic finished drugs had been in the market for a longer period of time, in general no clinical introduction is required in respect of such drugs. On the other hand, high-end patent finished drugs like Butylphthalide Soft Capsule require to be marketed to the top-tier national hospitals and given that drugs of this nature are new to the pharmaceutical market, the sales and marketing team for such product needs to be equipped with sufficient knowledge and network to conduct clinical introduction to doctors and hospitals. Since Butylphthalide Soft Capsule was the only pharmaceutical product of this kind in the Group at the time of the Asset Swap, the Group lacked such sales and marketing force and technique and would have required substantial investment on the part of the Company in developing a market with sustainable volume and scale for Butylphthalide Soft Capsule.

After the Asset Swap, CSPC NBP recorded a loss (before and after taxation) of HK$10.65 million for the year ended December 31, 2009 as CSPC NBP did not have adequate marketing, sales and distribution capabilities at the time to develop the market for this product. In order to improve the sales of Butylphthalide Soft Capsules and the business operations of CSPC NBP, SPG had, in 2010 and 2011, implemented a number of measures including (i) the reorganization of its management structure by appointing CSPC OYY's general manager as CSPC NBP's general manager; (ii) the integration of the sales and distribution system of CSPC NBP with that of CSPC OYY; (iii) the restructuring and expansion of its sales force by selecting and assigning about thirty of the most experienced sales and management team members of CSPC OYY Group to CSPC NBP so that CSPC NBP is equipped with a sales and management team experienced in marketing high-end drugs to establish its own sales force; and (iv) the provision of investment funds by way shareholder's loan to CSPC NBP in an aggregate amount of RMB115 million (equivalent to HK$140 million). After the implementation of the improvement measures, SPG together with CSPC OYY (i) assisted CSPC NBP to increase the efficiency of the sales force and expand the hospital coverage, (ii) enhanced the sales and marketing capabilities of CSPC NBP by hiring additional staff and implementing staff training programs, (iii) coordinated and arranged academic presentations with higher tier hospitals and medical experts to enhance the penetration rate of Butylphthalide Soft Capsule in different regions of China after it was admitted to the NRDL (2009), and (iv) invested significantly in academic research and clinical trials to raise the profile within the medical industry of CSPC NBP and its products. As a result of these efforts, CSPC NBP's financial performance began to improve and it recorded a modest profit after taxation of RMB13.99 million in 2010. The changes implemented at CSPC NBP began to yield significant results in 2011 when its profits after taxation increased significantly to RMB105.55 million in 2011.

CSPC OYY is a subsidiary of SPG which had been in operation since 2001 and had a professional marketing and sales force with extensive experience in promoting and selling high-end finished drugs like "Xuanning" and "OuLaining" and a nationwide distribution network, including a strong coverage within national hospitals.

At the time of the Asset Swap, the Company was not aware of the pending admission of the Butylphthalide Soft Capsule to the NRDL (2009) nor did it submit or apply or have the right to submit to the MOHRSS and SFDA with respect to the admission of Butylphthalide Soft Capsule to NRDL (2009) because the relevant government entities do not accept any application for admission to the NRDL (2009) and do not permit private sector entities like the Company to be involved in such decision making process. Even though finished drug has been one of major segmental operations of the Group and the Group had intention to and expanded its sales force and stepping up end-users marketing efforts to expedite the development of new finished drugs products at the time of Asset Swap. However, given that CSPC NBP had been making losses since its inception and that it lacked the sales and marketing force and technique in developing the market for Butylphthalide Soft Capsule, it would have required substantial investment on the part of the Company at the time of the Asset Swap to develop such marketing, sales and distribution capabilities and to continue to fund the operations of CSPC NBP.

Based on their knowledge at the time of the Asset Swap, the Directors believed that the risks of additional investment in CSPC NBP were very high. The Directors were of the view that the Asset Swap was fair and reasonable and in the interests of its Independent Shareholders as the transaction would (i) relieve the Company of the burden of further funding the operations of CSPC NBP and the investment required to develop the market for its products, and (ii) helped the Company gain a reliable, lower cost supply of raw materials for its core business of manufacturing bulk drugs.

The Directors at the time of the Asset Swap conducted appropriate due diligence in evaluating the Asset Swap, including reviewing the financial performance of CSPC NBP and holding several meetings with management to discuss the business and financial prospects of CSPC NBP. The performance of CSPC NBP after the Asset Swap were largely due to (i) the admission of the Butylphthalide Soft Capsule to the NRDL (2009), which was not foreseeable at the time of the Asset Swap, and (ii) the improvement efforts made by SPG and CSPC OYY in CSPC NBP and the synergy achieved through integrating the sales and distribution system of CSPC NBP with that of CSPC OYY, which was not within the control of the Company. The Directors exercised their commercial judgment with respect to the Asset Swap based on their best knowledge at the time and were of the opinion that their decision was reasonable in light of the known facts and circumstances at the time.

VI. SHAREHOLDING STRUCTURE

The following chart depicts the effects of the issue of the Consideration Shares and the Conversion Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming issuance of the maximum number of Consideration Shares and the exercise in full of conversion rights attaching to the Convertible Bonds at the Conversion Price, assuming no further Shares would be issued after the Latest Practicable Date and prior to Completion:

Name of Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds *(Note 1)*		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming issuance of the maximum number of Conversion Shares and no adjustment to the principal amount of the Convertible Bonds and the Conversion Price – for illustration purpose only, as this would not happen given that there will not be sufficient Public Float) *(Notes 1, 2 & 3)*		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares to the extent that immediately after such conversion, there will be a sufficient Public Float *(Notes 1, 2 & 3)*	
	No. of Shares	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*
Seller	—	—	1,195,655,037	43.87	4,315,773,841	78.83	1,235,226,411	44.67
MGL (and other associates of the Seller)	838,518,393	54.81	838,518,393	30.77	838,518,393	14.34	838,518,393	30.33
Sub-total for the Seller Group	838,518,393	54.81	2,034,173,430	74.64	5,154,292,234	88.17	2,073,744,804	75.00
Public Shareholders	691,248,268	45.19	691,248,268	25.36	691,248,268	11.83	691,248,268	25.00
Total	1,529,766,661	100	2,725,421,698	100	5,845,540,502	100	2,764,993,072	100

Notes:

1. The number of Consideration Shares to be allotted and issued upon Completion is calculated using the Consideration Shares Amount of HK$2,271,744,570.30 and the Issue Price of HK$1.90.

2. The number of Conversion Shares to be allotted and issued upon the conversion of the Convertible Bonds is calculated by converting the principal amount into Hong Kong dollars at the exchange rate of US$1.00 to HK$7.80 using the initial Conversion Price of HK$2.15. The number of Shares to be rounded down to the nearest whole number if applicable.

3. The shareholding structure is shown for illustration purpose only and may not be exhaustive. Pursuant to conversion restrictions under the terms and conditions of the Convertible Bonds, no conversion right may be exercised to the extent that, immediately after such conversion, there will not be a sufficient Public Float.

VII. FINANCIAL PROSPECTS OF THE GROUP

As mentioned in the annual report of the Company for the year ended December 31, 2011, market conditions remain difficult in 2012. The vitamin C business continues to face excessive market supply and declining product prices. The antibiotic business continues to be adversely affected by excessive market supply and government policies. Despite a modest rebound in the product prices of certain antibiotic products in the second quarter of the 2012, the price levels and profit margins for the antibiotic products remain low in general. Similarly, the finished drug business continues to be affected by fierce market competition and government policies, resulting in a slowdown in sales and a decrease in related profit margins.

Under these difficult market conditions, the Group continues to incur loss in its financial results. As announced by the Company on May 4, 2012, the Company recorded an unaudited consolidated loss attributable to owners of the Company of HK$85,032,000 for the three months ended March 31, 2012.

The Group will continue to strengthen its market competitiveness by improving its production technology, reducing its production cost, enhancing its product mix and developing new markets. The Group expects that these initiatives will alleviate the adverse impact of the existing challenges faced by the Group.

As at the Latest Practicable Date, the Board does not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any injections of assets and/or business from the Company's controlling shareholders and its associates.

VIII. PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued the Target Group's property interests as at June 30, 2012 and is of the opinion that the aggregate capital value of the Target Group's property interests as at such date was RMB535,730,000 (equivalent of HK$653,329,000). The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix V to this circular.

As required under Rule 5.07 of the Listing Rules, the table below sets forth the reconciliation of the carrying values of the Target Group's property interests as at May 31, 2012 with the valuation of such interests as at June 30, 2012 as set out in Appendix V to this circular.

	HK$'000
Carrying values of the Target Group's property interests as at May 31, 2012	507,139
Additions during the one month ended June 30, 2012	7,127
Less: Depreciation	(1,844)
Carrying values as at June 30, 2012	512,422
Valuation surplus as at June 30, 2012	140,907
Valuation as at June 30, 2012	653,329

IX. FINANCIAL EFFECTS OF THE ACQUISITION

The unaudited pro forma financial information of the Enlarged Group illustrating the financial effects of the Acquisition is set out in Appendix IV headed "Unaudited pro forma financial information of the Enlarged Group" to this circular.

(a) Assets and Liabilities

According to the 2012 interim report of the Company, the unaudited consolidated total assets and liabilities of the Group as at June 30, 2012 were approximately HK$10,335.27 million and HK$4,507.37 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on June 30, 2012, the unaudited pro forma consolidated total assets and liabilities of the Enlarged Group would be approximately HK$13,469.59 million and HK$12,107.41 million respectively. The unaudited pro forma consolidated total liabilities of HK$12,107.41 million has taken into account pro forma adjustment in relation to the fair value of the Convertible Bonds of HK$5,289.76 million. The Convertible Bonds are classified as financial liabilities in the unaudited pro forma financial information of the Enlarged Group. The Convertible Bonds will be classified as equity when the potential downward adjustment (if any) to the principal amounts is ascertained.

(b) Earnings

According to the 2011 annual report of the Company, the Group recorded an audited consolidated profit of approximately HK$250.45 million for the year ended December 31, 2011. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on January 1, 2011, the unaudited pro forma consolidated profit of the Enlarged Group would be approximately HK$5,246.99 million for the year ended December 31, 2011. The unaudited pro forma consolidated profit of HK$5,246.99 million has taken into account pro forma adjustments in relation to i) gain on bargain purchase of HK$2,454.57 million (which arises as a result of the application of purchase method of accounting to effect a "reverse acquisition", details of which are set out in note 2(c) of Appendix IV); and ii) fair value changes of Convertible Bonds of HK$2,173.95 million. The Convertible Bonds classified as financial liabilities at fair value through profit and loss will be measured at fair value at each report date with the movement in fair value recognized in the profit and loss of the Enlarged Group for that reporting period. In light of the prospects of the pharmaceutical business of the Target Group, the Directors are of the view that the Acquisition would likely to have a positive impact on the future earnings of the Enlarged Group.

X. THE CAPITAL INCREASE

As at the Latest Practicable Date, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares of a par value of HK$0.10 each, of which 1,529,766,661 Shares are in issue. In order to accommodate the expansion plans of the Group as well as the issue of the Consideration Shares and the Conversion Shares, the Board proposes to increase the authorised share capital of the Company from HK$300,000,000 divided into 3,000,000,000 Shares to HK$3,000,000,000 divided into 30,000,000,000 Shares. The Capital Increase is conditional upon, among other things, the approval by way of an ordinary resolution of the Shareholders at the EGM.

XI. IMPLICATIONS UNDER THE LISTING RULES

(a) Very substantial acquisition and connected transaction

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules and will accordingly be subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Seller, a wholly-owned subsidiary of the Guarantor (which is interested in approximately 54.81% of the issued share capital of the Company at the Latest Practicable Date through MGL and CCPCL), is a connected person of the Company. Accordingly, the Acquisition will also constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Associates of the Seller (which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries are MGL, a 51.22% shareholder of the Company, CCPCL, a 3.60% shareholder of the Company, Mr. Cai Dongchen, a 0.29% shareholder of the Company and Mr. Chak Kin Man, a 0.00026% shareholder of the Company) which have material interests in the Acquisition are required to abstain from voting on the relevant resolutions relating to the Acquisition at the EGM.

Mr. Wang Shunlong, an executive Director also holds a position as director in MGL. Each of Mr. Cai Dongchen, Mr. Chak Kin Man and Mr. Pan Weidong, being an executive Director, also holds a position as director in CCPCL. As disclosed in "Appendix VI — 3. DISCLOSURE OF INTERESTS" of this circular, Mr. Cai Dongchen and Mr. Chak Kin Man are the shareholders. In addition, as disclosed in "Appendix VI — 7. MATERIAL INTERESTS IN CONTRACT AND ASSET OF THE GROUP", Mr. Cai Dongchen and Mr. Chak Kin Man will abstain from voting in the EGM. Mr. Wang Shunlong and Mr. Pan Weidong do not have any shareholding in the Company.

(b) Potential Continuing Connected Transactions

Prior to the Acquisition, certain members of the Target Group, including CSPC NBP, CSPC OYY Group and CSPC XNW, have been providing and procuring products to and from the SPG Group in their ordinary and usual course of business and based on arm's length commercial terms. It is expected that upon Completion, the Group will procure from the SPG Group pharmaceutical raw materials and the SPG Group will purchase from the Group raw materials and finished products, including but not limited to, the products of the penicillins, cephalosporins products, health care products, traditional Chinese medicine injection, hydrochloride lincomycin injection, Butylphthalide Soft Capsules and caffeine products. Pursuant to Rule 14A.11 of the Listing Rules, SPG and its subsidiaries are connected persons of the Company and as such, the provision and procurement of the products to and from such connected persons will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules (the "**Potential Continuing Connected Transactions**").

As disclosed in the announcements of the Company in relation to continuing connected transaction dated August 23, 2010 and January 10, 2011, respectively the Company's subsidiaries, Zhongnuo and Yinhu had respectively entered into two master sales agreement (together, the "**Master Sales Agreements**") with Aipu and Zhongcheng regarding the sale and purchase of certain pharmaceutical products. As the underlying transactions under the Master Sales Agreements and the Potential Continuing Connected Transactions were entered into with the parties connected or otherwise associated with one another, the transactions entered into with such connected parties will be categorized as the same class of transactions and will be aggregated into a series of continuing connected transactions for the purpose of calculating the relevant annual caps.

Based on the above, the Company is in negotiation with the SPG Group regarding a mutual supply framework agreement, which will govern all the Potential Continuing Connected Transactions and the transactions underlying the Master Sales Agreements pursuant to the Listing Rules and which will be subject to reporting, announcement, annual review or independent shareholders' approval requirements, where applicable.

In respect of the Potential Continuing Connected Transactions, the Company intends to enter into the mutual and supply framework agreement in respect of the Potential Continuing Connected Transactions on the Completion Date and confirms that it will observe and comply with all relevant requirements under Chapter 14A and all other applicable requirements under the Listing Rules.

XII. EGM

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, except for MGL, CCPCL, Mr. Cai Dongchen and Mr. Chak Kin Man, which have material interests in the Acquisition, no Shareholders will be required to abstain from voting in relation to the resolution to approve, among other things, the Acquisition and the transactions contemplated thereunder at the EGM.

No Shareholders will be required to abstain from voting on the relevant resolution to approve the Capital Increase.

By virtue of an arrangement as disclosed in the circular jointly issued by the Company, Legend Holdings and MGL dated July 19, 2007, Legend Holdings is entitled to exercise or control the exercise of all the Shares held by MGL in the Company, representing approximately 51.22% of the issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed above, to the extent that the Company is aware and having made all reasonable enquiries, as at the Latest Practicable Date, there is no voting trust or other agreement, arrangement or understanding entered into by or binding upon any Shareholders and none of the Shareholders is subject to any obligation or entitlement, whereby such Shareholder has or might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, whether generally or on a case-by-case basis.

XIII. RECOMMENDATION

On the basis of the information set out in this circular, the Directors (excluding the independent non-executive Directors whose view will be included in the letter from the Independent Board Committee set forth separately in this circular) are of the opinion that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and its Independent Shareholders as a whole. The Directors recommend that Shareholders vote in favour of the resolutions as set out in the notice of EGM to approve, among other things, the Acquisition and other transactions contemplated under the Sale and Purchase Agreement at the EGM.

XIV. FURTHER INFORMATION

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

Yours faithfully,
By Order of the Board
China Pharmaceutical Group Limited
Cai Dongchen
Chairman

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)

September 27, 2012

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ROBUST SUN HOLDINGS LIMITED

We refer to the circular issued by the Company to the Shareholders dated September 27, 2012 (the "Circular") which this letter forms a part of. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the terms and conditions of the Acquisition and to advise the Independent Shareholders in respect of the proposed Acquisition. China Galaxy International Securities (Hong Kong) Co., Limited has been appointed by us as the Independent Financial Adviser in respect of the proposed Acquisition.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms and conditions of the Acquisition are on normal commercial terms and are fair and reasonable and are in the interests of the Company and its Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions approving the Acquisition at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Mr. Huo Zhenxing;
Mr. Qi Moujia;
Mr. Guo Shichang; and
Mr. Chan Siu Keung, Leonard
Independent Non-executive Directors

The following is the full text of the letter from China Galaxy International Securities (Hong Kong) Co., Limited which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.

Room 3501-3507, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

27 September, 2012

*To: The Independent Board Committee and
the independent shareholders of China Pharmaceutical Group Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the Acquisition, details of which are contained in the circular of the Company (the "Circular") to the Shareholders dated 27 September 2012, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 17 June 2012, the Company entered into the Sale and Purchase Agreement with the Seller and the Guarantor, pursuant to which the Company conditionally agreed to acquire, and the Seller conditionally agreed to sell, the entire issued share capital of Robust Sun Holdings Limited (the "Target"), the holding company of CSPC OYY Group, CSPC NBP and CSPC XNW (together the "Target Group"). The Target Group engaged in research, production and sale of pharmaceutical products in the PRC. Given one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules exceeds 100%, the Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and will accordingly be subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Since the Seller is a wholly-owned subsidiary of the Guarantor which is indirectly interested in approximately 54.81% of the issued share capital of the Company at the date of the Circular, the Seller is therefore a connected person of the Company. Accordingly the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Associates of the Seller (including MGL, CCPCL, Mr. Cai Dongchen and Mr. Chak Kin Man) are required to abstain from voting on the relevant resolutions relation to the Acquisition at the EGM.

The Independent Board Committee comprising Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

This letter is issued for the information for the Independent Board Committee and Independent Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder. Except for its inclusion in the Circular, the letter shall not be quoted or referred to, in whole or in part, nor be used for any other purposes, without our prior written consent.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be accurate as 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 Directors and the management of the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group, the Target Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of China Galaxy International is to ensure that such information has been correctly extracted from the relevant sources.

BACKGROUND OF THE TRANSACTION

A. INFORMATION ON THE GROUP

1. Business and history of the Group

The Group is principally engaged in the manufacture and sale of pharmaceutical products, and primarily offers intermediate products (core chemical components for the production of bulk drugs) and bulk drugs including vitamin C series and antibiotic series (penicillin type and cephalosporin type). Bulk drugs (or known as active pharmaceutical ingredients, "APIs") and intermediate products are primarily raw materials in bulk powder form. Products of vitamin C series can be used as food additives and ingredients for health supplement products. Products of antibiotic series are intermediaries or bulk drugs which require further processing into finished drugs. The Group serves both the domestic and export markets for its intermediate and bulk drugs products.

Finished drugs are products in the final form (including capsules, injections, infusion solutions and tablets) and are readily used by end consumers. The Group entered into the finished drugs business in 2002 through acquisition, and now mainly offers common generic finished drugs primarily consist of antibiotics and vitamin C health supplement pills.

2. Financial results and position of the Group

The following financial information is extracted from the annual reports of the Company for each of the three years ended 31 December 2009, 2010 and 2011, and the interim reports of the Company for the six months ended 30 June 2011 and 2012:

Table 1:

	For the year ended 31 December			For the six months ended 30 June		Growth rate		
						YoY		6 months
	2009	2010	2011	2011	2012	2010	2011	2012
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)			
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*			
Sales	7,031,601	7,774,424	7,379,481	4,174,143	3,172,272	10.56%	-5.08%	-24.00%
Gross profit	2,267,293	2,273,587	1,481,538	997,991	423,107	0.28%	-34.84%	-57.60%
Gross profit margin	*32.24%*	*29.24%*	*20.08%*	*23.91%*	*13.34%*			
Profit/(Loss) before tax	1,125,810	964,774	314,361	344,473	(118,289)	-14.30%	-67.42%	-134.34%
Net profit/(Loss)	983,034	774,811	250,449	275,725	(130,374)	-21.28%	-67.68%	-147.28%
Net profit margin	*13.98%*	*9.97%*	*3.39%*	*6.61%*	*-4.11%*			

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	(Audited)	**(Audited)**	**(Audited)**	**(Unaudited)**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Total Equity	5,329,463	5,876,440	6,043,140	5,827,893

As set out in the table above, the operating results of the Group were in general not satisfactory in recent years, and deteriorated significantly in 2011 and the first six months of 2012, under the overall difficult business and regulatory environment. Total sales of the Group increased by approximately 10.6% in 2010, but decreased by approximately 5.1% in 2011. Net profit of the Group decreased by 21.3% in 2010, and further by 67.7% in 2011. The Group generated total sales of approximately HK$3,172 million and a net loss of approximately HK$130 million (unaudited) in the first six months of 2012, representing a decrease of approximately 24.0% and 147.3%, respectively, from the corresponding period of 2011. The following sets out the segment results of the Group extracted from its annual and interim reports:

Table 2:

	For the year ended 31 December						For the six months ended 30 June				Growth rate		
											YoY		6 months
	2009		2010		2011		2011		2012		2010	2011	2012
	(Audited)		(Audited)		(Audited)		(Unaudited)		(Unaudited)				
	(HK$'000)	*(%)*	*(HK$'000)*	*(%)*	*(HK$'000)*	*(%)*	*(HK$'000)*	*(%)*	*(HK$'000)*	*(%)*			
Sales:													
Vitamin C series	2,229,797	29%	2,075,553	23%	1,748,478	21%	978,517	21%	654,047	20%	-6.92%	-15.76%	-33.16%
Antibiotics series	2,993,930	39%	4,150,832	46%	3,898,101	46%	2,261,386	47%	1,330,801	40%	38.64%	-6.09%	-41.15%
Finished drugs	2,188,596	28%	2,276,340	25%	2,422,649	29%	1,364,192	28%	1,246,885	38%	4.01%	6.43%	-8.60%
Others	283,093	4%	456,828	5%	376,467	4%	203,127	4%	60,176	2%	61.37%	-17.59%	-70.38%
Segment total	7,695,416	100%	8,959,553	100%	8,445,695	100%	4,807,222	100%	3,291,909	100%	16.43%	-5.74%	-31.52%
Eliminations	(663,815)		(1,185,129)		(1,066,214)		(633,079)		(119,637)				
Total sales	7,031,601		7,774,424		7,379,481		4,174,143		3,172,272		10.56%	-5.08%	-24.00%
Segment Profit/(Loss):													
Vitamin C series	1,119,996	86%	715,935	62%	183,029	39%	161,226	37%	(12,763)	30%	-36.08%	-74.43%	-107.92%
Antibiotics series	32,516	2%	259,058	22%	105,362	22%	136,356	32%	(103,145)	243%	696.71%	-59.33%	-175.64%
Finished drugs	142,169	11%	176,033	15%	184,974	39%	134,530	31%	73,842	-174%	23.82%	5.08%	-45.11%
Others	12,029	1%	3,555	0%	(1,813)	0%	834	0%	(442)	1%	-70.45%	-151.00%	-153.00%
Total segment profit/(Loss)	1,306,710	100%	1,154,581	100%	471,552	100%	432,946	100%	(42,508)	100%	-11.64%	-59.16%	-109.82%

Vitamin C series

The segment revenue and segment profit of the Group's Vitamin C series decreased by 6.9% and 36.1% in 2010 and further by 15.8% and 74.4% in 2011. During the six months ended 30 June 2012, the Group recorded a drop of 33.2% in the segment revenue and incurred a segment loss of approximately HK$13 million, representing a 107.9% decline as compared to the same period of 2011. As advised by the Directors, the decrease in segment revenue and segment profit was primarily due to the significant price reduction of vitamin C during the period caused by oversupply in the market. With the capacity expansion of major players and the construction of new production capacities by new entrants in China, the vitamin C industry has been facing serious excess capacity in recent years. Such excess capacity has led to a continuing and significant drop in the selling prices of vitamin C products. As mentioned in the Company's 2010 and 2011 annual reports, the average selling prices of the major vitamin C products have decreased by approximately 30% in 2010 and further 29% in 2011 as compared to the respective previous year. The prices continued to decline significantly in the first half of 2012 as compared to the same period in 2011. The continued drop in the selling prices has significantly eroded the profit margin of this segment and led to a serious deterioration of its results since 2010.

Antibiotics series

The segment revenue and segment profit of the Group's of Antibiotics series increased by 38.6% and 696.7% in 2010, but decreased by 6.1% and 59.3% in 2011. During the six months ended 30 June 2012, the Group recorded a further drop of 41.2% in the segment revenue and incurred a segment loss of approximately HK$103 million, representing a 175.6% decline as compared to the same period of 2011. As advised by the Directors, the increase in segment revenue and profit in 2010 was primarily due to the increased contribution from cephalosporin products (including 7-ACA, GCLE, cefuroxime sodium and cefazolin sodium). Such growth was achieved by capacity expansion, improved production technology and extension of product chain of the Group. The decrease in segment revenue and profit in 2011 and during the six months ended 30 June 2012 was primarily due to market competition and government policies. With the capacity expansion by other players in the PRC, the business was faced with serious excess supply. Coupled with certain unfavourable government policies in China (including the promulgation of the "Administrative Measures on the Clinical Use of Antibacterial Drugs" or "抗菌藥品臨床應用管理辦法" and the drug tender system which was oriented towards the lowest-price bidder), the operating environment for antibiotics in China has become very difficult since 2011, resulting in a significant drop in selling prices and slowdown in market demand. Such factors have led to the deterioration of the segment results of this business segment in 2011 and during the six months ended 30 June 2012.

Finished drugs

The segment revenue and segment profit of the Group's of finished drugs business increased by 4.0% and 23.8% in 2010 and further by 6.4% and 5.1% in 2011. The increase in segment revenue and profit was primarily due to the Group's effort to expand sales to end-user customers and the increased contribution from products with higher profit margin (including meropenem injections and Chinese medicine injections) during the period. However, with the promulgation of the "Administrative Measures on the Clinical Use of Antibacterial Drugs (Consultation Draft)" or "抗菌藥物臨床應用管理辦法(徵求意見稿)", more stringent control was imposed on the use of antibacterial drugs. Moreover, with the drug tender system oriented towards lowest-price bidder, tender price and purchase volume of antibiotic drugs both dropped significantly in 2011. These factors have led to a more difficult operating environment of this segment in 2011 and the six months ended 30 June 2012. Accordingly, the segment revenue and segment profit of this business segment decreased by 8.6% and 45.1%, respectively, during the six months ended 30 June 2012 as compared to the same period in 2011.

3. Outlook

The Directors believe that the market conditions of all its business segments will remain difficult in the near future (in particular the excessive market supply and pressure on selling price in relation to vitamin C products, and the fierce market competition caused by excessive market supply and unfavorable government policy in relation to antibiotics), and the overall operating results of its existing business (which focuses primarily on the commodity like bulk drugs and intermediate products and common generic finished drugs) will continue to be under pressure.

B. THE ACQUISITION

1. Background of the Acquisition

On 17 June 2012, the Company (as buyer) entered into the Sale and Purchase Agreement with the Seller and the Guarantor, pursuant to which the Company conditionally agreed to acquire, and the Seller conditionally agreed to sell, the Sale Share, being the entire issued share capital of the Target for a total consideration of HK$8,980,000,000.

The Consideration is subject to potential downward adjustment and shall be satisfied by the Company in the following manner: (i) the Consideration Shares Amount of HK$2,271,744,570.30 to be paid by way of allotment and issue of the Consideration Shares on the Completion Date; and (ii) the Convertible Bonds Amount of HK$6,708,255,429.70 to be paid by way of issue of the Convertible Bonds on the Completion Date.

Subsequent to the Sale and Purchase Agreement, the Target completed a capitalization issue (the "Capitalization Issue") to facilitate the injection of a total sum of RMB639,800,000 by the Seller Group to the Target Group, by way of the issue of one (1) ordinary share in the capital of the Target to the Seller. The Capitalization Issue was principally for providing the required funds to settle an outstanding payment of RMB637,393,300 ("the Outstanding Payment") owed by the Target Group to the Seller Group, which arose as a result of a series of reorganization steps (the "Reorganization") taken by the Seller to facilitate the Acquisition and which the parties agreed was resulting from the Reorganization and should not be borne by the Company. (Please refer to the Letter from the Board in the Circular for further details.) On 24 September 2012 the parties to the Sale and Purchase Agreement entered into the Amendment Agreement to reflect the aforesaid increase of the entire issued share capital of the Target by one (1) ordinary share.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company.

2. Principal terms of the Acquisition

Principal terms of the Sale and Purchase Agreement and our analysis are set out below.

a. Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration is HK$8,980,000,000. The Consideration is subject to adjustment based on the Target Group achieving a net profit of HK$600 million and HK$800 million for the year ending 31 December 2012 and 31 December 2013, respectively, or in certain limited force majeure circumstances as defined in the Circular, the year ending 31 December 2014. On such basis, the Consideration is effectively in the range of HK$2,271,744,570.30 to HK$8,980,000,000. Details of the adjustment are set out in the Letter from the Board in the Circular.

As stated in the Letter from the Board in the Circular, the Consideration of HK$8,980,000,000, subject to adjustment as stated above, was arrived at after arm's length negotiations between the Company and the Seller having taken into account factors including (i) historical profit growth of the Target Group; (ii) the nature and scope of the business and future prospect of the Target Group including its presence in the high-end finished drugs business; (iii) the potential adjustment to the Consideration in the event that benchmark level of net profit of the Target Group for the year ending 31 December 2012 and 2013 are not met; and (iv) the price to earnings multiple of securities of certain listed companies considered by the Directors of having businesses comparable to that of the Target Group.

b. Method of Funding

The Consideration, subject to adjustment, is expected to be satisfied in the following ways:

(i) Consideration Shares: HK$2,271,744,570.30, or 25.30% of the Consideration, will be satisfied by allotment and issue of 1,195,655,037 Consideration Shares at HK$1.90 per Share; and

(ii) Convertible Bonds: HK$6,708,255,429.70, or 74.70% of the Consideration, will be satisfied by issue of Convertible Bonds with the Conversion Price at HK$2.15, subject to adjustment, on the Completion Date. The Convertible Bonds will consist of two tranches: (1) Tranche I Bonds in an aggregate principal amount of US$774,029,472.70 (approximately HK$6,037,429,887.06); and (2) Tranche II Bonds in an aggregate principal amount of US$86,003,274.70 (approximately HK$670,825,542.66).

The principal terms of the Convertible Bonds are set out in the Letter from the Board in the Circular. Tranche I Bonds will become convertible only after the announcement of the Company's consolidated financial results for the year ending 31 December 2012; and Tranche II Bonds will become convertible only after the announcement of the Company's consolidated financial results for the year ending 31 December 2013 or, in certain limited force majeure circumstances, the year ending 31 December 2014. Conversion of the Convertible Bonds is also subject to a further requirement that the Public Float of the Company must at all times comply with the requirements of Rule 8.08 of the Listing Rules (the current requirement of which is not less than 25%).

The Initial Maturity Date of the Convertible Bonds will be the fifth anniversary of the date of issue of the Convertible Bonds. If any Outstanding Bonds at the Initial Maturity Date cannot be converted as a result of the minimum Public Float requirement described above, then the maturity date will be extended to the last Business Day (as defined in the Convertible Bonds Instrument) of the 365-day period immediately following the Initial Maturity Date (the "Extended Maturity Date"). If any Outstanding Bonds remain unconverted at the close of business on the Extended Maturing Date, whether by reason of the minimum Public Float requirement or otherwise, all of the unconverted Convertible Bonds shall be deemed to be cancelled.

The Convertible Bonds may not be transferred without the prior written consent of the Company (acting in its sole and absolute discretion), save where such transfer is made to the Guarantor or any of its wholly-owned subsidiaries.

Bondholders have no right to require the Company to repay the principal amount of the Convertible Bonds in cash, or to redeem or repurchase the Convertible Bonds, whether at maturity or otherwise.

As confirmed by the Directors, the Conversion Price was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement by reference to the then prevailing market prices of the Shares.

C. BACKGROUND OF THE TARGET GROUP

As stated in the Letter from the Board in the Circular, the Target Group is comprised of CSPC OYY Group, CSPC NBP and CSPC XNW. The Target Group is mainly engaged in the manufacture and sale of pharmaceutical products, including Oxiracetam Capsule (a first-to-market generic drug) and Oxiracetam Powder Injection (an exclusive formulation drug) under the brand name "OuLaining" for treatment of dysmnesia and mental retardation resulting from mild to moderate vascular dementia, senile dementia and brain trauma, Levamlodipine Maleate Tablet under the brand name "Xuanning" (a patent drug which treats hypertension), Butylphthalide Soft Capsule and Butylphthalide Injection with a brand name "NBP" (a Class I innovative drug for treatment of acute ischemic stroke) as well as APIs including azithromycin, caffeine and aminophylline.

The following is a summary of the financial performance of the Target Group for each of the three years ended 31 December 2011 and the five months ended 2011 and 2012, extracted from Appendix II headed "Financial information of the Target Group" of the Circular:

Table 3:

	Year ended 31 December			Five months ended 31 May		Growth rates		
						CAGR	YoY	PoP
	2009	2010	2011	2011	2012	2009-2011	2010-2011	May 2012
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)* (unaudited)	*(HK$ million)* (unaudited)			
Revenue	1,296.28	1,757.59	2,407.45	956.09	1,292.55	36.28%	36.97%	35.19%
Gross profit	525.37	719.39	1,036.91	401.46	675.82	40.49%	44.14%	68.34%
Gross profit margin	*40.53%*	*40.93%*	*43.07%*	*41.99%*	*52.29%*			
Operating profit	165.98	228.65	442.61	182.61	286.35	63.30%	93.59%	56.81%
Operating margin	12.80%	13.01%	18.39%	19.10%	22.15%			
Profit before tax	158.44	205.73	418.14	162.72	276.47	62.45%	103.25%	69.91%
Profit for the year/period	131.66	174.73	357.17	136.75	219.82	64.71%	104.41%	60.75%
Net profit margin	*10.16%*	*9.94%*	*14.84%*	*14.30%*	*17.01%*			

1. CSPC OYY Group

Business and major products

As stated in the Letter from the Board in the Circular, CSPC OYY Group has been established since 2001 and is principally engaged in the manufacture and sale of finished drugs and APIs. It has advanced pharmaceutical manufacturing facilities designed in accordance with the GMP standard, and one of which also complies with United States Food and Drug Administration's current Good Manufacturing Practices. CSPC OYY owns the "歐意" brand, which is among the "China Well-known Brands". It is also equipped with a professional marketing and sales force with extensive experience in promoting and selling high-end finished drugs, and a nationwide distribution network, including a strong coverage for higher tier public hospitals. The key pharmaceutical products of CSPC OYY Group include:

The **"OuLaining" product series**, available in the form of capsule and powder injection and its main active ingredient is Oxiracetam for the treatment of myoclonus and other neurological problems. OuLaining Capsule was the bestselling oxiracetam capsule drug in PRC with market share of 57% in 2011, and was sold in approximately 2,000 hospitals. OuLaining Capsule is currently listed in the provincial reimbursement drug list in 12 provinces across the PRC. The powder injection form was launched by CSPC OYY in 2010, and is, as at the Latest Practicable Date, an exclusive formulation product in the market and has the same applicability as OuLaining Capsule; and

The **"Xuanning" product series**, available in the form of tablet (regular tablet) as well as dispersible tablet, and their main ingredient was Levamlodipine Maleate for the treatment of hypertension. CSPC OYY has obtained 4 patents in relation to preparation and medical use of Levamlodipine Maleate, including a United States granted preparation patent. "Xuanning" tablet is listed in the national reimbursement drug list or "國家基本醫療保險、工傷保險和生育保險藥品目錄"("NRDL") of 2009 ("NRDL (2009)") as well as the individual pricing drug catalogue. In addition, "Xuanning" was one of the leading products in China Levamlodipine market, accounting for 25% in terms of market share in 2011, and was sold in approximately 3,000 hospitals across the PRC for the same year.

The following is the sales revenue of the major products of CSPC OYY Group for each of the three years ended 31 December 2011 and the five months ended 31 May 2012, extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 4:

	Year ended 31 December			Five months ended 31 May	CAGR	YoY
	2009	**2010**	**2011**	**2012**	**2009 - 2011 revenue**	**2010 - 2011 revenue**
	(HK$ million)	***(HK$ million)***	***(HK$ million)***	***(HK$ million)***		
Total sales revenue of OYY Group	691.19	1,070.08	1,375.45	723.55	41.07%	28.54%
"Xuanning" product series	52.34	71.08	123.17	77.74	53.40%	73.28%
(% revenue contribution)	*7.57%*	*6.64%*	*8.95%*	*10.74%*		
"OuLaining" Oxiracetam capsule	31.93	67.16	88.88	47.73	66.84%	32.34%
(% revenue contribution)	*4.62%*	*6.28%*	*6.46%*	*6.60%*		
"OuLaining" Oxiracetam powder injection *(Note)*	—	15.23	59.55	127.41	—	291.00%
(% revenue contribution)	—	*1.42%*	*4.33%*	*17.61%*		

Note: "OuLaining" Oxiracetam powder injection was launched to the market in 2010.

Developments and prospects

As stated in Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular, CSPC OYY Group has devoted and will continue to devote significant resources in marketing the "Xuanning" and "OuLaining" products in order to expand its hospital, as well as community hospital and retail, coverage. Further, CSPC OYY will continue to devote its resources in the research and development of new medical products. As at the date of the Circular, CSPC OYY Group has several pending drug applications under review by the SFDA or "國家食品藥品監督管理局", which include Atorvastatin, a drug to lower cholesterol and Cefditoren Pivoxil, an antibiotic used to treat bacterial infection.

Historical financial performance

The following is the historical segment financial information on CSPC OYY Group extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 5:

	Year ended 31 December			Five months ended 31 May		CAGR	YoY	PoP
	2009	2010	2011	2011	2012	2009 - 2011	2010 - 2011	May 2012
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)* (unaudited)	*(HK$ million)* (unaudited)			
Revenue	691.19	1,070.08	1,375.45	554.98	723.55	41.07%	28.54%	30.37%
Cost of sales	(391.50)	(591.63)	(802.82)	(319.27)	(327.05)			
Gross profit	299.69	478.45	572.63	235.71	396.50	38.23%	19.68%	68.22%
Gross profit margin	*43.36%*	*44.71%*	*41.63%*	*42.47%*	*54.80%*			
Expenses	(212.28)	(333.74)	(370.71)	(140.88)	(264.70)			
Net profit	87.41	144.71	201.92	94.83	131.80	51.99%	39.53%	38.99%
Net profit margin	*12.65%*	*13.52%*	*14.68%*	*17.09%*	*18.22%*			

2. CSPC NBP

Business and major products

As stated in the Letter from the Board in the Circular, CSPC NBP is primarily engaged in the research and manufacture of drugs relating to central nervous system. Its key product, "NBP" (Butylphthalide Soft Capsule and Butylphthalide Injection), is Class I patent drug in the PRC for the treatment of acute isechemic stroke. Butylphthalide Soft Capsule became listed in the NRDL (2009) on 27 November 2009, and was awarded the second-grade for the National Science and Technology Progress Award by the State Council of the PRC on 23 December 2009. As at the Latest Practicable Date, Butylphthalide Soft Capsule remains to be one of a small number of pharmaceutical products honoured with this award. As of 31 May 2012, CSPC NBP has applied for and obtained two patents with four patent applications pending in relation to preparation and medical use of Butylphthalide in the PRC. Although Butylphthalide was listed in the Pricing Medicine Catalogue of National Development and Reform Commission ("NDRC")（國家發展改革委定價藥品目錄）promulgated on 5 March 2010, the NDRC has not specified a maximum retail price for it. Therefore, as at the Latest Practicable Date, Butylphthalide Soft Capsule remained not subject to government price controls.

The following is the sales revenue of Butylphthalide products for each of the six years ended 31 December 2011 and the five months ended 31 May 2012, extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 6:

	Year ended 31 December						Five months ended 31 May	CAGR 2009 - 2011 revenue	YoY 2010 - 2011 revenue
	2006	2007	2008	2009	2010	2011	2012		
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*		
	(Note 1) (Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)		
Total sales revenue of CSPC NBP	17.12	35.55	68.40	125.39	179.75	398.76	262.51	78.33%	121.84%
Butylphthalide soft capsule	14.48	28.30	55.07	111.97	163.35	330.71	191.06	71.86%	102.45%
(% revenue contribution)	*84.58%*	*79.60%*	*80.51%*	*89.30%*	*90.88%*	*82.93%*	*72.78%*		
Butylphthalide infusion *(Note 2)*	–	–	–	–	1.44	33.79	48.05	–	2,246.53%
(% revenue contrubution)	–	–	–	–	*0.80%*	*8.47%*	*18.30%*		

Note 1: RMB vs HKD exchange rate at of 31 December 2006, 2007,and 2008 from Bloomberg.

Note 2: Butylphthalide infusion was launched to the market in 2010.

It is noted that revenue generated from sales of Butylphthalide infusion increased substantially in 2011 with an year-on-year growth of over 2,000% from 2010. As provided for in the Letter from the Board in the Circular, the reason for such substantial growth was principally because Butylphthalide infusion was a relatively new product of CSPC NBP that was introduced to the market towards the end of 2010 and only generated its first full year of sales revenue in year 2011.

It is also noted that the percentage revenue contribution from Butylphthalide soft capsule reduced slightly from 82.9% for the year ended 31 December 2011 to 72.8% in the five months ended 31 May 2012. We consider the reduction to be mainly a result of the increasing revenue contribution from Butylphthalide infusion, from 8.5% for the year ended 31 December 2011 to 18.3% in the five months ended 31 May 2012. It should be noted that sales of Butylphthalide soft capsule in the five months ended 31 May 2012 totaled some HK$191.0 million, which already exceeded 50% of the sales achieved for the full year of 2011.

Developments and Prospects

As stated in Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular, CSPC NBP intends to further intensify its marketing campaign to extend its hospital coverage from the current focus in tertiary hospitals in first and second tier cities to secondary and county hospitals of second and third tier cities. Further, CSPC NBP will devote its resources to conduct clinical trials on the Butylphthalide products and other patent drugs, as well as expand its marketing campaign to various academic institutions.

Historical financial performance

The following is the historical segment financial information on CSPC NBP extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 7:

	Year ended 31 December			Five months ended 31 May		CAGR	YoY	PoP
	2009	2010	2011	2011	2012	2009 - 2011	2010 - 2011	May 2012
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)* (unaudited)	*(HK$ million)* (unaudited)			
Revenue	125.39	179.75	398.76	128.75	262.51	78.33%	121.84%	103.89%
Cost of sales	(25.27)	(30.14)	(45.65)	(17.47)	(32.97)			
Gross profit	100.12	149.61	353.11	111.28	229.54	87.80%	136.02%	106.27%
Gross profit margin	*79.85%*	*83.23%*	*88.55%*	*86.43%*	*87.44%*			
Expenses	(110.77)	(135.59)	(208.67)	(77.98)	(115.82)			
Net profit	(10.65)	14.02	144.44	33.30	113.72	NM	930.24%	241.50%
Net profit margin	*-8.49%*	*7.80%*	*36.22%*	*25.86%*	*43.32%*			

3. CSPC XNW

Business and major products

As stated in the Letter from the Board in the Circular, China has accounted for 80% of the global supply for caffeine, and CSPC XNW is the largest supplier for caffeine in China for the year ended 31 December 2011. In 2011, CSPC XNW had caffeine production capacity of 11,000 tons per annum, and has exported 4,949 tons of caffeine, accounting for approximately 45% of the total caffeine exported by China in the year of 2011. Pursuant to the Regulations on the Control of Anesthetic and Psychoactive Drugs or "麻醉藥品和精神藥品管理條例" in China, enterprises engaged in the manufacturing of caffeine are required to be approved and supervised by the SFDA. Customers of CSPC XNW for its caffeine include international brand names, as well as global distributors.

The following is the sales revenue of caffeine for each of the three years ended 31 December 2011 and the five months ended 31 May 2012, extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 8:

	Year ended 31 December			Five months ended	CAGR 2009-2011	YoY 2010-2011
	2009	2010	2011	31 May 2012	revenue	revenue
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*		
Total sales revenue of CSPC XNW	484.37	510.42	633.98	319.67	14.41%	24.21%
Caffeine revenue	278.67	313.93	379.47	199.17	16.69%	20.88%
(% revenue contribution)	*57.53%*	*61.50%*	*59.86%*	*62.30%*		
Caffeine sales volume *(tonnes)*	7,366	8,391	10,467	5,318		

Developments and Prospects

As stated in Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular, CSPC XNW intends to devote its resources to further enhance and upgrade its production technology in order to further reduce the cost of production, with the objective of becoming a more competitive participant in the caffeine market. In addition, CSPC XNW will engage in further market development to expand its customer base in order to further increase its market share. Further, CSPC XNW will engage in further research and development of its caffeine products with an aim to explore new business opportunities..

Historical financial performance

The following is the historical segment financial information on CSPC XNW extracted from Appendix III headed "Management discussion and analysis of the financial position of the Target Group" of the Circular:

Table 9:

	Year ended 31 December			Five months ended 31 May		CAGR	YoY	PoP
	2009	2010	2011	2011	2012	2009 - 2011	2010 - 2011	May 2012
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)* (unaudited)	*(HK$ million)* (unaudited)			
Revenue	484.37	510.42	633.98	274.07	319.67	14.41%	24.21%	16.64%
Cost of sales	(358.81)	(419.08)	(525.82)	(219.60)	(269.88)			
Gross profit	125.56	91.34	108.16	54.47	49.79	-7.19%	18.41%	-8.59%
Gross profit margin	*25.92%*	*17.90%*	*17.07%*	*19.87%*	*15.57%*			
Expenses	(48.42)	(44.34)	(36.38)	(19.88)	(18.84)			
Net profit	77.14	47.00	71.78	34.59	30.95	-3.54%	52.72%	-10.52%
Net profit margin	*15.93%*	*9.21%*	*11.32%*	*12.62%*	*9.68%*			

It is noted that both the gross profit and net profit of CSPC XNW decreased slightly in the five months ended 31 May 2012 as compared to the corresponding period in 2011, which the Directors advised was mainly attributed to the decrease in market price of caffeine products.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons.

A. OVERVIEW OF CHINA'S PHARMACEUTICAL INDUSTRY

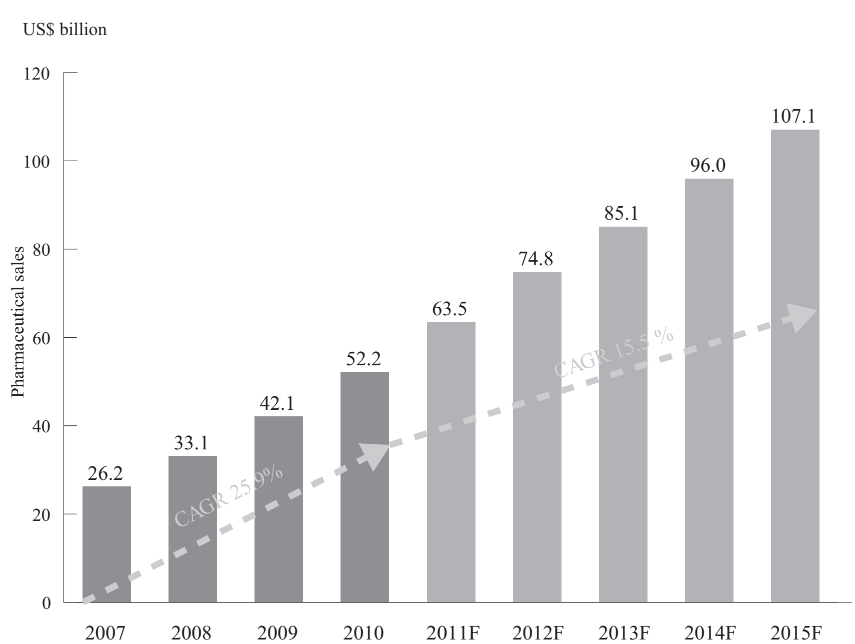
In order to appraise the Target Group and the reasons and benefits of the Acquisition, we have considered the following for the purpose of forming an understanding on the nature of China's pharmaceutical industry and the possible implications for industry players, including the Group and the Target Group.

1. Industry background

In 2010, healthcare spending in China, according to publicly available health care report issued by Economist Intelligence Unit in June 2011, was approximately US$273.7 billion, or 4.7% of Gross Domestic Product ("GDP").

As a segment of the healthcare industry in China, the pharmaceutical market in China has grown rapidly in recent years, with sales growing at a CAGR of 25.9% from 2007 to 2010, and is expected to continue with a strong but more modest growth from 2010 through 2015 at a CAGR of 15.5%.

Chart 1: Pharmaceutical sales in China, 2007-2015



US$1 = RMB 6.79

Source: The next phase: Opportunities in China's pharmaceuticals market report by Deloitte, 2011 ("2011 DTT Report")

According to the 2011 DTT Report, key drivers of market expansion for pharmaceutical sales in China are expected to include rising health care awareness and needs fueled by economic growth, large and aging population, increasing total and per capita health spending, and the ongoing healthcare reform and supportive measures under the 12th Five-Year Plan.

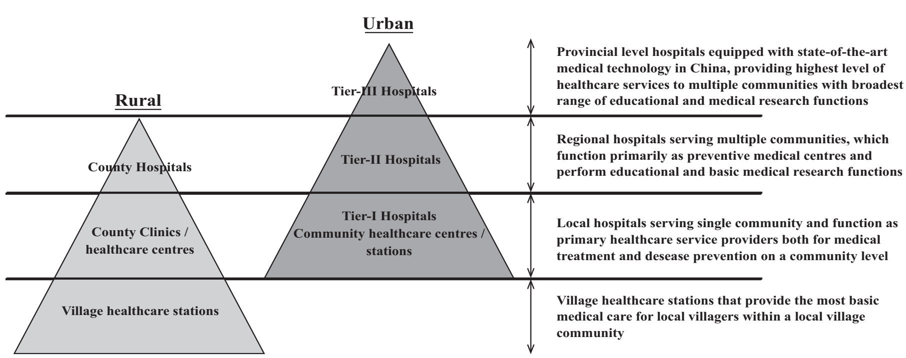
2. Healthcare infrastructure and commercialization process overview

a. Healthcare infrastructure in China

China's healthcare institutions are divided into three main categories, namely hospitals, primary healthcare centers and other medical institutions. Hospitals remain the largest sector of the Chinese healthcare industry.

The healthcare institutions in China are further divided into urban and rural areas with each having three tiers of hospitals and clinics based on the scope of the services they provide:

Chart 2: Healthcare Infrastructure in China



Source: MOH, "Guiding Principles for Establishment of Medical Institutions" (醫療機構設置規劃指導原則)

b. China's insurance system

Reimbursements of healthcare expenses in China are carried out principally through its insurance system, which comprised primarily three large government-led schemes, namely the urban employees medical insurance or "城鎮職工基本醫療保險" ("UEBMIS"), the urban resident insurance program or "城鎮居民基本醫療保險計劃" ("URBMIS") and the rural cooperative medical care system or "農村合作醫療計劃" ("NRCMS").

UEBMIS: Scheme for urban employees and is jointly funded by employers and employees, was established in 1998 to provide reimbursement for medical services and drugs covered under the reimbursement drug lists.

URBMIS: Scheme for urban residents and financed by governments and individuals, was set up in 2007 and is now administered by MOHRSS to provide coverage for major illnesses for urban residents not covered under UEBMIS.

NRCMS: The NRCMS had a membership of more than 800 million rural inhabitants in 2010 since its pilot launch in 2003 directed by the government to establish the rural cooperative medical care system so as to improve access to medical services and drug supply in rural areas. The NRCMS is funded by allocations from the central government, subsidies from local governments and fees paid by rural Chinese who participate in the system voluntarily.

c. Drug reimbursement lists

Currently in China, drugs eligible for reimbursements under the three insurance schemes may be listed under two drug list systems, namely the national reimbursement drug list or "國家基本醫療保險、工傷保險和生育保險藥品目錄" ("NRDL"), and the essential drug list or "國家基本藥物目錄" ("EDL"). Provincial governments may, so far as permitted under applicable laws and regulations, adjust their provincial versions depending on local demography, epidemiology, and economic level. Both NRDL and EDL are subject to periodic updates. Once the national lists are updated, the provincial lists will be updated accordingly.

NRDL has a longer history than the EDL. Since the establishment of UEBMIS in 1998, the NRDL was formulated to serve as the key reference for reimbursement of drugs for individuals under UEBMIS coverage. Drugs under the NRDL are further categorized into Class A and Class B. Class A drugs are fully reimbursable and are determined by the national government for general applications (more basic, low-price generic drugs), and local authorities may not adjust the content of the Class A list for their provincial version. On the other hand, Class B list is made up of a core group of higher-priced, less frequently prescribed drugs that are on the higher-end of the spectrum. Class B drugs are only partly reimbursable and insured patients are required to pay a certain amount of deductible. While drugs included in Class B are also determined by the national government, local authorities may adjust up to 15% of its content according to needs. As a result, Class B drugs in the NRDL may differ from province to province.

Aside from the NRDL, the Central Government launched the EDL in 2009 for the purpose of providing a basic safety net for grassroots citizens and rural villagers for basic medical needs. The first EDL was issued in August 2009 and included 307 essential medicines (all included in Category A under the NRDL) in their generic names, of which 205 were Western medicines and 102 were traditional Chinese medicines. As drugs listed under the EDL are considered the most basic and essential medicines that should be made available (and affordable) to patients of all social and economic levels, they are subject to stringent price control by the government. Purchases of drugs listed under the EDL are required to be conducted by way of tender collectively administered by the provincial government, and hospitals are required to adopt a zero mark-up policy (as opposed to the 15% maximum mark-up as allowed for drugs listed under the NRDL (or its provincial version)) when prescribing and dispensing these drugs to patients. It is also required that all drugs listed under the EDL must be included as Class A drugs under NRDL. Since its launch in 2009, EDL has become a key reference for drug reimbursements under the NRCMS.

d. Price control

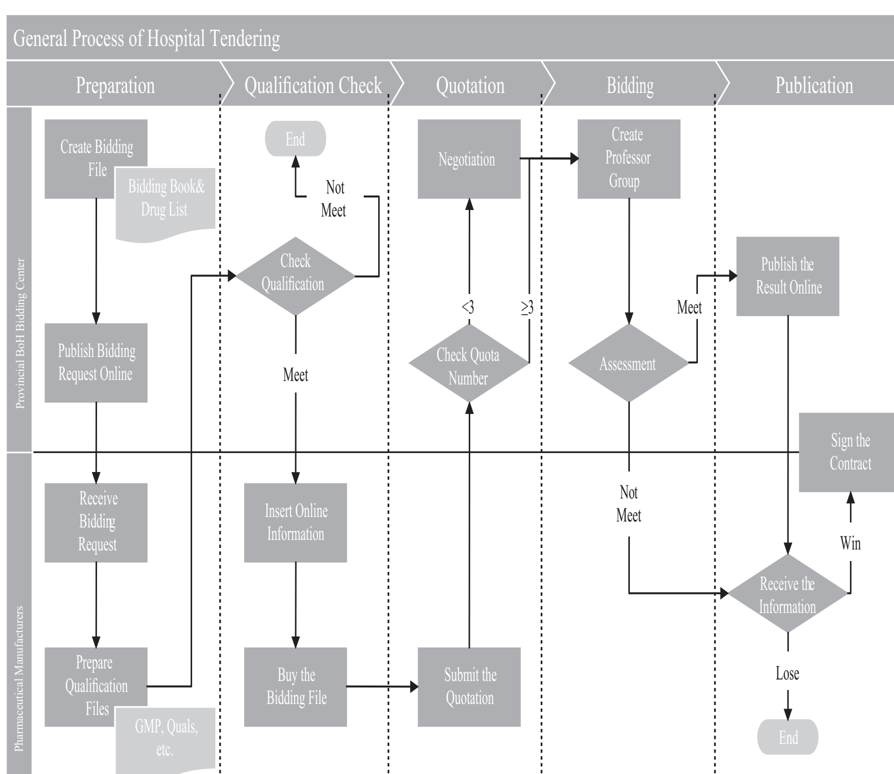
The drug pricing system in China is regulated by the government, with NDRC being responsible for formulating the drug pricing system with periodical updates on the prices of most commonly used pharmaceutical products. The regional pricing authorities are tasked to implement the pricing policies and provisions. NDRC would generally set a cap on the retail price on the medicines or drugs listed in the NRDL (in addition to EDL).

Currently, drugs under government price control can be classified into either standard or individually priced category. The vast majority of generic drugs belong to the standard priced category, while innovative drugs (including patent drugs, first-to-market generic drugs and generic drugs determined by SFDA to have superior quality) have the ability to be qualified as individually priced drugs. Drugs under the standard priced category are considered only collectively by their generic chemical names with no reference to specific brand names or manufacturers. Drugs under the individually priced category, on the other hand, are considered on an individual basis with specific reference to the relevant brand name and manufacturer. According to the latest "Drug Price Management Methods (Consultation Version)" or "藥品價格管理辦理法(徵求意見稿)" ("Drug Price Management Methods") issued by NDRC in 2010, for individually priced drugs the NDRC will reference to the qualified manufacturer's cost of sales of the specific drug and allowed for certain profit margin when setting the price cap.

e. Provincial tendering and hospital listing

China imposes a provincial tendering system for drugs procured by public hospitals. The open tendering and bidding system is now the standard drug procurement mechanism for reimbursed drugs as well as other drugs collectively procured by the regional authorities. The provincial tendering process is usually a drawn-out process as demonstrated in chart 3:

Chart 3: General hospital tendering process in China



*Hospital tendering process differs province by province. This graph illustrates the main idea.

Source: Life Sciences and Health care in China: Opportunities, challenges and implications by Deloitte, 2010

According to the "Regulations for Pharmacy Management under Medical Institutions" or "醫療機構藥事管理規定" issued by the MOH in 2011, hospitals are required to set up a formulary listing committee, which should be led by the hospital head and includes the heads of pharmacology department and clinical department. The formulary listing committee is tasked with, amongst other things:

— formulating operating policies for formulary listing committee;

— formulating formulary list on prescription and basic drug supplies;

— establish systems for drug admission requests, drug selection and drug procurement; and

— promote hospital guidelines and policies on clinical and prescription practices, evaluate and provide advisory on clinical drug use practices.

The "Regulations for Pharmacy Management under Medical Institutions" requires that all clinical drugs used in hospitals be collectively procured by the pharmacology department, and prohibits the use of any drugs not procured by the pharmacology department.

3. Potentials and challenges of the PRC pharmaceutical industry

In a publicly available report entitled "Mergers and acquisitions in the Chinese Pharmaceutical Industry" issued by Accenture in 2010 (the "2010 Accenture Report"), Accenture considered certain unique characteristics in China's pharmaceutical market that challenge industry players to fully capitalize on its growth potential:

Product Portfolio: Most Pharmaceutical companies will have gaps in the product portfolios for the Chinese market — The Chinese population is characterized by specific unmet needs which will increasingly influence the portfolio decisions of pharmaceutical companies. For example, China represents nearly 50% of liver cancer cases in the world. At the same time, China represents a large, mass-market branded generics opportunity. A balanced portfolio can take advantage of the range of products that Chinese patients purchase, from consumer medicine to specialty products. Many pharmaceutical companies genuinely do not have the product lines to fill the local market niche. Alliances, partnerships, mergers and acquisitions are attractive options to broaden a portfolio to take advantage of the market growth.

Distribution: Many companies may not have enough distribution or geographic reach — Distribution and sales representatives have been traditionally focused on the first tier cities like Beijing, Shanghai and Guangzhou. However, pharmaceutical companies are increasingly considering strategies for penetration into second tier cities, which encompass more than one-third of the Chinese pharmaceutical market and have seen pharmaceutical sales double since 2000. Consequently, an extension of distribution network presents an exciting opportunity for the companies to increase the availability of product for the Chinese patient.

Approvals: Lengthy timelines for product approvals — launching a product in China can entail long review processes to obtain product registrations or patent protection. Therefore, joint ventures or acquisitions can grant immediate market access when organic product development is not practical.

Manufacturing fragmentation: The Chinese domestic pharmaceutical market is estimated to have 3,000-6,000 manufacturers, resulting in high levels of overlap in products manufactured for a given region. Consolidation is ongoing to improve efficiencies of scale.

According to a further publicly available report issued by Accenture in 2011 entitled "What it takes: launching successful products in China's pharmaceutical market" (the "2011 Accenture Report"), the key stakeholders that pharmaceutical companies will need to collaborate with, and related issues to be addressed and resolved for successful product launches include:

— potential delays in the product/intellectual property (IP) approval process;

— adopting pricing strategies that reflect patient demand and incomes;

— overcoming lengthy reimbursement approval process;

— developing a broad, multi-channel distribution and sales force network; and

— managing relationships with key opinion leaders for long-term benefit.

According to the 2011 Accenture Report, recent government stimulus initiatives have allocated US$124 billion to healthcare. Almost half of that amount — 46% — will go toward extending reimbursement or increasing reimbursement levels for drug therapies to support the goal of reimbursing the cost of any drug that is listed on the EDL. With the goal of having at least 90% of its citizens receiving basic (if not more extensive) coverage, this signals a growth opportunity for pharmaceutical companies. However, the 2011 Accenture Report also pointed out that not all therapies are eligible for reimbursement and most drugs/therapies will need to be in market for a period of time before they are considered for reimbursement. More particularly, both the EDL and the NRDL are fluid, with updates scheduled every few years. And if the past is any indication of the future, the list of drugs/therapies approved for reimbursement (and their rates) will vary, and drugs/therapies are continuously gaining approval while others are eliminated. Hence a product may be on the market for many years before reimbursement is granted. The 2011 Accenture Report considered that pharmaceutical companies would need to factor into their revenue and cost models the delay in their products being admitted into the EDL and/or the NRDL (and their respective provincial version) for reimbursements. Once reimbursement is granted, companies would then need a solid plan for retaining it on the relevant reimbursement drug list, preferably at the national level.

The 2011 Accenture Report considered that it is a challenge to locate and serve China's population, particularly citizens living away from urban centers in second tier or third tier cities. Yet, these cities are where the growth is highest. Consequently, accessing a distribution and sales network capable of understanding and reaching citizens of these lower-tier cities are imperative; And one productive path is to partner with or find ways to leverage the local distribution networks that already have relationships with physicians.

The 2011 Accenture Report considered the securing of credible key opinion leaders (KOLs) a challenge under the increasingly competitive pharmaceutical market of China. It is considered that as the number of drug launches increases, the requests made to physicians or professors to serve as KOLs by pharmaceutical companies are also multiplying. The 2011 Accenture Report also noted that KOLs prove to be 3 times more influential when it comes to drug prescription as compared to the employment of sales representatives. This means that KOLs play a significant role, and early engagement of KOLs who have access to key hospitals or could facilitate local clinical trials is important. This approach will ensure maximum knowledge transfer and exposure to hospital staff and physicians in the rural areas.

4. Other relevant regulatory policies and developments

a. China's healthcare reform and the 12th Five-Year Plan (2011-2015)

In March 2009, China's government revealed plans for a sweeping healthcare overhaul, and committed RMB850 billion to develop the country's healthcare system between 2009 and 2011. Among its provisions were (i) increasing basic medical insurance coverage from approximately 65 percent of the population to 90 percent by 2011; (ii) launching of the EDL to designate medicines to be reimbursable under basic medical insurance; and (iii) empowering NDRC to have more authority in regulating drug prices. A second phase of the healthcare reform plan, expected to be launched between 2011 and 2020, is to involve the establishment of a universal health care system by which all citizens will be able to access affordable drug and medical services.

In 2011, the government released its 12th Five-Year Plan (12th FYP) — the guidance for social, economic and environmental development for the country over the next five years. Like all plans before it, the Five-Year Plan and the objectives it sets will have far-reaching impacts, although it has no specific implication for any single industry. Major themes of the 12th FYP relevant to the healthcare industry, according to 2011 DTT Report, include:

— rising income projected will increase overall healthcare consumption, and the associated demand for high-quality healthcare services;

— urbanization and the upgrading of rural infrastructure (including healthcare facilities) — shifting urbanization demographics will give rise to new pockets of demand for pharmaceuticals;

— as one component of a broader set of national goals to push industry consolidation and industrial advancement, pharmaceutical companies are encouraged to consolidate domestically, eliminating outdated and excessive capacity, solidifying market share and technologies to build their businesses;

— pharmaceutical manufacturing and distribution may be shifted from the prosperous Eastern provinces to balance the development of Central and Western China; and

— in the future, the sector will need significant investments in new and cutting-edge technologies and the know-how they need to grow, either by acquisition or in-house development, funding for which will be drawn from various sources.

b. The "Administrative Measures on the Clinical use of Antibacterial Drugs"

The "Administrative Measures on the clinical use of antibacterial drugs (Consultation Draft)" was promulgated in July 2011, which imposes strict restrictions on the type and amount of antibiotics procured by hospitals and prescribed to patients to address antibiotics abuse and overprescribing issues in China.

5. Inferences drawn by China Galaxy International

On the basis of the foregoing publicly available information and analyses, we have drawn the following inferences on China's pharmaceutical industry and its industry players in general:

— Despite the continuous growth in China's healthcare spending in recent years, such spending as a percentage of GDP, which stood at approximately 4.7% in 2010, is still low when compared to developed countries such as the United States, with healthcare spending representing 16.0% of GDP in 2010. We believe this represents significant room for growth, likely to be driven by factors including but not limited to rising health care awareness and needs fueled by economic growth, large and aging population, and increasing total and per capita health spending.

— Ongoing healthcare reform, governmental control on pricing and drug tendering process, oversupply of commodity generic drugs and current uncertain macro-economic environment will likely result in an increasing pace of industry consolidation given the fragmented nature of the industry. Potential regulatory constraint such as those imposed on the usage and prescription of antibiotics drugs in 2011 means that it may be beneficial for pharmaceutical companies to have a diversified product portfolio in order to withstand potential regulatory headwind affecting sales of a particular product type.

— There is significant degree of uncertainty surrounding the admission of particular drugs into the EDL and/or NRDL. Pharmaceutical companies should be well prepared to deal with contingencies and not to unduly rely on their products gaining product and/or reimbursement approval under a fixed timetable.

— A listing on the NRDL is likely to impact positively on potential drug sales, through making a drug more readily available (and affordable) to large masses of the population who are covered by the various medical insurance schemes for reimbursement. Such financially induced end-patient preference for drugs listed on the NRDL may ease the way for these drugs to be admitted into the formulary listing of hospitals, generally a pre-requisite for achieving drug sales into the hospital system.

— On the flipside, drugs on the NRDL are subject to government price control and are likely targets for future price cuts as the government tries to control the national medical expenditure. On the back of such drawback, drugs admitted for individual pricing (individually priced drugs) would have an advantage over drugs subject to standard pricing. This is because not only do individually priced drugs generally allowed higher margins to encourage innovation and technological advancements, they also enjoy easier admission into hospital formulary listing by virtue of their uniqueness (or having only very limited competing candidates) and its superior quality and/or curative effects.

— Despite the potential benefits of NRDL admission, to our understanding it does not necessarily equate to successful product commercialization. The rather complicated process of winning provincial tendering, getting admitted into hospitals' formulary listing and creating a demand through prescription preference is likely to have material impact in achieving market penetration and volume sales. For higher-end drugs such as those listed under Class B of the NRDL and drugs that are relatively new to market, additional marketing efforts on clinical introduction to increase awareness among the medical profession, facilitate hospital formulary listing admission and induce prescription preferences are essential elements for product commercialization.

B. FURTHER ANALYSIS ON THE TARGET GROUP

1. Business review

a. Product mix

As disclosed in the Letter from the Board in the Circular, the key products of the Target Group include:

Table 10:

Finished drugs	Treatment indication	Human system category
Butylphthalide soft capsule	Acute ischemic stroke	Cerebrovascular
Oxiracetam (include capsule and powder injection)	Alzhemier's disease	Central nervous system
Levamlodipine Maleate Tablet	Hypertension	Cardiovascular
Others:	**Key application**	
Antibiotics:		
Azithromycin	Treatment or prevention of certain bacterial infection such as ear infection and pneumonia	
Bulk drugs (APIs):		
Caffeine	Active ingredient used in demulcent pharmaceutical products and consumer products such as soft and/or energy drinks	
Aminophylline	Used as an API applied in the management of asthma and chronic obstructive pulmonary disease relating to the respiratory system	

When compared to the existing product portfolio of the Group, we noted that the major products of the Target Group, especially for non-antibiotics prescription drugs and bulk drug products, are mainly used for different treatments and applications.

In terms of finished drugs, the Target Group is mainly focused on therapeutic areas such as cardiovascular and the central nervous system whilst for bulk drugs such as caffeine and aminophylline, the application and market is also different to those currently served by the Group. The antibiotics finished drug product of the Target Group, azithromycin, is a different type of antibiotics than the key antibiotics finished drug products of the Group (namely penicillin and cephalosporin), but are both generally applied in the treatment or prevention of certain bacterial infection such as ear infection.

Moreover, whereas the existing finished drug products of the Group are mainly common generic drugs that are in the market for a long period of time and its target markets are tilted towards the lower tiers of medical institutions (that is county hospitals, township health centers and community healthcare service centers), the major finished drug products of the Target Group are generally considered higher-end drugs and are targeted towards higher tier public hospitals equipped with capacity to treat complicated and serious illnesses.

Based on the above analysis, we are of the view that the Acquisition would enable the Group to diversify and enhance its product mix beyond that of vitamin C and common generic antibiotics products, and provide the Group with direct entry into the higher end, higher margin finished drug market.

b. Research and development ("R&D") capability and pipeline

The R&D capability of a pharmaceutical firm is generally measured by its ability to introduce patented drugs and first-to-market generic drugs. We noted that (i) CSPC OYY has obtained 4 patents in relation to preparation and medical use of Levamlodipine Maleate, including a United States granted preparation patent; (ii) the "NBP" (Butylphthalide) product of CSPC NBP is a Class I patent drug in the PRC for the treatment of acute isechemic stroke; and (iii) as of 31 May 2012, CSPC NBP has applied for and obtained two patents with four patent applications pending in relation to preparation and medical use of Butylphthalide in the PRC.

As discussed in the sub-section headed "Overview of China's pharmaceutical industry – Potentials and challenges of the PRC pharmaceutical industry" above, we noted from the 2010 Accenture Report that most pharmaceutical companies have gaps in the product portfolios for the Chinese market. We consider that in addition to mergers and acquisitions (as suggested by the 2010 Accenture Report), organic growth such as development of new drugs is also a valid pathway to build up and enrich a pharmaceutical firm's product portfolio.

Based on the above, we consider the Acquisition would enhance the R&D capability profile of the Group and provide the Group with additional, diversified product pipeline to facilitate continuous business development.

c. ***Market penetration capability***

As set out in the sub-section headed "Overview of China's pharmaceutical industry — Inferences drawn by China Galaxy International" above, we inferred that a listing on the NRDL would make a drug more affordable to large masses of the population through eligibility for reimbursements, which in turn could promote admission to hospital formulary listing and thereby driving sales of the relevant drug.

We noted from the relevant official provincial reimbursement drug lists and the NRDL that oxiracetam capsule (which CSPC OYY produces and markets under its "OuLaining" brand) is currently listed in the provincial reimbursement drug list in 12 provinces across the PRC, and Levamlodipine Maleate tablet (which CSPC OYY produces and markets under its "Xuanning" brand) and Butylphthalide Soft Capsule (which CSPC NBP produces and markets under its "NBP" brand) are both listed in the NRDL (2009) ("國家基本醫療保險、工傷保險和生育保險藥品目錄(2009年版)"). These listings are expected to support further market penetration of the above-mentioned products, which are all major products of the Target Group, and drive their future sales.

As confirmed by the Directors, the following lists out the provinces where oxiracetam capsule is listed on the respective provincial reimbursement drug list:

Province	Date entered
Jiangxi	September 2010
Hubei	October 2010
Hebei	August 2010
Henan	October 2010
HeilongJiang	August 2010
Hunan	April 2011
Liaoning	October 2010
Ningxia	October 2011
Shanghai	December 2010
XinJiang	January 2011
Guangxi	December 2010
Tianjin	January 2012

d. Pricing capability

While price control and the continuous trend of downward adjustments on government set retail price caps are challenges commonly faced by pharmaceutical firms in China, it is relatively well accepted by industry players that among drugs that are subject to government price control, individually priced drugs has a competitive advantage over standard priced drugs on the basis that (i) individually priced drugs are considered by NDRC on an individual basis when setting price caps (as opposed to standard priced drugs that are considered only collectively by their generic chemical names); and (ii) winning of provincial tenders and admission into hospital formulary listing are made easier by virtue of limited competition.

We noted that the "Xuanning" Levamlodipine Maleate tablet of CSPC OYY enjoys individual pricing status. In addition, as at the Latest Practicable Date NDRC has not specified a maximum retail price for CSPC NBP's Butylphthalide Soft Capsule product, and it remained not subject to government price controls as at the Latest Practicable Date. We consider that these two key products of the Target Group are likely to enjoy pricing advantage over other standard priced drugs.

e. Market share and sales and distribution capability

As disclosed in the Letter from the Board in the Circular, the Target Group commands a leading market share for several of their products including Oxiracetam, Levamlodipine Maleate, Butylphthalide and Caffeine in their respective markets. We have reviewed publicly available sources such as 醫藥地理 — 中國醫藥工業信息中心 (note), Healthoo.com(健康網)(note) and relevant research reports issued by international securities brokerage firm and information provided by the Company and noted that the above products have been identified to have leading market share (with market ranking in the top three positions). It is also stated in the Circular that CSPC OYY Group possesses extensive experience in promoting and selling high-end finished drugs, and has a nationwide distribution network including a strong coverage within higher tier public hospitals. CSPC OYY Group intends to expand its sales coverage to community hospitals. In comparison, existing finished drugs of the Group are mainly marketed in county hospitals, township health centres and community healthcare service centres.

Overall, we have considered the qualifications and experience of key sales personnel of the Target Group, and have taken note of the high-end nature of the Target Group's key products and the historical growth and market coverage it has demonstrated. We have compared such findings with our inferences drawn from the overall market dynamics of China's pharmaceutical industry (as summarized in the sub-section headed "Overview of China's pharmaceutical industry" in this letter), and came to the view that the Target Group has demonstrated strong sales and distribution capability. We also consider the sales and distribution capability of the Group and the Target Group to be relatively complementary to each other. In this respect, we are of the opinion that the Acquisition will enhance the competitiveness of the Group and facilitate the Group in achieving a more extended market coverage.

Note:

醫藥地理 — 中國醫藥工業信息中心 was founded in 2000 by the China Pharmaceutical Industry Information Center（中國醫藥工業信息中心）to be a comprehensive online database and consulting services platform for the pharmaceutical industry in China, providing updated industry development and news for national government agencies and pharmaceutical industry enterprises.

Healthoo.com（健康網）is an internet information service platform focusing on China pharmaceutical & medical industry. It provides medical industry information, marketing surveys and marketing reports on areas including chemical drugs, Chinese drugs, health food, animal health production, medical treatment instrument and biological pharmacy. It also publishes the Chinese APIs export & import reports on a monthly and annually basis.

2. Financial review

Independent Shareholders are advised to refer to the section headed "Information on the Target Group" and Appendix III headed "Management discussion and analysis of the financial position of the Target Group" ("Target Group's MD&A") in the Circular for financial information of the Target Group covering each of the three years ended 31 December 2011 and the five months ended 31 May 2012 ("Track Record Period").

a. Historical growth and operating margin

As provided in the Target Group's MD&A, the Target Group recorded robust growth in its revenue and net profit during the Track Record Period. Its sales revenue grew from approximately HK$1,296.3 million for the year ended 31 December 2009 to some HK$2,407.5 million for the year ended 31 December 2011, representing a CAGR of approximately 36.3% over the three-year period. Period-to-period revenue growth for the five months ended 31 May 2012 compared to the corresponding period in 2011 remained at a comparable level of approximately 35.2%. The Target Group's net profit also registered an impressive CAGR of some 64.7% over the three year period of 2009 to 2011, with a significant growth between 2010 and 2011 from approximately HK$174.7 million to HK$357.2 million, representing an year-on-year growth rate of approximately 104.4%. Period-to-period growth in net profit for the five months ended 31 May 2012 compared to the corresponding period in 2011 remained an impressive 60.8% approximately.

The Target Group also demonstrated continuous improvement in its operating and net profit margins during the Track Record Period. More particularly, operating margin grew from around 12.8% in 2009 to 18.4% in 2011, and further improved to around 22.2% for the five months ended 31 May 2012. Net profit margin grew from approximately 10.2% in 2009 to 14.8% in 2011, and further improved to around 17.0% for the five months ended 31 May 2012.

We noted that two of the Target Group's major finished drug products, namely "OuLaining" Oxiracetam powder injection of OYY Group and Butylphthalide infusion of CSPC NBP, were launched in 2010, with sales revenue of these two products ramping up significantly since 2011. It is noted that sales revenue of "OuLaining" Oxiracetam powder injection for the five months ended 31 May 2012 was already more than doubled that achieved for the full financial year of 2011. On the other hand, it is explained in the Letter from the Board in the Circular that SPG had, since 2010, implemented a number of measures to enhance the distribution capability of CSPC NBP to cater for the high-end nature of its Butylphthalide products, which began to yield significant results since 2011. In this respect, we have noted that sales revenue of Butylphthalide soft capsule grew by more than 100% from 2010 to 2011, while sales revenue of Butylphthalide infusion for the five months ended 31 May 2012 already exceeded its sales revenue achieved for the full financial year of 2011.

Overall, we consider the Target Group has demonstrated impressive growth during the Track Record Period, with a trend suggestive of a business under a growth stage.

b. Net assets

Based on the financial information of the Target Group provided in Appendix II of the Circular, it is noted that as at 31 May 2012, the Target Group had recorded net current liabilities of approximately HK$719.8 million, and net assets of approximately HK$320.3 million. The current liabilities of the Target Group as at 31 May 2012 included the Outstanding Payment (of approximately RMB637.4 million) arose as a result of the Reorganization. Subsequent to 31 May 2012, the Seller Group injected RMB639.8 million (equivalent to approximately HK$780.2 million) into the Target Group as capital (the Capitalization Issue) for repayment of the Outstanding Payment. We consider that as the purpose of the Capitalization Issue is to provide the funds needed to repay the Outstanding Payment, it should be considered in conjunction with the Outstanding Payment and, were the Capitalization Issue was completed prior to 31 May 2012 it would have increased the net assets of the Target Group on a dollar-to-dollar basis. On such basis, we consider it appropriate, for the purpose of analyzing the net asset position of the Target Group, to add back the amount of funds injected under the Capitalization Issue. In this respect, the net current assets and the net asset value of the Target Group as at 31 May 2012 would have been approximately HK$60.4 million and approximately HK$1,100.5 million.

3. Conclusion

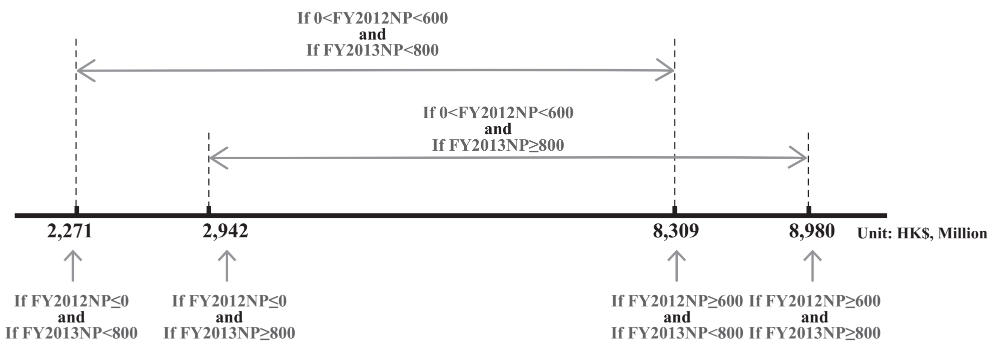
After studying the information relating to business and product mix of the Target Group and given the impressive historical financial performance of the Target Group as discussed above, we are of the opinion that the Target Group is likely to be well positioned to maintain its growth momentum after Completion.

C. FURTHER ANALYSIS ON THE ACQUISITION CONSIDERATION

The Consideration payable by the Company to the Seller is HK$8,980,000,000, which will be satisfied upon Completion by the issue of the Consideration Shares and the Convertible Bonds.

The Consideration is subject to adjustment based on the Target Group’s net profit for the year ending 31 December 2012 and 31 December 2013 (or in certain limited force majeure circumstances (the “Force Majeure Events”) as defined in the Circular, the year ending 31 December 2014). On such basis, the Consideration is effectively in the range of HK$2,271,744,570.30 to HK$8,980,000,000. Details of the adjustment are set out in the Letter from the Board in the Circular and we summarize such principal adjustments and the corresponding consideration amount in the chart below:

Chart 4:



- NP: Net Profit
- FY: Financial Year

As advised by the Directors, the Consideration of HK$8,980,000,000, subject to adjustment as stated above, was arrived at after arm's length negotiations between the Company and the Seller, and are on normal commercial terms having taken into account factors as laid out under the section headed "The Sale and Purchase Agreement and the Amendment Agreement" in the Letter from the Board in the Circular.

As demonstrated from the above chart, the adjustment mechanism is effectively a feature that provided for a reduction of the Consideration upon triggering of pre-agreed conditions (that is, failure of the Target Group to achieve a net profit of RMB600 million for the year ending 31 December 2012 and RMB800 million for the year ended 31 December 2013), by way of cancellation of all or a portion of the Convertible Bonds. We consider the adjustment mechanism to be one of the features under commercial negotiations among the parties, which led to an agreement on the Consideration and other terms and conditions of the Acquisition.

For the purpose of considering whether the downward adjustment mechanism is on normal commercial terms and in line with market practice, we have reviewed the transactions contemplated under the Share comparables and CB Comparables (to be further discussed and defined) and noted that a number of them also have provisions allowing for downward adjustment to consideration with reference to certain benchmark on profitability, by way of claw-backs on consideration shares and/or convertible bonds. Based on the aforementioned, we are of the opinion that the provision under the Sale and Purchase Agreement allowing for downward adjustment on consideration is a normal commercial term and in line with market practice.

Moreover, given that such adjustment provision, if triggered, would only result in a downward adjustment of the Consideration, we consider it to be a favourable term to the Company and therefore fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As noted from the Letter from the Board in the Circular, the Directors confirmed that the benchmark net profit of HK$600 million and HK$800 million is arrived at after arm's length commercial negotiations for the purpose of benchmarking potential downward adjustments to the Consideration. The figures of HK$600 million and HK$800 million do not represent the level of net profit of the Target Group anticipated by the Company for the year ended 31 December 2012 or any future period and were not determined based on any estimate, projection, forecast of profits or losses or previous profits or losses or any valuation of assets or business of the Target Group. In this connection, we noted that the net profit of the Target Group for the five months ended 31 May 2012 was approximately HK$219.8 million, representing about 36.6% of the benchmark profit of HK$600 million for 2012, which is around the similar level of profit contribution that the first five months of 2011 of the Target Group contributed as a percentage of its full year 2011 net profit of 38.3%. We also noted that the benchmark HK$800 million net profit for 2013 represents a year-on-year growth of about 33.3% as compared to the benchmark HK$600 million net profit of 2012, and a CAGR growth rate of about 49.7% from the 2011 net profit of approximately HK$357.2 million. Such implied growth rates of 33.3% and 49.7% are considerably lower than the historical net profit growth rate achieved by the Target Group during the Track Record Period as set out in Table 3. Based on the above, we do not find the benchmark net profit of HK$600 million and HK$800 million to be out of line with the historical performance of the Target Group. In addition, we also note that there will be a downward adjustment mechanism to the Consideration as demonstrated in Chart 4 in case that such benchmark net profits are not met. However, Independent Shareholders should note that the above inference is drawn based solely on the past financial performance and historical growth of the Target Group and should not be construed in any way as a form of assurance on the Target Group's future performance.

According to the Consideration adjustment mechanism, the benchmark net profit for the year ending 31 December 2013 can be extended for one year to 31 December 2014 under the occurrence of the Force Majeure Events. We have reviewed the definition of the Force Majeure Events under the "Definitions" section of the Circular and consider the events included to be common force majeure terms generally provided for in contracts and agreements to remove liability for unforeseen, natural and unavoidable catastrophes that interrupt the expected course of events and restrict participants from fulfilling obligations. We consider that the one-year extension allowed for upon occurrence of the Force Majeure Events should be taken as part of the adjustment mechanism on the Consideration, which as confirmed by the Directors was arrived at after arm's lengths negotiations. In any event we consider the (downward only) adjustment mechanism on the Consideration to be a feature that is favourable to the Company. We do not consider the mere inclusion of the Force Majeure Event to be an indication that the parties have foreseen any of the force Majeure Events happening, because by definition they are unforeseeable. The Company further confirmed they have not, as at the Latest Practicable Date, foreseen the happening of any Force Majeure Event that will materially affect the Target Group's financial performance for 2013.

1. Trading multiples analysis

In considering the commonly adopted trading multiple analysis for appraising listed healthcare companies, we have independently reviewed relevant recent healthcare sector wide and company specific research reports issued by research analysts of leading international securities firms. We note that the most commonly adopted trading multiples analysis for appraising profitable healthcare or pharmaceutical companies is price to earnings ratio ("PER"). Therefore to assess the fairness and reasonableness of the Consideration, we have mainly relied on PER related analysis.

We noted that the combined net asset value of the Target Group of HK$961 million as at 31 December 2011 and the net tangible asset value of the Target Group of HK$950 million as at the Completion Date as warranted by the Seller represent approximately 9.3 and 9.5 times of the maximum Consideration of HK$8,980,000,000, respectively. However we have not considered the price to book ratio ("PBR") analysis to assess the fairness and reasonableness of the Consideration because (i) the Consideration was primarily determined taking into account the financial and operating performance of the Target Group as well as its business prospects and potential synergies with the Group; (ii) the pharmaceutical business, especially for finished drug business, is relatively asset-light; and (iii) that PBR is not a commonly adopted trading multiple analysis used by capital market participants to value profit-making healthcare companies.

For PER related analysis, we noted that historical PER is a direct comparison of the market value of companies (and, for the purpose of the Target Group, the Consideration) with their respective historical earnings level and do not demonstrate the difference in historical growth rate that each company has generated. In this respect, given that the historical growth of the Target Group is one of the specific factors that the Directors have taken into account when arriving at the Consideration, we consider that the price-earnings to growth ratio ("PEG"), on a one year (2010 to 2011) ("2010-2011 PEG") and two years (2009-2011) ("2009-2011 PEG") basis, to be an indicator of particular relevance for analyzing the Consideration given the high growth rates achieved by the Target Group during the Track Record Period. PEG ratio is a valuation metric for determining the relative trade-off between the price of a stock, the earnings generated per share, and the company's growth rate. In summary, PEG takes into account the different growth rate of individual companies, and a lower PEG generally implies that the company is more undervalued given its historical growth.

In addition to PEG ratio comparison, given the most updated available audited figures of the Target Group for the five months ended 31 May 2012 was available and that the Market Comparables have all released their latest 2012 interim results, we consider the trailing last twelve months ("LTM") PER ratio, which is trading multiple analysis based on a representation of their respective financial performance for a 12-month period using the most recent reported results, to be a more meaningful valuation metric than the 2011 PER as a historical PER ratio benchmark. In this respect, we have considered the LTM PER ratio of the Target Group and the Market Comparable(s) in addition to the basic PER analysis based on 2011 historical results.

We have also taken into account of the fact that in order to the Consideration to remain at HK$8,980,000,000, the Target Group must achieve both the benchmark net profit of HK$600 million for the year ending December 31, 2012 and HK$800 million for the year ending December 31, 2013. Therefore we have also, as additional reference and for further validation purposes, compared the implied 2012 and 2013 PER (calculated based on the HK$600 million and HK$800 million net profit benchmarks) with that of the Market Comparable(s). Independent Shareholders however should note that the two stated profit benchmarks should not be considered as profit guarantee but rather as a benchmark to downward adjust the Consideration if triggered.

To perform the above PER related analysis, we have first attempted using Bloomberg to search for all Chinese healthcare related companies that are listed on the Stock Exchange. From such initial list of 35 companies, we screened for and only selected comparables with similar lines of business as the Target Group, more particularly the manufacture and sale of primarily prescription western and/or biochemical finished drugs that are sold to hospitals in China (the "Market Comparables"). Based on our independent research, to the best of our knowledge and as far as we are aware of, we identified 3 comparable companies falling within such selection criteria. Given that we have selected the Market Comparables based on what we considered as having comparable business model and operations to that of the Target Group as a whole, from an exhaustive initial list of all healthcare related companies listed on the Stock Exchange from Bloomberg which we consider to be a reliable source, we consider that the Market Comparables are meaningful and exhaustive.

Table 11:

Name	Stock Code	Mkt cap as at 15 June 2012 (HK$m)	LTM PER *(Actual)* *(Note i & ii)*	2011 PER *(Actual)*	2012 PER *(Estimated)*	2013 PER *(Estimated)*	Net Profit growth 2010-2011 %	Net Profit GAGR growth 2009-2011 %	2009-2011 PEG	2010-2011 PEG	Last 12 months
Market Comparables											
Lee's Pharmaceutical Holdings Ltd.	950 HK	1,644	20.5x	19.6x	14.0x	10.9x	44.6%	34.5%	0.57	0.44	1 July 2011 to 30 June 2012
Sihuan Pharmaceutical Holdings Group Ltd.	460 HK	14,283	14.5x	14.2x	11.4x	9.3x	57.8%	58.9%	0.24	0.25	1 July 2011 to 30 June 2012
Sino Biopharmaceutical Ltd.	1177 HK	13.194	25.5x	28.6x	17.9x	15.3x	-18.4%	11.8%	2.41	NM *(Note iii)*	1 July 2011 to 30 June 2012
Maximum			25.5x	28.6x	17.9x	15.3x	57.8%	58.9%	2.41	0.44	
Minimum			14.5x	14.2x	11.4x	9.3x	-18.4%	11.8%	0.24	0.25	
Mean			20.2x	20.8x	14.4x	11.8x	28.0%	35.1%	1.07	0.34	
Median			20.5x	19.6x	14.0x	10.9x	44.6%	34.5%	0.57	0.34	
The Target Group			20.4x	25.1x	15.0x	11.2x	104%	65%	0.39	0.24	1 June 2011 to 31 May 2012

Source: Bloomberg and respective company annual/interim reports (price as at 15 June 2012, (being the last trading day prior to entering into the Sale and Purchase Agreement, unless otherwise stated in note ii)

Note:

(i) The net profit of each of the Market Comparables and the Target Group during their respective latest financial period was calculated as follows:

Market Comparables (year end: 31 December): net profit for the period from 1 July 2011 to 31 December 2011 based on respective 2011 interim report together with its 2011 annual report, and net profit for the period from 1 January 2012 to 30 June 2012 based on its 2012 interim report.

Target Group (year end: 31 December): net profit for the period from 1 June 2011 to 31 December 2011 and net profit for the period from 1 January 2012 to 31 May 2012 based on audited financial results stated in Appendix II headed "Financial Information of the Target Group" of the Circular.

(ii) The trading price of each of the Market Comparables taken for the computation of LTM PER is as follows:

Market Comparables: In order to assess the impact on share price upon the release of the latest set of interim results for each of the Market Comparables which we used to calculate our LTM PER, we took the closing share price as at 31 August 2012, being the reporting deadline for the release of interim results announcement for the Market Comparables.

(iii) Sino Biopharmaceutical Ltd reported a decrease in net profit in 2011 as compared to 2010 and therefore its 2010-2011 PEG is not meaningful ("NM").

From the above table, we noted the following:

Based on the above PER related analysis as demonstrated in table 11, we noted that:

(i) the Target Group's 2009-2011 PEG and 2010-2011 PEG is 0.39x and 0.24x respectively, which is well below the mean and median value of the Market Comparables:

(ii) the Target Group's LTM PER is 20.4x which is within the range and relatively in line with both the mean and median value of the Market Comparables;

(iii) the Target Group's 2011 PER (historical) is 25.1x, which is within the range of the Market Comparables, although it is higher than both the mean and median value of the Market Comparables with a premium of 20.7% and 28.1% respectively;

(iv) the Target Group's 2012 and 2013 PER (forward) is 15.0x and 11.2x respectively, which is within the range and relatively in line with both the mean and median value of the Market Comparables.

We consider that among the five comparison metrics demonstrated, the LTM PER, 2009-2011 PEG and 2010-2011 PEG valuation metric comparison are more relevant and meaningful for evaluating the Consideration on the basis that:

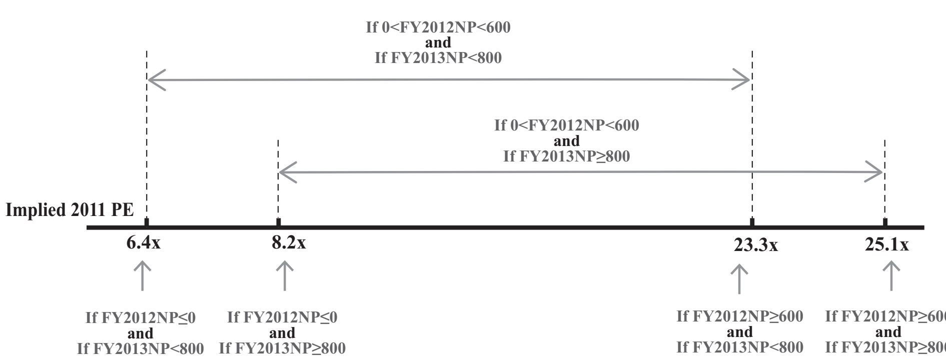
(i) updated financial figures subsequent to financial year 2011 of the Market Comparables and the Target Group are available, and when used for the trading multiple analysis would be more meaningful and updated as compared to the use of historical 2011 figures, as they can better reflect investors' expectation on the valuation of each respective company based on their most recently published financial results; and

(ii) each of the Market Comparables and the Target Group has different historical growth rates and that earnings growth rate is one of the major factors affecting a company valuation.

Taking the above PER analysis as a whole, we are of the view that although the Target Group's 2011 historical PER is notably higher than the mean and median value of the Market Comparables, it has a much lower PEG compared to the Market Comparables, and its LTM PER, 2012 PER and 2013 PER are all relatively on par or in line with the Market Comparables.

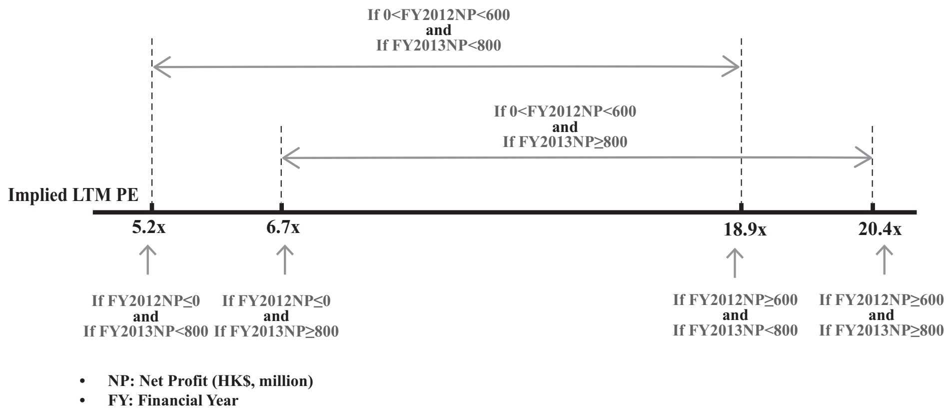
We also noted that the Consideration payable is subject to potential downward adjustment with reference to the net profit benchmarks for 2012 and 2013 as detailed in the section headed "The Sale and Purchase Agreement and the Amendment Agreement" in the Letter from the Board in the Circular. Since such adjustment, if any, would only reduce the Consideration and thus the valuation multiple of the Target with reference to its implied 2011 and LTM PER (as demonstrated in Charts 5 and 6 below), we are of the opinion that the potential adjustment mechanism to the Consideration are in the interests of the Company and its Independent Shareholders as a whole.

Chart 5: Effect on implied 2011 PER as a result of triggering a downward adjustment on the Consideration:



- NP: Net Profit (HK$, million)
- FY: Financial Year

Chart 6: Effect on implied LTM PER as a result of triggering a downward adjustment on the Consideration:



Taking into account the above PER related analysis and the analysis on the Target Group's business, its historical financial performance and its demonstrated growth momentum, we are of the opinion that overall the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

2. Consideration Shares

Pursuant to the Sale and Purchase Agreement, HK$2,271,744,570.30 of the Consideration payable for the Acquisition will be paid by way of the Company issuing 1,195,655,037 new Shares at an issue price of HK$1.90 per Share (the "Issue Price").

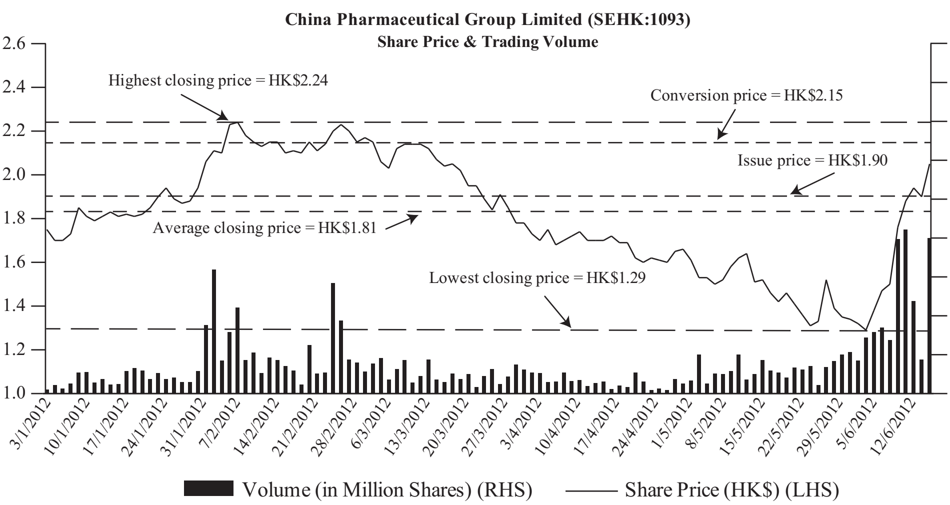
The Issue Price of HK$1.90 per Consideration Share was determined based on arm's length negotiations between the Company and the Seller by reference to the prevailing market prices of the Shares as shown in the following table. We consider that such basis of determining Conversion Price to be in line with market practice.

Table 12:

Reference Prices	**Issue Price representing**
Closing price of HK$2.05 per Share as quoted on the Stock Exchange on the Last Trading Day	A discount of approximately 7.32%
Average closing price of approximately HK$1.91 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including Last Trading Day	A discount of approximately 0.52%
Average closing price of approximately HK$1.65 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day	A premium of approximately 15.15%
Average closing price of approximately HK$1.53 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day	A premium of approximately 24.18%
Audited consolidated net asset value per Share attributable to the Shareholders of approximately HK$3.86 as at 31 December 2011	A discount of approximately 50.78%

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on the Stock Exchange from 1 January 2012 up to and 15 June 2012, being the Last Trading Day before the Sale and Purchase Agreement was signed (the "Review Period"):

Chart 7:



As shown by the above table, the daily closing prices of the Shares ranged from HK$1.29 per Share to HK$2.24 per Share during the Review Period of 112 trading days, out of which only closing prices of the Shares for 7 trading days were above the Conversion Price. We further noticed that the Share price had been moving downwards persistently from mid-February 2012 onwards until early June 2012 when it abruptly increased during the period from 11 June 2012 to 15 June 2012 and closed at HK$2.05 on 15 June 2012, increasing approximately 36.7% during this period (of five trading days). During the same period from 11 June 2012 to 15 June 2012, the trading volume of the Shares also surged substantially. More particularly, the average daily trading volume of shares was approximately 3.2 million from 1 January 2012 to 10 June 2012 but surged to approximately 15.4 million during the period from 11 June 2012 to 15 June 2012. In response to the unusual price and trading volume movement, the Company made an announcement dated 11 June 2012 regarding the negotiation of a possible acquisition of certain pharmaceutical business (the "Proposed Acquisition"). The Company announced the unaudited interim results for the three months ended 31 March 2012 on 4 May 2012, and we consider any impact on the Share price, if any, would normally have been fully reflected within a few trading days after the release of the results. Furthermore, save and except for the announcement dated 3 May 2012 regarding the entering into of continuing connected transactions, the Company had not entered into any material contract in relation to the Group's operation and business that is subject to announcement during the Review Period. We are therefore of the view that the rapid spike in trading price and fluctuations in trading volume during the short period from 11 June 2012 to 15 June 2012 is likely to be largely attributable to investors' speculation on the proposed Acquisition, rather than relating to the pricing fundamentals of the Company, such as its existing business and historical financial performance. For this reason, we consider that the market price of the Shares from 11 June 2012 to 15 June 2012 may not serve as a reliable benchmark for assessing the fairness and reasonableness of the Issue Price, and therefore we have only taken the 10-day average and 30-day average closing price of the Shares as our benchmarks when performing related issue price analysis.

In order to assess the fairness and reasonableness of the terms of the Consideration Shares, to the best of our knowledge, we have looked into companies listed on the Stock Exchange, which have made announcements for issue of new shares as consideration for making acquisitions since 1 January 2012 up to 31 August 2012 (the "Share Review Period"), for reference (the "Share Comparables"). We consider the Share Review Period to be reasonable and meaningful for identifying the Share Comparables because it represents relatively comparable market conditions and sentiments as that around the time of the Acquisition, while provides a time span for identifying sufficient samples for comparable analysis purpose. We have identified a total of 16 Share Comparables within the Share Review Period which we consider represents a sufficient sample size to reflect the recent trend of the issue of consideration shares in the market, and we consider the Share Comparables to be fair and representative samples, and are meaningful and exhaustive under the Share Review Period. Our analysis is summarized in the table below:

Table 13:

Comparable (stock code)	Date of Announcements	Share consideration price	Value of the consideration shares ($ million)	Premium/(discount)of issue price to the closing price: Last trading day prior to the release of the announcement (%)	5 trading days prior to the release of the announcement (%)	10 trading days prior to the release of the announcement (%)	30 trading days prior to the release of the announcement (%)	Consideration shares as of the enlarged share capital (%)	Net asset value per shares FY2011	Discount to NAV Premium/ (Discount) (%)
Baoxin Auto Group Limited (1293.HK)	30-Aug-12	HK$3.974	US$305.36	-0.70%	0.00%	3.50%	3.70%	1.12%	HK$1.47	170.34%
Xinhua News Media Holdings Limited (309.HK)	29-Aug-12	HK$0.214	HK$29.00	10.41%	0.00%	-2.81%	-6.76%	10.40%	HK$0.20	7.10%
Chanceton Financial Group Limited (8020.HK)	24-Aug-12	HK$2.000	HK$50.00	0.00%	-0.50%	-2.44%	-4.94%	12.50%	HK$0.02	8130.45%
China Solar Energy Holdings Limited (155.HK)	17-Aug-12	HK$0.036	HK$74.67	0.00%	0.00%	2.60%	13.80%	14.30%	HK$0.06	-40.00%
New Focus Auto Tech Holdings Limited (360.HK)	17-Jul-12	HK$1.340	RMB19.89	19.64%	16.52%	15.32%	12.32%	3.08%	HK$0.06	2,133.33%
China ITS (Holdings) Co., Ltd. (1900.HK)	20-Jun-12	HK$1.223	HK$40.30	1.57%	2.25%	2.59%	3.80%	1.99%	HK$1.73	-29.31%
Waytung Global Group Limited (21.HK)	14-Jun-12	HK$0.200	HK$80.64	11.11%	7.53%	6.95%	(0.40%)	25.80%	HK$0.25	-20.00%
Enerchina Holdings Limited (622.HK)	27-May-12	HK$0.100	HK$160.00	13.60%	17.60%	16.30%	3.10%	18.20%	HK$0.49	-79.59%
Shifang Holdings Limited (1831.HK)	15-May-12	HK$0.500	HK$60.00	-5.66%	-5.30%	-4.94%	0.00%	14.29%	HK$1.92	-73.96%
Come Sure Group Holdings Limited (794.HK)	4-May-12	HK$2.000	HK$21.14	81.82%	68.07%	63.27%	47.97%	2.83%	HK$1.37	45.99%
Sino Resources Group Limited (223.HK)	1-Apr-12	HK$0.300	HK$77.55	29.87%	23.25%	21.95%	17.34%	13.34%	-HK$0.19	-257.89%

Comparable (stock code)	Date of Announcements	Share consideration price	Value of the consideration shares ($ million)	Premium/(discount)of issue price to the closing price: Last trading day prior to the release of the announcement (%)	5 trading days prior to the release of the announcement (%)	10 trading days prior to the release of the announcement (%)	30 trading days prior to the release of the announcement (%)	Consideration shares as of the enlarged share capital (%)	Net asset value per shares FY2011	Discount to NAV Premium/ (Discount) (%)
Sinocorp Resources (Holdings) Limited (476.HK)	29-Mar-12	HK$0.750	HK$90.00	-3.80%	-2.60%	1.30%	3.21%	7.98%	HK$1.39	-46.04%
China Data Broadcasting Holdings Limited (8016.HK)	23-Apr-12	HK$1.000	HK$135.00	-42.53%	-42.53%	-42.53%	-43.00%	5.75%	HK$0.14	614.29%
Karrie International Holdings Limited (1050.HK)	18-Mar-12	HK$0.346	HK$45.00	0.29%	0.87%	-0.43%	-1.97%	13.02%	HK$0.50	-30.80%
CVM Minerals Limited (705.HK)	12-Jan-12	HK$0.126	HK$83.16	5.00%	5.70%	4.13%	7.08%	15.80%	HK$0.11	14.55%
Sino Union Energy Investment Group Limited (346.HK)	10-Jan-12	HK$0.716	RMB175	49.17%	36.64%	-3.82%	-7.38%	4.38%	HK$1.39	-48.49%
		Maximum		81.82%	68.07%	63.27%	47.97%	25.80%		8,130.45%
		Minimum		-42.53%	-42.53%	-42.53%	-43.00%	1.12%		-257.89%
		Mean		10.61%	7.97%	5.06%	2.99%	10.30%		655.62%
		Median		3.29%	1.56%	2.59%	3.16%	11.45%		-24.66%
The Company		**HK$1.900**		**-7.32%**	**-0.52%**	**15.15%**	**24.18%**	**20.45%**	**HK$3.860**	**-50.78%**

Source: Bloomberg, HKEx

Based on the above illustration, we noted that the range of premium and discount of the issue prices of the Share Comparables to the (i) 10-day average closing prices of the underlying stocks prior to the relevant announcement is between 63.27% premium and 42.53% discount, with mean and median premium of 5.06% and 2.59% respectively; and (ii) 30-day average closing price of the underlying stocks prior to the relevant announcement is between 47.97% premium and 43.00% discount, with mean and median premium of 2.99% and 3.16% respectively. For reference only, the range of premium and discount of the issue prices of the Share Comparables to the (i) last trading closing price of the underlying stocks prior to the relevant announcement is between 81.82% premium to 42.53% discount, with mean and median premium of 10.61% and 3.29% respectively; and (ii) 5-day average closing price of the underlying stocks prior to the relevant announcement is between 68.07% premium to 42.53% discount, with mean and median premium of 7.97% and 1.56% respectively.

In the case of the Company, the 15.15% and 24.18% premium represented by the Issue Price to the 10-trading day and 30-trading day average closing price respectively of the Company prior to the announcement of the Acquisition, falls within the relevant range of the Share Comparables. We noted that the premium represented by the Issue Price to the 10-trading day and 30-trading day average closing price fall significantly above both the mean and median of the Share Comparables and we consider that such premium represents a favorable term to the Company. For reference only, the 7.32% and 0.52% discount represented by the Issue Price to the last trading and 5-trading day average closing price respectively of the Company prior to the announcement of the Acquisition, also falls within the relevant range of the Share Comparables even though it represent a discount when compared to the mean and medium premium of the Share Comparables under the same comparison period.

Given that the Directors have referenced to the consolidated net asset value per Share of the Company as one of the reference price benchmarks when negotiating for the Issue Price, we also review the historical level of the Share price as compared to its net asset value per Share. In this respect, the Issue Price of HK$1.9 was at a discount of approximately 50.78% from the audited consolidated net asset value per Share of the Company as at 31 December 2011, being approximately HK$3.86. As shown by Table 13, we noted that the range of the premium/discount of the issue price to the audited consolidated net asset value per share of the Share Comparables varied significantly, with a range from 8,130.45% premium to 257.89% discount, with mean and median of 655.62% premium and 24.66% discount respectively. Given the wide range of premium and discount and the significant difference in mean and medium of the Share Comparables noted, we consider a comparison with Share Comparables would not yield a meaningful assessment. In this regard, we have reviewed the average Share price of the Company over three, six and twelve months period (with only trading days included) prior to the announcement of the Acquisition to ascertain the historical level of Share price to net asset value per Share of the Company. We noted that the average closing prices of approximately HK$1.65 per Share, HK$1.80 per Share and HK$2.22 per Share as quoted on the Stock Exchange for the three, six and twelve months period prior to the announcement of the Acquisition, respectively, represented discounts of approximately 57.4%, 53.3% and 42.4% from the audited consolidated net asset value per Share of the Company as at 31 December 2011. As the above discounts to net asset value per Share are at a level relatively comparable to that of the Issue Price, we consider the discount of the Issue Price of approximately 50.78% to the audited consolidated net asset value per Share as at 31 December 2011 to be acceptable.

In light of the above, we consider the Issue Price is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

3. The Convertible Bonds

Pursuant to the Sale and Purchase Agreement, the remaining amount of HK$6,708,225,429.70 of the Consideration payable for the Acquisition will be settled by way of the Company issuing the Convertible Bonds in two tranches, which are convertible to the Shares at a conversion price of HK$2.15 per Share (the "Conversion Price") for a maximum of 3,120,118,804 new Shares.

a. Conversion price

The Conversion Price of HK$2.15 was determined based on arm's length negotiations between the Company and the Seller by reference to the prevailing market prices of the Shares as shown in the following table. We consider that such basis of determining Conversion Price to be in line with market practice.

Table 14:

Reference Prices	**Conversion Price representing**
Closing price of HK$2.05 per Share as quoted on the Stock Exchange on the Last Trading Day	A premium of approximately 4.88%
Average closing price of approximately HK$1.91 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including Last Trading Day	A premium of approximately 12.57%
Average closing price of approximately HK$1.65 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day	A premium of approximately 30.30%
Average closing price of approximately HK$1.53 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day	A premium of approximately 40.52%
Audited consolidated net asset value per Share attributable to the Shareholders of approximately HK$3.86 as at 31 December 2011	A discount of approximately 44.30%

For the same reason stated in the previous section, we consider that the market Share price from 11 June 2012 to 15 June 2012 as set out in chart 7 may not serve as a reliable benchmark for assessing the fairness and reasonableness of the Conversion Price, and therefore we have only taken the 10-day average and 30-day average closing price as our benchmarks when performing related conversion price analysis.

We have identified, to the best of our knowledge and as far as we are aware of, 8 transactions, during the period from 1 January 2012 to 31 August 2012 (the "CB Review Period"), by listed companies in Hong Kong which involved the issue of convertible bonds/notes as consideration for making acquisitions (the "CB Comparables"). Again we consider the CB Review Period to be reasonable and meaningful as it represents relatively comparable market conditions and sentiments as that around the time of the Acquisition, while provides a time span for identifying sufficient samples for comparable analysis purpose. We consider the 8 transactions identified represents a sufficient sample size to reflect the recent trend of the issue of convertible bonds/notes as consideration in the market, and we consider the CB Comparables to be fair and representative samples, and are meaningful and exhaustive under the CB Review Period.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CB Comparables and we have not conducted any in-depth investigation into the businesses and operations of the CB Comparables. The CB Comparables are hence only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions, which involved the issue of convertible bonds/notes as consideration for making acquisitions. The table below illustrates our relevant findings:

Table 15:

Date of Announcements	Company (stock code)	Last Trading day	Conversion Price (HK$)	Value of the convertible notes/ bonds ($m)	Premium/(discount)of issue price: over(to) the closing price prior to the release of the announcement %	Premium/(discount)of issue price: over(to) the average closing price for last 5 consecutive trading days prior to the release of the announcement %	Premium/(discount)of issue price: over(to) the average closing price for last 10 consecutive trading days prior to the release of the announcement %	Premium/(discount)of issue price: over(to) the average closing price for last 30 consecutive trading days prior to the release of the announcement %	Coupon %	Maturity year(s)	Enlarged Capital %	Redemption amount at maturity	Anti dilution adjustment to conversion price
27 August 2012	Chanceton Financial Group Limited (8020.HK)	23-Aug-12	2.500	HK$188	25.00%	24.38%	21.95%	19.26%	0%	5	12.50%	100.00	Yes
07 August 2012	Mongolia Investment Group Limited (402.HK)	25-May-12	0.250	HK$1,207	28.21%	28.21%	26.90%	21.97%	0%	5	10.93%*	100.00	Yes
28 June 2012	Epicurean and Company, Limited (8213.HK)	25-Jun-12	0.080	HK$80	21.21%	17.99%	14.94%	14.83%	2%	3	37.84%	100.00	Yes
27 May 2012	Enerchina Holdings Limited (622.HK)	24-May-12	0.100	HK$1,040	13.60%	17.60%	16.30%	3.10%	0%	5	54.20%*	100.00	Yes
21 May 2012	Jiangchen International Holdings Limited (1069.HK)	21-May-12	0.810	HK$21	-18.20%	-19.00%	-19.20%	-27.10%	0%	3	6.64%	100.00	Yes
30 April 2012	Luen Thai Holdings Limited (311.HK)	27-Apr-12	1.200	US$4.6	10.100%	17.60%	14.30%	39.48%	7%	2	2.90%	100.00	Yes
29 March 2012	Sinocop Resources (Holdings) Limited (476.HK)	1-Nov-11	0.750	HK$2,910	-3.80%	-2.60%	1.30%	3.21%	0%	10	72.1%*	100.00	Yes
12 January 2012	CVM Minerals Limited (705.HK)	12-Jan-12	0.126	HK$107	5.00%	5.70%	4.13%	7.08%	5%	5	16.87%	100.00	Yes (if issues of shares or options over shares at less than 80% of the current market price)
				Maximum	**28.21%**	**28.21%**	**26.90%**	**39.48%**	**7%**	**10**	**72.06%**	**100.00**	
				Minimum	**-18.20%**	**-19.00%**	**-19.20%**	**-27.10%**	**0%**	**2**	**2.90%**	**100.00**	
				Mean	**10.14%**	**11.24%**	**10.08%**	**10.23%**	**2%**	**5**	**26.74%**	**100.00**	
				Median	**11.85%**	**17.60%**	**14.62%**	**10.96%**	**0%**	**5**	**14.69%**	**100.00**	
	The Company				**4.88%**	**12.57%**	**30.30%**	**40.52%**	**0%**	**5**	**53.38%***	**N/A**	

**Remarks: Issued share capital as enlarged by Consideration Shares and Conversion Shares*

Source: Bloomberg

Based on the above illustration, we note that the range of premium and discount of the conversion prices of the CB Comparables to the (i) 10-day average closing prices of the underlying stocks prior to the relevant announcement is between 26.90% premium and 19.20% discount, with mean and median premium of 10.08% and 14.62% respectively; (ii) 30-day average closing price of the underlying stocks prior to the relevant announcement is between 39.48% premium and 27.10% discount, with mean and median premium of 10.23% and 10.96% respectively. For reference only, the range of premium and discount of the conversion prices of the CB Comparables to the (i) last trading closing price of the underlying stocks prior to the relevant announcement is between 28.21% premium to 18.20% discount, with mean and median premium of 10.14% and 11.85% respectively; and (ii) 5-day average closing price of the underlying stocks prior to the relevant announcement is between 28.21% premium to 19.00% discount, with mean and median premium of 11.24% and 17.60% respectively.

In the case of the Company, the 30.30% and 40.52% premium represented by the Conversion Price to the 10-trading day and 30-trading day average closing price respectively of the Company prior to the announcement of the Acquisition is above the upper range of the CB Comparables. We noted that the premium represented by the Conversion Price to the 10-trading day and 30-trading day average closing price fall significantly above both the mean and median of the CB Comparables and we consider that such premium represents a favorable term to the Company. For reference only, the 4.88% and 12.57% premium represented by the Conversion Price to the last trading day and 5-trading day average closing price respectively of the Company prior to the announcement of the Acquisition, also falls within the relevant range of the CB Comparables even though it represent a discount when compared to the mean and medium premium of the conversion price of the CB Comparables to the last trading closing price. When compared to the 5-trading day average closing price of the CB Comparables, the Conversion Price is higher than the mean and lower than the median of the CB Comparables.

b. Conversion Price adjustment

From the CB Comparables, we noted that it is not unusual for the conversion price of a convertible bond/note/security to be subject to adjustment as a result of the dilutive events including but not limited to capital distribution, payment of dividends or issue of rights, for the adjustment of the Conversion Price. As such, we consider that the Conversion Price adjustment is a customary term for convertible bond/note/security in a fair and commercial market based on arm's length negotiations to ensure that the holder(s) of the relevant convertible bond/note/security is/are not worse off and thus is on normal commercial terms.

c. Maturity date and no redemption right

The initial maturity term of the Convertible Bonds is five years. We consider that the maturity term of the Convertible Bonds, which lies within the range of maturity period of the CB Comparables from two to ten years, is relatively normal for debt securities of similar kind.

The Convertible Bonds are also non-redeemable and any unconverted Convertible Bonds outstanding upon expiry will be cancelled. We have reviewed the principal terms of the convertible bonds/notes contemplated in the relevant transactions of the CB Comparables and are of the view that the no-redemption feature and the cancel-upon-expiry feature, are, although not in line with market practice, are nevertheless favourable to the Company on the basis that (i) it will not create undue pressure on the Enlarged Group's liquidity; and (ii) the cancellation of any outstanding Convertible Bonds upon expiry would effectively reduce the Consideration and remove any further potential dilution impact for existing public shareholders as set out in the subsection headed "Other factors considered — Dilution effects of the Acquisition" in this letter. Therefore we consider that the no-redemption feature and the cancel-upon-expiry feature, as arrived at after arm's length negotiations, are in the interest of the Company and the Independent Shareholders as a whole and therefore are fair and reasonable.

d. Coupon rate

We noted that no interest will accrue on the outstanding principal amount of the Convertible Bonds. We looked into the coupon rates of the CB Comparables in order to assess the fairness and reasonableness of the Convertible Bonds. The CB Comparables carry annual coupon rates ranging from 0 to 7% (the "Coupon Range"), with a mean and median coupon rate of 2% and 0% respectively. Thus, we are of the opinion that the 0% coupon rate of the Convertible Bonds is at a better term when compared to the Coupon Range. Also, on the basis only of financial costs, the Convertible Bonds would be a more favourable source of financing compared to interest-bearing borrowings (if and to the extent available) that are generally available to the Group and would not create additional financial burden with regards to additional interest payment on the Company.

Based on the above analysis, we consider that the coupon rate of the Convertible Bonds is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

e. Condition for conversion and Public Float Restriction

It is a term of the Sale and Purchase Agreement that the conversion rights attached to the Convertible Bonds are subject to the requirement that the Public Float must at all times comply with the requirements of Rule 8.08 of the Listing Rules (the "Public Float Restriction"). In conjunction with the no redemption right, it is also a term of the Sale and Purchase Agreement that any Outstanding Bonds that remain unconverted on the Extended Maturity Date shall be deemed to be cancelled. Effectively if for whatever reason (whether as a result of the Public Float Restriction or otherwise) the Company has not converted all Convertible Bonds entitled by it (after any adjustments arising from the net profit benchmarks) upon the Extended Maturity Date, the Consideration will be further downward adjusted by the cancellation of such unconverted Convertible Bonds.

We consider the Public Float Restriction serves to preserve the Public Float requirement of the Company and protect the Company from non-compliance of Rule 8.08 of the Listing Rules by virtue of the conversion action of the Seller. We therefore are of the opinion that the Public Float Restriction is beneficial to the Company.

Having considered all of the foregoing features of the Convertible Bonds (including the conversion price, the no redemption clause, the adjustment clause to principal amount of the Convertible Bonds, the zero coupon rate and the Public Float Restriction), we consider that the principal terms of the Convertible Bonds are fair and reasonable and the issue of the Convertible Bonds as a whole is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

D. FINANCIAL EFFECTS OF THE ACQUISITION

1. Accounting treatment upon Completion

As stated in the Letter from the Board in the Circular, upon Completion, the Target will become a wholly-owned subsidiary of the Company. Based on the unaudited pro forma financial information of the Enlarged Group ("Pro forma Financial Information") as set out in Appendix IV of the Circular, according to International Financial Reporting Standard ("IFRS") 3, the Acquisition is accounted for as a reverse acquisition, under which the Target Group is treated as the accounting acquirer and the Company (the accounting acquiree) immediately before completion of the Acquisition was deemed to have been acquired by the Target Group.

Under the above-mentioned treatment, the unaudited consolidated statement of financial position of the Group as at 30 June 2012 will be consolidated into the audited consolidated statements of financial position of the Target Group as at 31 May 2012, after pro forma adjustments, to form the unaudited pro forma consolidated statement of financial position of the Enlarged Group as if the Acquisition had been completed on 30 June 2012.

The audited consolidated income statement and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 will be consolidated into the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2011, after pro forma adjustments, to form the unaudited pro forma consolidated statement of income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, respectively, as if the Acquisition had been completed on 1 January 2011.

In addition, as stated in the Pro forma Financial Information, the Convertible Bonds would be recognized as financial liabilities at fair value through profit or loss measured at its fair value at each report date with the movement in fair value recognized in the profit or loss of the Enlarged Group for that reporting period. Shareholders are advised to refer to Appendix IV headed "Unaudited Pro Forma Financial Information of the Enlarged Group" of the Circular for details of the accounting treatment.

The unaudited Proforma Financial Information is for illustrative purpose only based on a number of assumption, estimates and uncertainties. The actual results or cash flows of the Enlarged Group after the Acquisition or the actual financial position of the Enlarged Group that will be attained upon Completion may be different from the unaudited Proforma Financial Information.

2. Effect on earnings and earnings per Share

Set out below is the profit and pro forma profit, including a per Share basis, of both the Group and the Enlarged Group for the year ended 31 December 2011, extracted from the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as set out in Appendix IV of the Circular:

Table 16:

	The Group	**Enlarged Group (after issue of Consideration Shares)**	**Enlarged Group (after issue of Consideration Shares and conversion of the Convertible Bond subject to the Public Float Restriction)**
Profit for the year *(HK$'000)*	250,449	5,246,989	5,246,989
Total number of Shares in issue	1,529,766,661	2,725,421,698	2,764,993,072
Earnings per Share *(HK$ cent)*	16.37	192.52	189.76

Pursuant to the pro forma consolidated income statement of the Enlarged Group as set out in Appendix IV of the Circular, there is a gain on bargain purchase ("Gain on Bargain Purchase") by the Target Group in connection with the Acquisition amounting to approximately HK$2,455 million and changes in fair value of Convertible Bonds of approximately HK$2,174 million.

The Gain on Bargain Purchase represents the excess of fair value of the identifiable assets and liabilities of the Group immediately prior to the Acquisition over the deemed cost of the business combination (deemed consideration).

The Gain on Bargain Purchase will be recognised upon Completion, and upon such time the amounts of each of the deemed consideration (being the market capitalisation of the Company), the fair value of the identifiable assets and liabilities of the Group and the changes in fair value of the Shares and Convertible Bonds may be different from those assumed in the unaudited Pro Forma Financial Information. Therefore the amount of Gain on Bargain Purchase and the changes in fair value of the Convertible Bonds may be different from HK$2,455 million and HK$2,174 million gain to the pro forma profit and loss reported. In order to give Independent Shareholder a more informed assessment on the earnings impact based on underlying financial performance of the Target Group rather than gains as a result of accounting treatment and adjustments, we have computed the pro forma net profit of the Enlarged Group excluding the Gain on Bargain Purchase and changes in fair value of Convertible Bonds, and arrived at HK$618.5 million (with a corresponding earnings per share of HK cents 22.69 after the allotment and issue of Consideration Shares and HK cents 22.37 after the allotment and issue of Consideration Shares and conversion of such portion of the Convertible Bonds as limited by the Public Float Restriction).

As such, we consider that the Acquisition has a positive effect on the earnings and earnings per Share of the Enlarged Group, even without taking into account of the accounting gains as a result of the Gain on Bargain Purchase and changes in fair value of Convertible Bonds.

3. Effect on net asset value and net asset value per Share

According to the Sale and Purchase Agreement, the Seller and the Guarantor have warranted that the net tangible asset value of the Target Group shall not be less than HK$950 million as at the Completion Date. Set out below is the net asset value and pro forma net asset value attributable to the Shareholders, including a per Share basis, of both the Group and of the Enlarged Group as at 30 June 2012, extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV of the Circular:

Table 17:

	The Group	**Enlarged Group after the allotment and issue of Consideration Shares**	**Enlarged Group after issue of consideration shares and conversion of CB subject to Public Float Restriction**
Net asset value *(HK$'000)* ("NAV")	5,827,893	1,362,181	1,362,181
Total number of Shares in issue	1,529,766,661	2,725,421,698	2,764,993,072
Net asset value per Share *(HK$)* ("NAV per Share")	3.81	0.50	0.49

As shown in the table above, the NAV would be approximately HK$1,362 million upon Completion and immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds. The NAV per Share would be HK$0.50 upon Completion and immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds, and HK$0.49 after the allotment and issue of the Consideration Shares and the conversion of such portion of the Convertible Bonds as limited by the Public Float Restriction.

We noted the substantial reduction in the pro forma NAV of the Enlarged Group and consider that such substantial reduction is principally arising from the accounting treatment of the Convertible Bonds of HK$5,289.8 million as financial liability. The Convertible Bonds will however be treated as equity as and when the potential downward adjustment on consideration (if any) is ascertained and the terms of the Convertible Bonds comply with the "fixed-for-fixed" requirement as further explained in Appendix IV of the Circular. Shareholders should also note that the bondholders has no right to require the Company to repay the principal amount of the Convertible Bonds in cash, or to redeem or repurchase the Convertible Bonds, whether at maturity or otherwise. As such, the reduction of the NAV as a direct result of the Convertible Bonds is temporary until the respective potential downward adjustment on the Consideration is ascertained.

As a result of the abovementioned impact on the NAV due to the treatment of Convertible Bonds and the potential allotment and issue of Consideration Shares, it is also expected that there will be a substantial reduction in NAV per share as demonstrated in Table 17. Nevertheless, as discussed previously we note that NAV per share used for calculation of PBR is not a commonly adopted trading multiple analysis used by capital market participants to value healthcare companies whom primarily rely on earnings based trading multiples as a valuation metric as explained in the sub-section headed "Further analysis on the acquisition consideration — Trading multiples analysis". As such we consider that NAV per share is not an overriding key factor in determining the value of a profitable pharmaceutical company with a relatively asset light business model and no going concern issue and the reduction in NAV per share should be weighed against the improvement in earnings per share of the Enlarged Group as a result of the Acquisition.

4. Effect on gearing ratio

Set out below is the gearing ratio (defined as total liabilities divided by total assets) of the Group and of the Enlarged Group as at 30 June 2012, based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV of the Circular:

Table 18:

	The Group	**Enlarged Group (after issue of Consideration Shares)**	**Enlarged Group (excluding the effect of the Convertible Bonds)**
Total liabilities *(HK$'000)*	4,507,374	12,107,410	6,817,648
Total assets *(HK$'000)*	10,335,267	13,469,591	13,469,591
Gearing ratio	43.6%	89.9%	50.6%

As shown in the table above, the gearing ratio of the Enlarged Group would be 89.9% immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds. Again we consider the substantial increase in gearing ratio of the Enlarged Group is principally resulting from the accounting treatment of the Convertible Bonds, which is recognized as financial liabilities. It should be noted that as the Convertible Bonds are non-redeemable and are subject to cancellation upon expiry and carries zero coupon rate, the Convertible Bonds will not create any financial pressure on the Enlarged Group for repayment of principal or payment of interests.

It should be noted that gearing ratio is a measure of financial leverage, and higher gearing ratio of a company generally means a higher degree of leverage. Generally the higher a company's degree of leverage, the more the company is considered risky with regards to its ability to service its debt in the event of business downturn. However, in the case of the Enlarged Group, the increase in gearing ratio was primarily due to the accounting treatment of the Convertible Bonds as financial liability, which is non-redeemable (and subject to cancellation upon expiry if remain unconverted upon expiry) and carries zero coupon rate. We therefore consider that the Convertible Bonds should not be considered as if it were an interest bearing loan or debt that would otherwise increase the financial leverage and therefore the credit risk of the Company. On such basis, even though we are of the view that the gearing ratio of 89.9% for the Enlarged Group (taking into account the Convertible Bonds) to be technically an accurate calculation, we consider it more meaningful to the Independent Shareholders to also consider the gearing ratio of the Enlarged Group excluding the effect of the Convertible Bonds when appraising the financial leverage position of the Enlarged Group. In such scenario, the gearing ratio of the Enlarged Group would have been approximately 50.6% as compared to 43.6% of the Group as at 31 December 2011 prior to the Acquisition, which we consider is an acceptable level taking into account the reasons and benefits of the Acquisition as considered in the Letter from the Board in the Circular and this letter.

E. OTHER FACTORS CONSIDERED

1. Dilution effects of the Acquisition

The table below demonstrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion and issuance of the Consideration Shares; (ii) upon Completion and conversion of the Convertible Bond; and (iii) upon Completion and full conversion of the Convertible Bond with the public float restriction.

Table 19:

Name of Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares but before conversion of any Convertible Bonds *(Note 1)*		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming issuance of the maximum number of Conversion Shares and no adjustment to the principal amount of the Convertible Bonds and the Conversion Price – for illustration purpose only, as this would not happen given that there will not be sufficient Public Float) *(Notes 1, 2 & 3)*		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares to the extent that immediately after such conversion, there will be a sufficient Public Float *(Notes 1, 2 & 3)*	
	No. of Shares	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*	*No. of Shares*	*Approximate % of issued share capital of the Company*
Seller	—	—	1,195,655,037	43.87	4,315,773,841	78.83	1,235,226,411	44.67
MGL (and other associates of the Seller)	838,518,393	54.81	838,518,393	30.77	838,518,393	14.34	838,518,393	30.33
Sub-total for the Seller Group	838,518,393	54.81	2,034,173,430	74.64	5,154,292,234	88.17	2,073,744,804	75.00
Public Shareholders	691,248,268	45.19	691,248,268	25.36	691,248,268	11.83	691,248,268	25.00
Total	1,529,766,661	100	2,725,421,698	100	5,845,540,502	100	2,764,993,072	100

Notes:

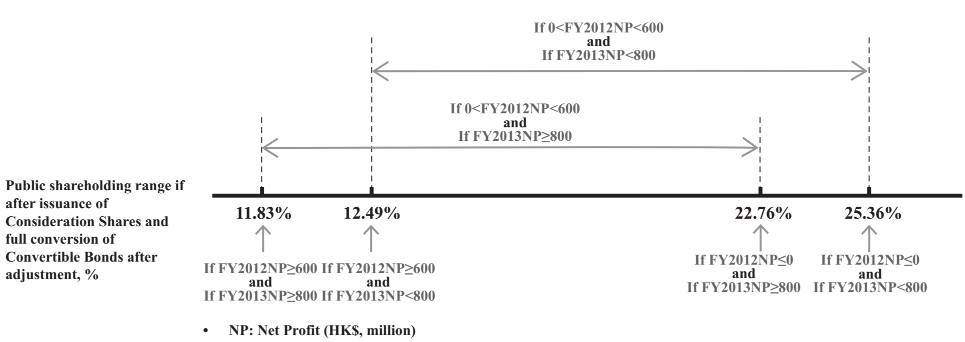
1. The number of Consideration Shares to be allotted and issued upon Completion is calculated using the Consideration Shares Amount of HK$2,271,744,570.30 and the Issue Price of HK$1.90.

2. The number of Conversion Shares to be allotted and issued upon the conversion of the Convertible Bonds is calculated by converting the principal amount into Hong Kong dollars at the exchange rate of US$1.00 to HK$7.80 using the initial Conversion Price of HK$2.15. The number of Shares to be rounded down to the nearest whole number if applicable.

3. The shareholding structure is shown for illustration purpose only and may not be exhaustive. Pursuant to conversion restrictions under the terms and conditions of the Convertible Bonds, no conversion right may be exercised to the extent that, immediately after such conversion, there will not be a sufficient Public Float.

Given that dilution in the shareholding interest of public Shareholders would differ according to the potential adjustment to the principal amount of the Convertible Bonds with reference to certain net profit benchmarks as set out the sub-section headed "Further analysis on the Acquisition Consideration — Principal factors and reasons considered" in this letter, we lay out below the dilution scale under different adjustment scenario for Independent Shareholders reference only.

Chart 8: Dilution adjustment in the event of adjustment to the principal amount of the Convertible Bonds



As demonstrated by the above table, the shareholding interests of the public Shareholders in the Company would be diluted from 45.19% to 25.36% as a result of the issuance of the Consideration Shares. Assuming the Convertible Bonds are converted in full, shareholding interest of public Shareholders in the Company would be further diluted to 11.83%. However, as the Public Float Restriction would prevent conversion of the Convertible Bonds with reference to the 25% Public Float requirement, the shareholding interests of public Shareholders would be kept at 25.0%. As demonstrated in Table 19, immediately after the allotment and issue of the 1,195,655,037 Consideration Shares, the Seller can only convert an additional 39,571,374 Conversion Shares (or approximately HK$85.1 million worth of Convertible Bonds) as a result of the Public Float Restriction.

It should be noted that even though there is a Public Float Restriction, the shareholding interests of existing public Shareholders in the Company may still be subject to further dilution on top of the above illustration in the event that the Seller Group place down any of the 1,195,655,037 Shares to be held by them immediately after the allotment and issue of the Consideration Shares, thereby creating additional room for conversion of Convertible Bonds in excess of the original maximum of 39,571,374 Shares as mentioned in the preceding paragraph. Nevertheless, the Public Float Restriction would maintain the shareholding interest of public Shareholders at 25% (at least) and thereby ensuring the listing status of the Company.

To enable Independent Shareholders to better assess the potential impact of the Consideration Shares and Conversion Shares on the value of their investment in the Shares, we set out below an analysis showing, theoretically, what level of post-Acquisition market capitalization and implied 2011 PER of the Enlarged Group would have to be to put the market value per Share (that is, the Share price) to the same closing price per Share on the last trading day immediately before announcement of the Acquisition (that is, HK$2.05 per Share) under different dilution scenario. For the purpose of the above analysis we have applied the adjusted pro-forma income (note) of the Enlarged Group as set out in Appendix IV of the Circular:

Note: We have taken HK$618.5 million as the 2011 pro-forma income to calculate the implied 2011 PER as we think it is more appropriate to exclude non-recurring accounting gains arising from the Gain on Bargain Purchase and changes in fair value of Convertible Bonds as explained in the subsection headed "Financial effects of the Acquisition — Effect on earnings and earnings per Share" in this letter.

Chart 9:

	Number of Shares assumed to be in issue (A)*	**Market value** *(HK$ million)* **(B)***	**Implied 2011 PER (C)***
Scenario 1:	1,529,766,661	3,136	5.1x
Scenario 2:	2,725,421,698	5,587	9.0x
Scenario 3:	2,764,993,072	5,668	9.2x
Scenario 4:	5,845,540,502	11,983	19.4x

*B calculated as A multiplied by HK$2.05 and C calculated as B divided by HK$618.5 million.

Scenario 1: The control scenario, being the current number of Shares in issue and the actual market value of the Company with Share price of HK$2.05 at 15 June 2012, being the last trading day prior to the announcement of the Acquisition.

Scenario 2: Assuming after the allotment and issue of the Consideration Shares but before the conversion of any Convertible Bonds.

Scenario 3: Assuming after the allotment and issue of the Consideration Shares and such number of Conversion Shares to the extent that immediately thereafter, the public float will be the minimum requirement of 25%.

Scenario 4: Assuming after the allotment and issue of the Consideration Shares and the maximum number of Conversion Shares (that is, assuming no adjustment to the principal amount of the Convertible Bonds).

We draw the attention of Independent Shareholders particularly to scenario 4, where the maximum total number of 5,845,540,502 Shares is assumed to be in issue. Under such a scenario, the market value of the Enlarged Group would need to be at least HK$11,983 million in order for Independent Shareholders to maintain their pre-Acquisition per Share value of HK$2.05. Such market value of HK$11,983 million translate to an implied 2011 PER of 19.4x based on the adjusted pro-forma income of HK$618.5 million. Independent Shareholders may take note that as illustrated in table 11 of this letter, the 2011 PER range of our Market Comparables is 14.2x to 28.6x, with a mean and median of 20.8x and 19.6x respectively.

In this regard, taking into account (i) the reasons for the Acquisition and the possible benefits of the Acquisition to the Group; (ii) the respective terms of the Sale and Purchase Agreement, the Consideration Shares and the Convertible Bonds being fair and reasonable; (iii) the ultimate dilution impact on Independent Shareholders will be affected (or limited) by the Target Group being able to achieve both the 2012 and 2013 net profit benchmarks, failing which the Consideration and the ensuing dilution impact would be adjusted downward accordingly; (iv) the Public Float Restriction which would maintain the shareholding interest of public Shareholders at 25% (at least) and thereby ensuring the listing status of the Company as far as the public float requirement of Rule 8.08 of the Listing Rules is concerned; (v) the no-redemption right of the Convertible Bonds which are subject to cancellation if remain unconverted at maturity, thereby removing any uncertainly with regards to future potential dilution impact; (vi) the issue of the Consideration Shares and Convertible Note to the Seller will not draw on the existing cash resources of the Company for the Acquisition; and (vii) the positive accretion to the net profit of the Enlarged Group upon Completion as reflected in the unaudited pro forma consolidated income statement of the Enlarged Group per Appendix III of this Circular, we consider that the benefits of the Acquisition (including the issue of the Consideration Shares and Convertible Bonds) as a whole outweigh the dilution effect on the shareholding held by the public Shareholders in the Company as a result of the issue of the Consideration Shares and the Conversion Shares. Overall, we consider that such dilution effect to public Shareholders is acceptable so far as the Independent Shareholders are concerned.

2. There is no net cash outlay and therefore causes no financial burden to the Group

Pursuant to the terms of the Sale and Purchase Agreement, the Consideration of the Acquisition is HK$8,980,000,000. It is contemplated that the Consideration payable by the Purchaser to the Seller will be funded by the Consideration Shares and the Convertible Bonds. We note that as at 30 June 2012, the Group was in a net debt position with net debt of approximately HK$940.9 million. As the Consideration is to be settled in full by way of issue of Shares and Convertible Bonds, there will be no cash outlay from the Group nor does the Group require to take up loan financing to facilitate the payment of the Consideration, which would otherwise have subjected the Group to additional financial burden.

3. Previous disposal of CSPC NBP by the Company

We noted that CSPC NBP was disposed for HK$125 million by the Group to CCPCL in exchange for the entire equity interest in Hong Yuan, one of the raw material suppliers of the Group in 2009 by way of asset swap ("Asset Swap"). Such disposal was announced by the Company on 22 May 2009.

When analyzing and considering the terms of the Acquisition we have made reference, where we consider appropriate, to the background, terms and reasons provided for the Asset Swap. More particularly, while CSPC NBP forms part of the Target Group which is the subject of the Acquisition, we have considered and reviewed the circumstances and the reasons put forth by the Company with regards to the disposal and subsequent acquisition of CSPC NBP as part of our analysis on the fairness and reasonableness of the terms of the Acquisition.

As advised by the Directors and as set out in details in the Letter from the Board in the Circular, the Group entered into the Asset Swap for reasons including:

— Hong Yuan was an upstream raw materials supplier of the Group, and the Group considered the acquisition of Hong Yuan to be an opportunity to naturally grow its business and ensure a reliable supply of raw materials;

— CSPC NBP was at the relevant time a loss making entity and had sustained losses consecutively in the two financial years ended 31 December 2007 and 2008, which the Directors attributed mainly to low sales volume, high marketing costs and ineffective marketing and sales strategies;

— at the relevant time the Group's sales and distribution team mainly focused on the marketing and sales of common generic finished drugs mostly targeted at lower tiers of medical institutions such as county hospitals, township health centers and community healthcare centers, which in general required no clinical introduction;

— at the relevant time the Group lacked the sales and marketing force and technique to market CSPC NBP's then principle product, Butylphthalide Soft Capsule, a high-end patent finished drug new to the market, which is required to be marketed to higher tier public hospitals and demands a sales and marketing team equipped with sufficient knowledge and network to conduct clinical introduction to doctors and hospitals;

— due to the incompatibility of sales and distribution requirements between Butylphthalide Soft Capsule and the Group's other finished drugs in general, the Directors considered the Group would have required substantial investment in developing a market with sustainable volume and scale for Butylphthalide Soft Capsule.

In respect of the foregoing, we have reviewed publicly available market information on China's healthcare infrastructure and commercialization process (as stated in the sub-section headed "Overview of China's Pharmaceutical Industry" in this letter) and relevant PRC governmental notices and regulations for the purpose of acquiring an understanding of industry operations and practices. We are of the view that the commercialization process is rather complicated and multi-layered. For prescription drugs, we consider that getting admitted into relevant drug reimbursement lists, winning provincial tendering, getting admitted into hospitals' formulary listing and creating product demand through prescription preference are all likely to have material impact in achieving market penetration and volume sales. Moreover, for higher-end drugs such as those listed under Class B of the NRDL and drugs that are relatively new to market, additional marketing efforts on clinical introduction to increase awareness of the medical profession, facilitate hospital formulary listing admission and induce prescription preferences are essential elements for product commercialization.

The Directors further explained that since the disposal of CSPC NBP by the Company to CCPCL, SPC had implemented various measures to significantly upgrade the sales and marketing capability of CSPC NBP to be more in line with what is required for marketing of high-end, new to market drugs like Butylphthalide Soft Capsule (for details please refer to the sub-section headed "Information on the Parties — Information on the Target Group — Previous disposal of CSPC NBP by the Company" under the Letter from the Board in the Circular). Consequently CSPC NBP's financial performance began to improve and recorded a modest profit in 2010, a turnaround from a continuous loss making position. The measures implemented in CSPC NBP began to yield significant results in 2011 as revenue and net profit both exhibited substantial growth momentum (please refer to the Target Group's MD&A included in Appendix III of this Circular and the sub-section headed "Further analysis on the Target Group — Financial review" in this letter).

All in all we consider the reasons put forth by the Directors for its previous disposal of CSPC NBP in 2009 to be reasonable and consistent with our inferences drawn from our findings on the industry dynamics, competitive landscape and regulatory environment of the PRC pharmaceutical industry applicable to CSPC NPB and/or its products.

We are of the opinion that the then valuation of CSPC NBP for the purpose of the Asset Swap should not serve as a comparison benchmark for its current valuation with reference to the Acquisition, primarily for reason that the Acquisition involved the acquisition of the entire Target Group which comprises the OYY Group, CSPC NBP and CSPC XNW, and that CSPC NBP only contributed partially to the profit level of the Target Group over the Track Record Period (with CSPC OYY Group being the major profit contributor throughout the Track Record Period) as demonstrated below. More particularly, we noted that during the Track Record Period, CSPC OYY Group remains the biggest contributor in terms of net profit before tax to the Target Group, contributing on average 53.9% to the net profit before tax of the Target Group as a whole, followed by CSPC NBP with an average of 24.7% whilst CSPC XNW contributed approximately 21.4% on average during the Track Record Period.

Table 20:

	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For the five months ended 31 May 2012	Average
CSPC OYY Group	58.0%	70.3%	48.3%	47.7%	53.9%
CSPC NBP	(6.7%)	6.8%	34.5%	41.1%	24.7%
CSPC XNW	48.7%	22.9%	17.2%	11.2%	21.4%

We are further of the view that even if we were to arbitrarily infer a valuation of CSPC NBP embedded in the total Consideration by applying any of the pre-tax profit contribution percentage of CSPC NBP during the Track Record Period, a simple benchmark comparison between such arbitrary apportioned valuation of CSPC NBP against the valuation of CSPC NBP under the Asset Swap is not appropriate, for reason that the existing competitive strengths and business capability of CSPC NBP is significantly different from those during or prior to the Asset Swap. In particular:

— the existing business size and scale of CSPC NBP is much larger with revenue of approximately HK$398.8 million for the year ended 31 December 2011 as compared to approximately RMB60.2 million (or approximately HK$68.4 million) and HK$125.4 million for the financial year ended 31 December 2008 and 2009 respectively;

— CSPC NBP recorded audited profit before taxation of HK$14.0 million and HK$144.4 million for the two years ended 31 December 2010 and 2011 respectively, as compared to audited losses (before and after taxation) of approximately RMB21.70 million (or approximately HK$23.1 million) and RMB20.5 million (or approximately HK$23.3 million) for the two years ended 31 December 2007 and 31 December 2008;

— the earnings quality as measure by the profitability of CSPC NBP has improved significantly since 2009 when it was loss making, with its segmental profit margin increasing from 7.8% in 2010 to 36.2% in 2011 and further to 43.3% for the five months ended 31 May 2012;

— with the committed assistance and resources from SPG after the Asset Swap, CSPC NBP has since successfully established a more experienced and professional sales and marketing team oriented towards marketing and distribution of high-end drug such as Butylphthalide Soft Capsule and Butylphthalide infusion to higher tier hospitals, of which such enhanced sales and marketing capability has contributed to the substantial improvements on the business and financial performance of CSPC NBP since 2011; and

— the subsequent admission of Butylphthalide Soft Capsule on the NRDL (2009), and the accreditation of Butylphthalide Soft Capsule as a second-grade pharmaceutical product under the National Science and Technology Progress Award (Independent Shareholders are drawn to the disclosure made by the Company in relation to any prior knowledge of such admission and accreditation at or before the time the Asset Swap was contemplated, which is included in the sub-section headed "Information on the Parties — Information on the Target Group — Previous disposal of CSPC NBP by the Company" under the Letter from the Board in the Circular).

Instead, we have taken the Acquisition and the total Consideration as a whole and performed various analyses and validation exercises as we considered appropriate (as included in this letter) to arrive at our opinion on the fairness and reasonableness of the terms of the Acquisition, which is set forth in the sub-section headed "Recommendation" in this letter.

4. Challenging market conditions with regards to the key existing vitamin C and antibiotics business of the Group

We noted the declining profitability of the Group since 2009, which culminated in a net loss for the six months ended 30 June 2012. According to the Company, the generally unsatisfactory performance was primarily due to a combination of factors, including but not limited to, (i) the oversupply situation of Vitamin C bulk drugs market both in China and globally which resulted in reduction in average selling price; and (ii) oversupply situation coupled with certain unfavorable government policies in China regarding the sale of antibiotics. According to the interim report of the Group for the six months ended 30 June 2012, the Company expects the overall operating environment in relation to its key existing products to continue to be difficult. We reviewed the financial reports for the three years ended 31 December 2011 and the six months ended 30 June 2012, of five companies listed on the Main Board of the Stock Exchange that are engaged in similar line of business of the Group (that is, the vitamin C and/or antibiotics business), and noted that four of these companies reported a lower net profit in financial year 2011 as compared to financial year 2010, three of these companies reported a lower profit in financial year 2011 as compared to financial year 2009, and three of these companies also reported lower profit for the six months ended 30 June 2012 as compared to the same period in 2011. The reasons put forth by these companies with regards to market conditions and challenges are largely in line with what the Company has reported.

In view of the foregoing, we concur with the Company's view that the Acquisition will alleviate its reliance on intermediaries and bulk drugs which are believed to continuous to experience pressure from oversupply situation in the near future, and at the same time enable the Company to enhance its product mix and provide it with new growth drivers.

5. Amendment Agreement

As stated in the Letter from the Board in the Circular, on 24 September 2012 the parties to the Sale and Purchase Agreement entered into the Amendment Agreement to document the Capitalization Issue for the purpose of providing the Target Group with the required funds to settle the Outstanding Payment which arose as a result of the Reorganisation, and which the parties agreed should not be borne by the Company. The use of equity injection (the Capitalization Issue) to provide the required funds was chosen for reason that it would not have resulted in any liability in the Target Group.

We have taken note of the rationale for entering into the Amendment Agreement and agree with the reasons put forth by the Company. More particularly, we concur with the Directors that without the Capitalisation Issue, the liability of RMB637,393,300 would have been outstanding upon completion of the Acquisition and be borne by the Company. The injection of RMB639,800,000 by the Seller Group to the Target Group, by way of the issue of one (1) ordinary share in the capital of the Target to the Seller would in effect provide the Target Group with all the required funds to settle the

Outstanding Payment without creating any additional liability in the Target Group. We also reviewed the respective sale and purchase agreements effected for the purpose of the Reorganisation and confirmed with the Company's PRC lawyer that the Reorganization (so far as PRC laws are concerned) complied with all the relevant requirements of applicable PRC laws and regulations in respect of the Reorganization.

In view of the foregoing, we consider that the terms of the Amendment Agreement to be fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

6. Potential continuing connected transactions

As stated in the Letter from the Board in the Circular, it is expected that upon Completion, the Target Group will continue to provide and procure products to and from the SPG Group. Pursuant to Rule 14A.11 of the Listing Rules, such transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As set out in the sub-section headed "Implications under the Listing Rules — Potential continuing connected transactions" in the Letter from the Board in the Circular, the Company is in negotiation with SPG Group regarding such transactions and intends to enter into the mutual and supply framework agreement in respect of the potential continuing connected transactions on the Completion Date, and the Company stated that it will observe and comply with all applicable requirements under the Listing Rules. Given that the Company will observe and comply with all applicable requirements under the Listing Rules if and when such potential continuing connected transactions will take place, we are of the opinion that such potential continuing connected transactions will not affect our current assessment on the fairness and reasonableness of the Acquisition.

7. Risk factors

The Directors have identified a number of risks associated with the Acquisition which are set out in the section headed "Risk factors of the Acquisition" in the Letter from the Board in the Circular. In this regard, we have considered those identified risks and set out below our views as follows. We are of the view that Independent Shareholders should bear in mind all of those risk factors when considering the Acquisition as they may have different risk preference and are of varied risk tolerance level.

a. ***Economic, political and social conditions in the PRC***

As the major assets and operations of the Enlarged Group will be located in the PRC and a significant portion of its revenue will be derived from the PRC, the business operations and prospects of the Enlarged Group will, to a large extent, subject to the economic, political and legal developments in the PRC.

We have noted that since the implementation of economic reform and opening-up policy in the 1980s, China has experienced significant economic growth. China's nominal GDP increased from RMB21,631 billion in 2006 to RMB47,156 billion in 2011, representing a CAGR of 16.9% over the period. However according to the forecast by Frost & Sullivan issued on 29 June 2012, China's nominal GDP is still expected to reach RMB72,999 billion in 2015, representing a CAGR of 11.5% over the period from 2011 to 2015. As noted in the sub-section headed "Overview of China's pharmaceutical industry" in this letter, while the pharmaceutical market in China has grown rapidly in recent years, with sales growing at a CAGR of 25.9% from 2007 to 2010, such growth is expected to be more modest going forward. According to the 2011 DTT Report, it is expected that China's pharmaceutical industry will grow at a CAGR of 15.5% from 2010 to 2015 supported by key drivers including rising health care awareness and needs fueled by economic growth, large and aging population, increasing total and per capita heath spending, and the ongoing healthcare reform and supportive measures under the 12th Five-Year Plan (an guidance for social, economic and environmental development for the country from 2011 to 2015). In this respect, absent any unforeseeable adverse macro conditions, we consider China's pharmaceutical market still possess significant growth potential.

b. ***Losses leading to substantial damages resulting from product liability, personal injury or wrongful death claims***

The nature of pharmaceutical business exposes the Enlarged Group to the risk of product liability, personal injury or wrongful death claims, which are regulated by the PRC Civil law, the Product Quality Law of the PRC and the PRC Law of Consumer Rights Protection. The Company's PRC lawyer confirmed that as at the Latest Practicable Date, the Enlarged Group has not experienced substantial damages resulting from product liability, personal injury or wrongful death claims which the Company attributed to their stringent quality control. We believe that given the business of the Group will be enlarged by the Acquisition, it is in the interest of the Company to devote sufficient resources on its internal control and closely monitor its quality control, especially at the initial post-Completion period, to ensure it has sufficient measures to encompass the scale and additional business operations of the Enlarged Group.

c. Research and development activities may not result in the successful development of a new product

The success of pharmaceutical business depends, to a large extent, on the ability to enhance existing products and to develop new products. If its product development and research efforts fail to develop commercially successful products, its business and financial condition may be adversely affected. With respect to this risk factor, we noted the existing R&D capability of the Target Group especially in the development of high end finished drugs such as Levamlodipine Maleate and Oxiracetam. On this basis we consider the Enlarged Group has demonstrated relevant R&D capability for development of new products.

d. Flexibility to raise or set prices is limited by state-imposed price control measures

The prices of certain pharmaceutical products in the PRC are subject to the control of relevant state and provincial price administration authorities. We noted such practice in the drug pricing system in China as detailed in the sub-section headed "Overview of China's pharmaceutical industry" in this letter. Independent Shareholders however should note that this is the characteristic of China's pharmaceutical industry and this pricing restriction is applicable to all pharmaceutical companies operating in the China market.

As discussed in this letter, it is relatively well accepted among industry players that among drugs that are subject to government price control, those with individual pricing status have competitive advantage over drugs under the standard price category. Given the "Xuanning" Levamlodipine Maleate tablet of CSPC OYY enjoys individual pricing status, and Butylphthalide Soft Capsule product of CSPC NBP remained not subject to government price control as at the Latest Practicable Date, the Enlarged Group is considered to be in a relatively advantageous position with regards to such products.

Independent Shareholders however are reminded that (i) the individual pricing status is subject to periodic review and update by NDRC, both in terms of the applicable maximum retail price applicable and the pricing status itself, and (ii) it is uncertain when Butylphthalide Soft Capsule will become subject to government price control.

e. Present or future environmental regulations or enforcement

The operations of the Target Group are subject to environmental laws and regulations of the PRC. Changes, if any, in the relevant environmental laws and regulations could result in the Target Group having to incur substantial capital expenditure to replace, upgrade or supplement its existing facilities. The PRC government continues to exercise significant control over economic growth through numerous channels such as allocation of resources, controlling of incurrence and payment of foreign currency denominated obligations, monetary policy and preferential treatment to certain industries or companies. For example, we note that the implementation of new good manufacturing practice ("GMP") in China for pharmaceuticals manufacturing in 2011, which resulted in increased level of capital investment in most pharmaceutical manufacturers in China. However being one of the oldest and more established large scale pharmaceutical companies in China, we are of the opinion that the Enlarged Group would be in a better position compared to other small and medium enterprises in coping with any industry wide regulatory change and enforcement.

In addition to the risk factors identified by the Directors as stated above, Independent Shareholders should also note that the NRDL and the provincial reimbursement lists are subject to updates on a periodic basis, and if the past is any indication of the future, the list of drugs/therapies approved for reimbursement (and their rates) will vary, with drugs/therapies continuously gaining admission while others are being eliminated. There is no assurance that the products of the Target Group such as oxiracetam capsule, Levamlodipine Maleate and Butylphthalide Soft Capsule which are either listed on provincial reimbursement drug lists or NRDL would continue to be listed as and when such lists are updated. As stated in sub section headed "Overview of China's Pharmaceutical Industry" in this letter, even though sales and distribution capability of pharmaceutical companies are important in driving drug sales, we believe that these listings on NDRL or provincial reimbursement drug list are expected to favorably support market penetration of relevant drug products. As a result, if a drug product is dropped from the NDRL or provincial reimbursement drug list, its sales might be negatively affected.

We also believe that the historical growth of the Target Group has depended to a large extent on the ability and strength of their sales and distribution capability and the market acceptance level of their products, and future success will continue to hinge on whether the Target Group can continue to maintain and strengthen its core sales and marketing team amidst the ongoing competitive landscape of the PRC pharmaceutical industry. In this respect, we interviewed the management of the Target Group and noted that the current core members of the sales and marketing team have been with the Target Group for at least four years and we consider that the core sales and marketing team of the Target Group to be relatively stable. Nevertheless, Shareholders should not unduly rely on the historical growth of the Target Group as an indication of its future results of operations, as other factors (including those covered in this sub-section headed "Other factors considered — Risk factors") may have a significant impact on the future performance of the Company.

RECOMMENDATION

In arriving at our recommendation, we have taken into account the factors and reasons, as well as our independent analysis as presented in this letter, including:

— characteristics and dynamics of China's pharmaceutical industry, in particular the healthcare infrastructure and the drug commercialization process;

— nature of business and major products of the Target Group, which we consider to be complementary to those of the Group and would allow the Group to enrich its product mix;

— historical financial performance of the Target Group, which we consider to have demonstrated growth momentum;

— overall assessment of the implied valuation of the Consideration (including potential downward adjustment) using selected trading multiples analysis, including PEG, LTM PER, 2011 historical PER, 2012 and 2013 implied PER;

— analysis on the issue price of the Consideration Shares and conversion price of the Convertible Bonds;

— analysis on other principal terms of the Convertible Bonds, including (without limitation) the adjustment mechanism to the effect of reducing the Consideration, the no-redemption right, the Public Float Restriction and the 0% coupon rate; and

— analysis on other key factors including (without limitation) the accounting treatments upon Completion, the resulting dilution effect on shareholdings of Independent Shareholders, and issues surrounding the previous disposal of CSPC NBP by the Company.

On the basis of the foregoing, we are of the opinion that taken as a whole, the Acquisition and its terms are on normal commercial terms, in the ordinary and usual course of business of the Group, and is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited
Elain Wong
Managing Director
Investment Banking

1. FINANCIAL INFORMATION INCORPORATED BY REFERENCE

The financial information of the Group for the three years ended December 31, 2011 and for the six months ended June 30, 2012 are disclosed in the Company's annual reports for the years ended December 31, 2009, December 31, 2010 and December 31, 2011 and interim report for the six months ended June 30, 2012, respectively, which are incorporated by reference into this circular. The said annual reports and interim report of the Company are available on the Company's website at www.irasia.com/listco/hk/cpg and the website of the Stock Exchange at www.hkexnews.hk.

The following is a quick link to the 2009 annual report of the Company published on April 22, 2010 with its audited consolidated financial statements for the year ended December 31, 2009 on pages 23 to 94:

http://www.hkexnews.hk/listedco/listconews/sehk/2010/0422/LTN20100422357.pdf

The following is a quick link to the 2010 annual report of the Company published on April 19, 2011 with its audited consolidated financial statements for the year ended December 31, 2010 on pages 22 to 92:

http://www.hkexnews.hk/listedco/listconews/sehk/2011/0419/LTN20110419415.pdf

The following is a quick link to the 2011 annual report of the Company published on April 23, 2012 with its audited consolidated financial statements for the year ended December 31, 2011 on pages 21 to 92:

http://www.hkexnews.hk/listedco/listconews/sehk/2012/0423/LTN20120423325.pdf

The following is a quick link to the 2012 interim report of the Company published on September 4, 2012 with its unaudited condensed consolidated financial statements for the six months ended June 30, 2012 on pages 6 to 27:

http://www.hkexnews.hk/listedco/listconews/sehk/2012/0904/LTN20120904852.pdf

2. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that taking into account the financial resources and available banking facilities of the Enlarged Group and its internally generated funds, and in the absence of unforeseen circumstances, the Enlarged Group has available sufficient working capital for its present requirements for the next twelve months from the date of this circular.

3. STATEMENT OF INDEBTEDNESS

(a) Bank Loans and Amounts due to Related Companies

At the close of business on July 31, 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding bank loans and amounts due to related companies:

	HK$ million	
Bank loans (unsecured):		
— guaranteed	1,067	
— unguaranteed	1,570	
	2,637	
Amounts due to related companies (unsecured):		
— guaranteed	—	
— unguaranteed	895	*(Note)*
	895	

Note: The amount comprised HK$533 million which was the unsettled balance of the Outstanding Payment and HK$362 million which was other borrowings in nature.

(b) Contingent Liabilities

At the close of business on July 31, 2012, the Enlarged Group had given guarantees to banks in respect of banking facilities granted to certain related companies or third parties in the amount of approximately HK$1,099 million.

(c) Litigation

The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints 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 that as such have been in violation of the federal and state laws of the United States. It is alleged in these 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 sought damages and other relief on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. At the close of business on July 31, 2012, four complaints have been served on the Company and three complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company filed a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of May 27, 2008. In addition, on August 31, 2009, the Company filed an alternative motion for summary judgment to dismiss the direct purchaser action. On July 17, 2012, the Court denied these motions.

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the Court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

Fact discovery relevant to merits was concluded in October 2008. Expert discovery on damages shall be completed by September 7, 2012.

On January 26, 2012, the Court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. The Court denied that motion on September 6, 2011. On February 9, 2012, the Court denied defendants' request for permission to immediately appeal its September 2011 order.

On May 21, 2012, plaintiffs filed a motion for preliminary approval of settlements with one of the defendants in all actions. This defendant agreed to settle with direct purchasers for US$9.5 million and indirect purchasers for US$1 million. It also agreed to comply with any injunction the Court may enter against any other defendant. The Court preliminarily approved the settlements on June 14, 2012. The Court will hold a hearing on October 17, 2012 to consider final approval of the settlements.

The Court has set a trial date of November 5, 2012.

The director and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of these actions cannot be estimated with reasonable certainty as this stage.

Save as disclosed above and apart from intra-group liabilities, at the close of business on July 31, 2012, the Enlarged Group did not have any debt securities issued and outstanding, debt securities authorized or otherwise created but unissued, term loans, mortgages, charges, debentures, loan capital, bank overdrafts, liabilities under acceptance or acceptance credits, hire purchase or finance lease obligations, guarantees or other material contingent liabilities.

4. MATERIAL ADVERSE CHANGE

On May 4, 2012, the Company published an announcement disclosing its unaudited results for the three months ended March 31, 2012 together with a profit warning. For the three months ended March 31, 2012, the Company recorded an unaudited consolidated loss attributable to owners of the Company of HK$85,032,000. In addition, the Company has, in the same announcement, informed its Shareholders that the Group is likely to incur a loss for the six months ended June 30, 2012 in light of the difficult business environment.

On August 15, 2012, the Company announced that for the six months ended June 30, 2012, the Company recorded an unaudited consolidated loss attributable to owners of the Company of HK$136,973,000.

Save for the above, the Directors are not aware, as at the Latest Practicable Date, of any material adverse change in the financial or trading position of the Group since December 31, 2011, the date to which the latest published audited financial statements of the Group were made up.

5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management's discussion and analysis extracted from the annual reports of the Group for the financial years ended December 31, 2009, 2010, and 2011 (modified as appropriate) respectively:

FOR THE YEAR ENDED DECEMBER 31, 2011

FINANCIAL RESULTS

The overall business environment was very difficult in 2011. Affected by the decline in product prices and slowdown in sales, the Group's operating results dropped substantially. Compared with last year, revenue for the year decreased by 5.1% to HK$7,379 million and profit attributable to shareholders decreased by 69.0% to HK$233 million.

The Board of Directors did not recommend the payment of a final dividend for the year ended December 31, 2011.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

With a substantial addition of production capacity in the market, the vitamin C market faced the severe challenge of excess supply and price decline in 2011. The average selling price of pure vitamin C powder has dropped by nearly 29% as compared with last year. Amid the fierce competition, apart from solidifying its existing market share, the Group also endeavoured to expand its customer base. Compared with last year, sales volume for the year managed to increase by 15%, while revenue decreased by 15.8% to HK$1,747 million.

It is expected that market supply will remain excessive, exerting great pressure on selling prices. Faced with this difficult operating environment, the Group will formulate strategies to minimize the adverse impact. The key initiatives in 2012 include: (i) obtaining international accreditation and expanding the business in worldwide high-end market; (ii) strengthening business relationship with existing customers and further developing new end-user customers; (iii) developing regional markets with market potential, including Eastern Europe, South America and Southeast Asia; and (iv) further enhancing product differentiation to meet the requirements of different customers, strengthening business relationship through customized service.

Antibiotics Series

In 2011, market competition and government policies have severely affected the antibiotic industry. Market demand weakened and product price showed a continued decline. The operating environment was particularly difficult in the second half of the year. During the year, the Chinese government promulgated the "Administrative Measures on the Clinical Use of Antibacterial Drugs (Consultation Draft)", imposing a more stringent control on antibacterial drugs and regulating the volume used in hospitals. Following implementation of the new GMP standard in China, certain manufacturers expanded production capacity and modified production line at the same time. Besides, with the tender system orientated towards the lowest-price bidder, tender price and purchase volume of antibiotic drugs both dropped significantly. All these factors led to a slowdown in market demand for bulk drugs and a decline in product price, pessimistic sentiment prevailed in the market. Under this tough market environment, the Group devised various marketing strategies and made every effort to secure new customers in the domestic and overseas markets. Sales volume for the year managed to increase slightly as compared with last year whereas revenue decreased by 5.1% to HK$3,092 million.

Market competition is still expected to remain keen in 2012. Given that price level has been staying at a very low level for some time, it is expected that the market players, for the sake of survival and profitability, will make possible a slight rebound. The Group will continue to improve production technology, flexibly adjust marketing strategies according to market changes and reinforce product penetration in order to improve the performance of this business and expand its market presence.

Finished Drugs Business

Through effective marketing strategies and development of end-user markets, this business saw a relatively satisfactory growth in the first half of 2011. However, following the adoption of Anhui model (lowest-price bidding) in essential drug tenders across China and the promulgation of the "Administrative Measures on the Clinical Use of Antibacterial Drugs (Consultation Draft)", market conditions aggravated in the second half of the year. Not only the tender prices of essential drug products fell significantly in every province, the volume used in the basic-tier medical institutions also reduced noticeably.

During 2011, satisfactory results were achieved from the Group's effort to expand sales to end-user customers by the establishment of new local offices in addition to its existing provincial offices. Under the tough market conditions of essential drugs, sales volumes of the Group's major products including amoxicillin capsules and ceftriaxone sodium injections remained stable or even recorded a slight growth, far surpassing other market players. Regarding non-essential drugs, sales volumes of products with high gross margin including meropenem injections and traditional Chinese medicine injections rose significantly through enhancing sales network and using of effective sales strategies. Notwithstanding the tough challenges, revenue of this business for the year increased by 6.4% to HK$2,423 million.

Looking forward to 2012, the overall essential drug market will continue to be under the shadow of the macro policies concerning tender system, drug price cut and regulation of the use of antibacterial drugs. However, being the most major type of drug among the anti-infective, antibiotics has been occupying a mainstream position in the market for its efficacy, low price level and wide application. With the natural growth and ageing of population, migration of people from rural to urban areas, improvement of the basic medical insurance system and promotion of essential drugs in China, overall usage of antibiotics will be able to maintain a growth momentum, though at a restrained growth rate. On the other hand, the implementation of new GMP standard will lead to a higher requirement for investment and product quality management. This will accelerate the phase-out of small and medium manufacturers and the market will be more concentrated in large enterprise as the Group.

In 2012, the Group will continue to devise new sales strategies, improve sales channels and develop end-user market. It will also step up its efforts in product registration and market development in the international market, striving to expand its export business. Regarding product portfolio, the Group will put more efforts in the sales of non-antibiotic products and speed up the development and launch of new products with a view to reducing its dependence on antibiotic products.

Outlook

As market conditions of all the operating units are expected to remain difficult, the overall operating results of the Group in 2012 will continue to be under pressure. The Group will adopt the operating strategies mentioned above and strive to alleviate the adverse impact of the market challenges. We are confident that we would be able to overcome these challenges and further consolidate our leading position in the market.

FINANCIAL REVIEW

Liquidity and financial position

In 2011, the Group's operating activities generated a net cash inflow of HK$358,305,000. The Group used to grant a credit period of up to 90 days to customers. As the operating environment became unfavorable, the Group extended the credit period during the year in order to secure more sales. As a result, debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in China) was lengthened in the current year, increasing from 81 days in last year to 87 days. As sales slowed down in the fourth quarter of the year, the inventory level was also higher at the end of the year. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 80 days in last year to 102 days. As at December 31, 2011, current ratio of the Group was 1.4, which was slightly lower than 1.8 a year ago. Capital expenditure in relation to the additions of production facilities amounted to HK$879,361,000 for the current year.

As at December 31, 2011, total bank balances and cash amounted to HK$1,066,649,000 and total interest-bearing borrowings (all being bank loans) amounted to HK$2,028,938,000. Out of the total borrowings, HK$880,880,000 will be repayable within one year and the remaining HK$1,148,058,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total interest-bearing borrowings net of bank balances and cash over total equity) increased to 15.9%, as compared with 6.6% of last year.

42% of the Group's borrowings were denominated in Hong Kong dollars, 8% in United States dollars and the remaining 50% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in United States dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary. 95% of the Group's borrowings were on a floating rate basis and the remaining 5% on a fixed rate basis.

Charge on assets

The Group did not have any charge on assets as at December 31, 2011.

Capital commitments

As at December 31, 2011, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and machinery of HK$255,689,000 and intangible assets of HK$128,099,000.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not have any material acquisitions or disposals during the year.

Significant investments

The Group did not hold any significant investments during the year.

Future plans for material investment or capital assets

The Group has plans for improving the existing production facilities. The funding for the capital expenditure will come from internal resources and loan financing.

Contingent liabilities

The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints failed in the United States. These complaints 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 federal and state laws of the United States. It is alleged in these companies 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 the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) seek damages and other relief. Up to the date of the Company's 2011 annual report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company has submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of May 27, 2008. In addition, on August 31, 2009, the Company submitted an alternative motion for summary judgment to dismiss the direct purchaser action on the ground there is insufficient evidence indicating the Company was involved in the alleged conspiracy. The court has not ruled on these motions.

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

In February 2007, the direct purchaser plaintiffs amended their complaint and sought to represent only those who purchased vitamin C for delivery in the United States, other than pursuant to a contract containing an arbitration clause, from any defendants other than one named defendant.

Fact discovery relevant to merits was concluded in October 2008. On January 15, 2009, plaintiffs and defendants agreed to a case schedule, which bifurcated liability and damages issues and allowed certain liability issues to be determined by the court first.

On January 26, 2012, the court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. That motion was fully briefed as of February 5, 2010. On September 6, 2011, the court issued an order denying defendant manufacturers' joint motion for summary judgment. On February 9, 2012, the court denied defendant manufacturers' request for permission to immediately appeal its September 2011 order.

On March 9, 2012, the court set a new schedule, pursuant to which expert discovery on damages shall be completed by September 7, 2012 and a trial be set in October 2012. Direct purchaser plaintiffs' expert estimated the single damages to be US$58.4 million. U.S. federal antitrust laws provide for treble damages, which defendants are jointly and severally liable for. Defendants have retained their own expect who will challenge plaintiffs' damages analysis.

The director and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty as this stage.

EMPLOYEES

As at December 31, 2011, the Group had about 10,205 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

FOR THE YEAR ENDED DECEMBER 31, 2010

FINANCIAL RESULTS

For the financial year of 2010, the Group's revenue and profit attributable to shareholders amounted to HK$7,774 million and HK$752 million, representing an increase of 10.6% and a decrease of 22.6% respectively as compared to last year.

The Board of Directors recommended the payment of a final dividend of HK$24 cents per share for the year ended December 31, 2010.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

The sustained high price level of vitamin C in the past few years has induced a number of domestic enterprises to enter the vitamin C industry, aggravating the problem of excess capacity and leading to a significant decline in the price level during the year. Amid intensified market competition, the Group expanded production capacity to enhance economies of scale, with the aim of reducing production cost and expanding market share. Despite a general decrease of approximately 30% in the average price of the major products during the year, the substantial increase in sales volume enabled this business segment to attain revenue of HK$2,074 million, representing a decrease of 6.7% as compared to previous year.

The Group has also made significant achievement in expanding into the high-end pharmaceutical market. In addition to the GMP certificates obtained from Germany and Japan in previous years, the Group has also obtained the US FDA accreditation during the year. These achievements not only enable the Group to enter the international high-end market but also establish its leading position in product quality.

New production capacity in the PRC is expected to be put into operation in 2011 and this will cause increasing pricing pressure. The Group will continue to strengthen the collaboration with its existing customers and foster a long-term business partnership so as to consolidate its existing market share. In addition, the Group will keep on improving product quality and further enhance product differentiation to meet the requirements of different customers. The Group will also step up its market development efforts in Eastern Europe, South America and Southeast Asia.

Antibiotic Series

Driven by the rapid growth of cephalosporin products, the performance of antibiotic business significantly improved during the year. Revenue increased by 34.7% to HK$3,258 million as compared to previous year. During the year, the Group has significantly enhanced its competitiveness and scale of operation through extension of its product chain. In addition to its core products of 7-ACA and cefazolin sodium, the Group's cephalosporin series of products has extended to GCLE, ceftriaxone sodium, cefuroxime sodium, cefuroxime acid, cefotaxime sodium, cefotaxime acid and cefixime. During the year, the Group has also expanded its production capacity of 7-ACA through production facilities enhancement and has successfully reduced the production cost and enhanced the product quality of 7-ACA through a series of technology improvement initiatives, further consolidating the Group's leading position in the market.

With respect to penicillin, certain domestic capacities have been forced out of the market amid severe competition, making possible a slight rebound in product price during the year. While successfully maintaining its market share, the Group also strived to improve its technology and product quality. Apart from obtaining the GMP certificate from Germany and registration certificate from Russia for its bulk amoxicillin, the Group has also made significant achievement in the development of production technology. The synthetic technology for making amoxicillin can be changed successfully by using enzyme process instead of chemical process, and the Group has also successfully developed its own high-activity enzyme.

It is expected that the operating environment in 2011 will remain stable, except that the price of 7-ACA will be under pressure due to the increased domestic capacity. The Group will continue to upgrade its production technology, leverage on its current advantages in scale and cost, and flexibly adjust the production of upstream and downstream products, with the aim of achieving full capacity production and sales.

Finished Drugs Business

The finished drugs business continued to grow in 2010. Revenue increased by 4.0% to HK$2,276 million as compared to previous year. The revenue of antibiotics, health supplements, cardio-cerebrovascular drugs and Chinese medicine injections products amounted to HK$1,812 million, HK$66 million, HK$48 million and HK$88 million, accounting for 79.6%, 2.9%, 2.1% and 3.9% of the revenue of this business respectively. The overall gross profit margin remained stable, whereas the operating profit rose to HK$176.0 million.

During the year, the Group has devoted its efforts to market development and has set up specialized sales force for tapping end-user market in county hospitals, township health centers and community healthcare service centers. These efforts have met with certain success in enlarging the market coverage. With the commencement of the drugs tenders, market competition further intensified and product prices in general decreased, affecting the growth in revenue of this business. However, sales of new products were satisfactory, in particular the sales revenue of meropenem injections rose by 76% as compared to previous year.

In 2011, a new round of drugs tenders will begin in various provinces and more weight will be placed on the price factor, causing negative impact on profitability. The Group will leverage on its competitive advantages in scale of production, product quality, market reputation, sales network and cost to make its tender and marketing efforts more effective in expanding market share. In addition, the Group will devote its efforts to the market development and technology enhancement of its Chinese medicine injections and therapeutic infusion solution products, making them to become the major growth drivers. On the front of product development, the Group will continue to focus on products with strong market potential and it is expected that several first-to-market products currently under development will be granted production approval in 2012. With effective implementation of these growth strategies, we believe that the finished drugs business will be able to attain higher profitability and achieve the goal of sustainable rapid growth.

FINANCIAL REVIEW

Liquidity and financial position

In 2010, the Group's operating activities generated a net cash inflow of HK$1,007,044,000. Capital expenditure in relation to the addition of production facilities amounted to HK$791,218,000. The current ratio of the Group improved from 1.5 a year earlier to 1.8 as at December 31, 2010. Debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 75 days in 2009 to 81 days in the current year. Inventory turnover period (ratio of inventory balance to cost of sales) also slightly increased from 75 days in 2009 to 80 days.

The Group's financial position remained strong. As at December 31, 2010, bank balances and cash amounted to HK$1,141,736,000 and total interest-bearing borrowings (all being bank loans) amounted to HK$1,529,517,000. Out of the total borrowings, HK$323,282,000 will be repayable within one year and the remaining HK$1,206,235,000 repayable between two to four years. Net gearing ratio (calculated on the basis of the Group's total interest-bearing borrowings net of bank balances and cash over total equity) increased from previous year's 1.9% to 6.6%.

42% of the Group's borrowings were denominated in Hong Kong dollars and the remaining 58% in Renminbi. The Group's revenue is mainly either in Renminbi or in United States dollars. The Group believes that its exposure to foreign currency risks is not significant, but we will monitor closely the currency movement. All of the Group's borrowings were on a floating rate basis.

Charge on assets

The Group did not have any charge on assets as at December 31, 2010.

Capital commitments

As at December 31, 2010, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and machinery of HK$307,965,000 and intangible assets of HK$29,635,000.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not have any material acquisitions or disposals during the year.

Significant investments

The Group did not hold any significant investments during the year.

Future plans for material investments or capital assets

The Group has plans for expanding the production capacity of certain finished drug products, building a new headquarters and a research and development centre and improving the existing production facilities. The funding for the capital expenditure will come from internal resources and loan financing.

Contingent liabilities

(i) As disclosed in the announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints failed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in these companies 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 the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) seek treble damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to the date of the Company's 2010 annual report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court of New York.

On May 3, 2006, the first court meeting was held before a judge of the U.S. District Court for the Easter District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchase 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.

Submissions concerning whether the direct purchase case may proceed as a class action were made during the year 2007. On January 15, 2009, plaintiffs and defendants agreed to a new case schedule, which bifurcates liability and damages issues and allows certain liability issues to be determined by the court first. Fact discovery relevant to merits was concluded in October 2008.

The Company has submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of May 27, 2008. The Company and the subsidiary have also submitted motions for summary judgment on liability, which were fully briefed as of February 5, 2010. No decisions have been made on these motions.

The director and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty as this stage.

(ii) At December 31, 2010, a corporate guarantee of RMB25,000,000 was given by certain subsidiaries of the Group to a bank in the PRC in respect of banking facilities granted to the jointly controlled entity of the Group. An amount of RMB25,000,000 was utilized by the jointly controlled entity as at December 31, 2010.

EMPLOYEES

As at December 31, 2010, the Group had about 10,687 employees. The majority of them are employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

FOR THE YEAR ENDED DECEMBER 31, 2009

FINANCIAL RESULTS

Driven by the vitamin C and finished drugs businesses, the Group continued to record growth in its results for 2009. Revenue and profit attributable to shareholders for the year amounted to approximately HK$7,032 million and HK$971 million, representing an increase of 3.0% and 3.2% respectively as compared to last year, the historical high since our listing.

The Board of Directors recommended the payment of a final dividend of HK24 cents per share for the year ended December 31, 2009.

BUSINESS REVIEW AND OUTLOOK

Intermediates and Bulk Drugs Business

Vitamin C Series

Under the impact of the financial crisis, the demand from overseas market declined slightly in 2009. However, the balance of supply and demand was maintained and product prices remained at high level. Revenue and operating profit of the business for the year reached HK$2,222 million and HK$1,120 million, representing an increase of 3.0% and 14.6% respectively as compared to last year.

In 2009, the Group actively developed the overseas market and strengthened the business relationship with major end-user customers. The number of customers with annual purchase of over 100 tonnes continued to increase. The Group also made significant achievement in expanding into the high-end pharmaceutical market. In addition to the award of GMP certificate from Germany last year, the Group obtained GMP certificate from Japan during the year and passed the US FDA on-site inspection in February 2010. Being the only PRC vitamin C manufacturer qualified to enter the international high-end pharmaceutical market, the Group is endowed with a new opportunity for further growth.

The market is expected to be increasingly competitive in 2010. The Group will consolidate its leading edge by enhancing its technological standard, increasing the proportion of sales to end-user customers and actively exploiting the international high-end pharmaceutical market and emerging market.

Antibiotics Series

The penicillin business faced a difficult operating environment in 2009. Over-capacity has been aggravated by the significant expansion of production capacity by competitors, leading to weak selling prices. Leveraging on the advantages of product quality and production cost, the Group was able to maintain its market share with similar sales volume as last year. The operating environment of the cephalosporin business remained stable in 2009. With the increase in sales volume of the new product "cefuroxime acid", this business has achieved satisfactory growth in revenue.

During the year, the Group further achieved vertical integration through the acquisition of a major raw material supplier, effectively reducing its production costs and strengthening its competitive advantages. The Group also expanded into the business of GCLE, a cephalosporin intermediate, through the acquisition of 90% equity interest in CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. to improve its product mix. In addition, the construction of a production workshop with annual capacity of 600 tonnes was completed, further extending the product chain to include downstream products such as cefotaxime sodium, cefuroxime sodium and cefixime.

With the gradual improvement in market environment and contribution from new products, the performance of this business is expected to be able to improve.

Finished Drugs Business

In 2009, the finished drugs business maintained its growth momentum with revenue increasing by 10.1% to HK$2,189 million as compared to last year. The revenue of antibiotics, health supplements and cardio-cerebrovascular products amounted HK$1,734 million, HK$147 million and HK$87 million, representing 79.2%, 6.7% and 4.0% of the revenue of this business respectively. The newly acquired business of TCM ("Traditional Chinese Medicines") and intravenous infusion solution products also contributed revenue of HK$52 million. With the improvement of product portfolio, the gross profit margin of this business increased to 29.9% while its operating profit rose to HK$142 million.

The PRC government's vast investment in improving the medical and healthcare services and expanding the medical insurance coverage has driven the demand for pharmaceutical products. To seize the opportunities, the Group has established a specialised sales force, which focuses on developing the end-user market in county hospitals, township health centers and community healthcare service centers, in order to increase its market share. Moreover, the Group also endeavoured to enhance the product portfolio by increasing the proportion of products with high margin. During the year, apart from the acquisition of the business of TCM and intravenous infusion products, the Group was able to boost the sales of high margin products including vitamin C supplement "Guo Wei Kang" and meropenem injection through effective marketing strategies.

Looking ahead to 2010, the Group will formulate effective strategies in light of the progress of the medical reform and strive to capitalize on the growth opportunities. Apart from active market expansion, the Group will also step up its research and development effort with focus on antibiotics (carbapenem type), cardiovascular medicines (lowering of blood pressure, blood lipid and blood glucose) and anti-tumor medicines and carry out international drug registration in order to achieve the goal of sustainable and rapid development. With effective implementation of the growth strategies, we believe that finished drugs will be developed as the leading business segment of the Group.

FINANCIAL REVIEW

Liquidity and financial position

In 2009, the Group's operating activities generated a net cash inflow of HK$1,567,697,000. Capital expenditure in relation to the addition of production facilities amounted to HK$594,224,000. As at December 31, 2009, current ratio of the Group was 1.5, same as last year. As customers increased the use of bills for settlement, debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 50 days in the previous year to 75 days in the current year. Inventory turnover period (ratio of inventory balance to cost of sales) shortened from 106 days in the previous year to 75 days in the current year.

The Group's financial position remained strong. As at December 31, 2009, total bank balances and cash amounted to HK$1,493,800,000 and total interest-bearing borrowings amounted to HK$1,596,218,000 (comprising bank loans of HK$1,567,809,000 and loan from a jointly controlled entity of HK$28,409,000). Out of the total borrowings, HK$880,782,000 will be repayable within one year and the remaining HK$715,436,000 repayable between two to five years. Net gearing ratio (calculated on the basis of the Group's total interest-bearing borrowings net of bank balances and cash over total equity) further decreased from 8.0% a year earlier to 1.9% as at December 31, 2009.

46% of the Group's borrowings were denominated in Hong Kong dollars or United States dollars and the remaining 54% in Renminbi. The Group's revenue is mainly either in Renminbi or in United States dollars. The Group believes that its exposure to foreign currency risks is not significant, but we will monitor closely the currency movement. 67% of the Group's borrowings were on a floating rate basis and the remaining 33% on a fixed rate basis.

Charge on assets

The Group did not have any charge on assets as at December 31, 2009.

Capital commitments

As at December 31, 2009, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and machinery of HK$279,693,000 and intangible assets of HK$29,420,000.

Material acquisitions and disposals of subsidiaries and associated companies

During the year, the Group acquired 100% equity interest in Hebei Hong Yuan Chemical Co., Ltd. and disposed of its 100% equity interest in CSPS NBP Pharmaceutical Co., Ltd. under an asset swap agreement dated May 22, 2009.

Significant investments

The Group did not hold any significant investments during the year.

Future plans for material investments or capital assets

The Group has plans for expanding the production capacity of certain intermediate and bulk drug products (including 7-ACA, bulk vitamin C and some antibiotic bulk drugs) and improving the existing production facilities. The funding for the capital expenditure will come from internal resources and loan financing.

Contingent liabilities

(i) As disclosed in the announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints failed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in these companies 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 the federal antitrust laws of the United States and indirect purchasers under various state antitrust laws. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) 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 filed in the United States. Up to the date of the Company's 2009 annual report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court of New York.

On May 3, 2006, the first court meeting was held before a judge of the U.S. District Court for the Easter District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchase 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.

Submissions concerning whether the direct purchase case may proceed as a class action were made during the year 2007 and fact discovery was concluded in October 2008. On January 15, 2009, plaintiffs and defendants agreed to a new case schedule, which bifurcates liability and damages issues and allows certain liability issues to be determined by the court first. The dates in the schedule were subsequently extended pursuant to the court's order on March 27, 2009.

The director and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty as this stage.

(ii) At December 31, 2009, a corporate guarantee of RMB25,000,000 was given by certain subsidiaries of the Group to a bank in the PRC in respect of banking facilities granted to the jointly controlled entity of the Group. An amount of RMB25,000,000 was utilized by the jointly controlled entity as at December 31, 2009.

EMPLOYEES

As at December 31, 2009, the Group had about 10,623 employees. The majority of them are employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

The following is the text of an accountants' report on the Target, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

September 27, 2012

The Directors
China Pharmaceutical Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Robust Sun Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group" or "Group") for each of the three years ended December 31, 2011 and five months ended May 31, 2012 (the "Relevant Periods") for inclusion in a circular issued by China Pharmaceutical Group Limited ("CPG") dated September 27, 2012 in connection with the acquisition of the entire issued share capital of the Company (as defined in the circular) (the "Circular").

The Company, which acts as an investment holding company, was incorporated in the British Virgin Islands (the "BVI") as a private limited liability company on May 23, 2012. The address of its registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group					Principal activities
				At December 31,			At 31 May,	At the date of the report	
				2009	2010	2011	2012		
				%	%	%	%	%	
Dragon Merit Holdings Limited ("Dragon Merit")	Hong Kong	January 26, 2012	HK$1	N/A	N/A	N/A	100	100	Investment holding
CSPC NBP Pharmaceutical. Co., Ltd ("NBP")* 石藥集團恩必普藥業有限公司	The People's Republic of China (the "PRC")	March 23, 2003	RMB190,000,000	100	100	100	100	100	Manufacture and sales products of pharmaceutical
CSPC Ouyi Pharmaceutical. Co., Ltd ("OYY")*# 石藥集團歐意藥業有限公司	PRC	March 29, 2001	RMB150,000,000	100	100	100	100	100	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd. ("I&E")*# 石藥集團歐意進出口貿易有限公司	PRC	September 27, 2006	RMB100,000	100	100	100	100	100	Trading of pharmaceutical products
CSPC XNW Pharmaceutical Joint Stock Company Limited ("XNW")* 石藥集團新諾威製藥股份有限公司	PRC	April 5, 2006	RMB150,000,000	98.69	98.69	98.69	98.69	98.69	Manufacture and sales of pharmaceutical products
Shijiazhuang Pharmaceutical Group Huasheng Co., Ltd. ("Huasheng")*# 石家莊製藥集團華盛製藥有限公司	PRC	December 2, 1993	RMB4,000,000	100	55	55	55	55	Manufacture and sales of pharmaceutical products
Shiyao Ouyi International Pharmaceutical Co., Ltd. ("OIP")*# 石藥歐意國際製藥有限公司	PRC	December 21, 2010	RMB50,000,000	N/A	100	100	100	100	Inactive

* The English name is for identification purpose only.

\# Huasheng, I&E, OIP are subsidiaries of OYY. OYY and its subsidiaries are hereinafter collectively referred to as "OYY Group".

As of May 31, 2012 and the date of this report, other than Dragon Merit, all subsidiaries are indirectly held by the Company.

All companies comprising the Group have adopted December 31 as their financial year end date. No audited financial statements have been prepared for the Company and Dragon Merit since its date of incorporation as the Company is incorporated in a country where there is no statutory audit requirement and Dragon Merit is incorporated only in January 2012. For the purpose of this report, we have reviewed relevant transactions of the Company and Dragon Merit since their respective dates of incorporation to the date of this report and carried out procedures as we considered necessary for the inclusion in the Financial Information relating to these companies.

The statutory financial statements of the following subsidiaries of the Company for the Relevant Periods or since its date of establishment, where this is a shorter period, were prepared in accordance with the relevant accounting principles and financial regulations in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of subsidiaries	Financial years	Name of auditor
NBP	Years ended December 31, 2009, 2010 and 2011	Zhongxingcai Guanghua CPA Co., Ltd
OYY	Years ended December 31, 2009, 2010 and 2011	Zhongxi Certified Public Accountants Shijiazhuang Branch
Huasheng	Years ended December 31, 2009, 2010 and 2011	Hebei Tianhua Certified Public Accountant Co., Ltd.
I&E	Years ended December 31, 2009, 2010 and 2011	Hebei Tianhua Certified Public Accountants Co., Ltd
OIP	Period/Year ended December 31, 2010 and 2011	Hebei Huatai Union Certified Public Accountant Office
XNW	Years ended December 31, 2009, 2010 and 2011	Zhongxingcai Guanghua CPA Co., Ltd

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of CPG are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Information, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2009, 2010 and 2011 and May 31, 2012, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the five months ended May 31, 2011 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "May 2011 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the May 2011 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the May 2011 Financial

Information. Based on our review, nothing has come to our attention that causes us to believe that the May 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

		For the year ended December 31,			For the five months ended May 31,	
		2009	2010	2011	2011	2012
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Revenue	*7*	1,296,275	1,757,586	2,407,445	956,093	1,292,548
Cost of sales		(770,909)	(1,038,193)	(1,370,535)	(554,633)	(616,726)
Gross profit		525,366	719,393	1,036,910	401,460	675,822
Other income		19,022	23,437	28,010	10,618	4,499
Selling and distribution expenses		(243,072)	(334,677)	(452,844)	(167,664)	(320,920)
Administrative expenses		(102,374)	(139,368)	(138,325)	(46,550)	(58,408)
Other expenses		(32,959)	(40,131)	(31,140)	(15,252)	(14,645)
Operating profit		165,983	228,654	442,611	182,612	286,348
Finance costs on bank loan wholly repayable within five years		(12,086)	(12,336)	(21,705)	(6,126)	(9,444)
Recognition of fair values of financial guarantee contracts issued		—	(15,445)	(17,676)	(16,849)	(5,130)
Amortisation of financial guarantee liabilities		—	4,858	14,908	3,078	4,697
Share of results of associates		4,547	—	—	—	—
Profit before tax	*8*	158,444	205,731	418,138	162,715	276,471
Income tax expense	*9*	(26,786)	(30,999)	(60,964)	(25,968)	(56,652)
Profit for the year/period		131,658	174,732	357,174	136,747	219,819

		For the year ended December 31,			For the five months ended May 31,	
		2009	2010	2011	2011	2012
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Profit (loss) for the year/period attributable to:						
Owners of the Company		132,931	174,229	355,411	136,816	218,755
Non-controlling interests		(1,273)	503	1,763	(69)	1,064
		131,658	174,732	357,174	136,747	219,819
Other comprehensive income (expense):						
Exchange differences arising on translation to presentation currency		—	22,700	40,184	17,487	(6,167)
Other comprehensive income (expense) for the year/period, net of income tax		—	22,700	40,184	17,487	(6,167)
Total comprehensive income for the year/period		131,658	197,432	397,358	154,234	213,652
Total comprehensive income (expense) attributable to:						
Owners of the Company		132,931	196,587	395,077	154,083	212,730
Non-controlling interests		(1,273)	845	2,281	151	922
		131,658	197,432	397,358	154,234	213,652

Consolidated statement of financial position

		As at December 31,			As at May 31,
		2009	**2010**	**2011**	**2012**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*14*	473,913	608,094	909,376	987,702
Prepaid lease payments	*15*	68,810	69,134	129,221	126,267
Goodwill	*16*	93,378	96,674	101,448	100,211
Other intangible assets	*17*	5,217	4,679	5,988	5,721
Deposit for acquisition of prepaid lease payment		—	29,412	—	—
Available-for-sale investments	*18*	1,136	—	—	—
Deferred tax assets	*28*	7,341	5,708	1,493	1,105
		649,795	813,701	1,147,526	1,221,006
Current assets					
Inventories	*19*	139,217	218,821	304,490	393,117
Trade and other receivables	*20*	283,362	358,218	450,510	666,510
Bills receivables	*21*	38,421	83,057	112,558	58,705
Trade receivables due from related companies	*22*	8,743	14,469	43,411	39,038
Amounts due from related companies	*22*	47,699	23,566	31,534	—
Prepaid lease payments	*15*	2,033	2,104	3,431	3,389
Tax recoverable		5	5	219	983
Held for trading investments	*23*	643	573	490	517
Restricted bank deposits	*24*	5,710	70,820	4,322	4,420
Bank balances and cash	*24*	123,668	172,895	310,423	289,444
		649,501	944,528	1,261,388	1,456,123

		As at December 31,			As at May 31,
		2009	2010	2011	2012
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade and other payables	*25*	341,625	389,133	538,908	675,437
Bills payables	*26*	21,477	54,921	13,951	12,195
Trade payables due to related companies	*22*	4,255	23,463	41,384	51,722
Dividend payable	*22*	—	50,271	114,481	296,737
Amounts due to related companies	*22*	26,136	333,909	360,925	817,859
Government loan	*27*	2,841	—	—	—
Tax liabilities		5,653	3,455	12,144	15,487
Financial guarantee contracts	*35*	—	10,587	13,355	13,788
Bank loans	*27*	227,273	152,941	283,951	292,683
		629,260	1,018,680	1,379,099	2,175,908
Net current assets (liabilities)		20,241	(74,152)	(117,711)	(719,785)
Total assets less current liabilities		670,036	739,549	1,029,815	501,221
Non-current liabilities					
Deferred tax liabilities	*28*	—	—	—	8,736
Bank loans	*27*	79,545	58,824	61,728	60,976
Government grants	*29*	7,913	7,493	7,135	6,753
Amount due to a related company	*22*	—	—	—	104,503
		87,458	66,317	68,863	180,968
Net assets		582,578	673,232	960,952	320,253
Capital and reserves					
Share capital	*30*	442,094	468,798	468,798	—
Reserves		137,422	194,495	480,581	308,733
Equity attributable to owners of the Company		579,516	663,293	949,379	308,733
Non-controlling interests		3,062	9,939	11,573	11,520
Total equity		582,578	673,232	960,952	320,253

Consolidated statements of changes in equity

	Equity attributable to owners of the Company							
	Share capital	Statutory reserve	Capital contribution reserve	Translation reserve	Accumulated (losses) profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000* *(note a)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2009	268,640	1,538	56,727	14,723	(25,494)	316,134	57,945	374,079
Profit (loss) and total comprehensive income (expense) for the year	–	–	–	–	132,931	132,931	(1,273)	131,658
Dividends recognised as distribution *(note 12)*	–	–	–	–	(85,078)	(85,078)	(149)	(85,227)
Adjustments arising on group reorganisation *(note b)*	173,454	–	73,015	8,410	(39,350)	215,529	(53,461)	162,068
Transfer to statutory reserve	–	9,338	–	–	(9,338)	–	–	–
At December 31, 2009 and January 1, 2010	442,094	10,876	129,742	23,133	(26,329)	579,516	3,062	582,578
Profit for the year	–	–	–	–	174,229	174,229	503	174,732
Exchange differences arising on translations	–	–	–	22,358	–	22,358	342	22,700
Total comprehensive income for the year	–	–	–	22,358	174,229	196,587	845	197,432
Disposal of partial interest of a subsidiary	–	–	–	–	–	–	6,780	6,780
Dividends recognised as distribution *(note 12)*	–	–	–	–	(139,514)	(139,514)	(748)	(140,262)
Transfer to statutory reserve	–	19,895	–	–	(19,895)	–	–	–
Capital injection	26,704	–	–	–	–	26,704	–	26,704
At December 31, 2010 and January 1, 2011	468,798	30,771	129,742	45,491	(11,509)	663,293	9,939	673,232
Profit for the year	–	–	–	–	355,411	355,411	1,763	357,174
Exchange differences arising on translations	–	–	–	39,666	–	39,666	518	40,184
Total comprehensive income for the year	–	–	–	39,666	355,411	395,077	2,281	397,358
Dividends recognised as distribution *(note 12)*	–	–	–	–	(108,991)	(108,991)	(647)	(109,638)
Transfer to statutory reserve	–	22,632	–	–	(22,632)	–	–	–
At December 31, 2011 and January 1, 2012	468,798	53,403	129,742	85,157	212,279	949,379	11,573	960,952
Profit for the period	–	–	–	–	218,755	218,755	1,064	219,819
Exchange differences arising on translation	–	–	–	(6,025)	–	(6,025)	(142)	(6,167)
Total comprehensive (expense) income for the period	–	–	–	(6,025)	218,755	212,730	922	213,652
Dividends recognised as distribution *(note 12)*	–	–	–	–	(300,400)	(300,400)	(975)	(301,375)
Capital injection	61,728	–	–	–	–	61,728	–	61,728
Imputed interest from amounts due to related parties	–	–	14,649	–	–	14,649	–	14,649
Adjustments arising on group reorganisation *(note c)*	(530,526)	–	(98,827)	–	–	(629,353)	–	(629,353)
Transfer to statutory reserve	–	19,320	–	–	(19,320)	–	–	–
At May 31, 2012	–	72,723	45,564	79,132	111,314	308,733	11,520	320,253

For five months ended May 31, 2011 (unaudited)

	Equity attributable to owners of the Company							
	Share capital	Statutory reserve	Capital contribution reserve	Translation reserve	Accumulated profits (losses)	Total	Non controlling interests	Total
	HK$'000	*HK$'000* *(note a)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At December 31, 2010 and January 1, 2011	468,798	30,771	129,742	45,491	(11,509)	663,293	9,939	673,232
Profit (loss) for the period	–	–	–	–	136,816	136,816	(69)	136,747
Exchange differences arising on translations	–	–	–	17,267	–	17,267	220	17,487
Total comprehensive income for the period	–	–	–	17,267	136,816	154,083	151	154,234
Dividends recognised as distribution *(note 12)*	–	–	–	–	(48,170)	(48,170)	(639)	(48,809)
Transfer to statutory reserve	–	6,156	–	–	(6,156)	–	–	–
At May 31, 2011	468,798	36,927	129,742	62,758	70,981	769,206	9,451	778,657

Notes:

(a) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the PRC under the laws and regulations of the PRC.

(b) As part of the group reorganisation set out in note 1, (i) Shijiazhuang Pharmaceutical Group Company Limited ("SPG") acquired further 73.64% equity interest of OYY in February 2009 and OYY became a wholly owned subsidiary thereafter. The consideration of approximately HK$256,079,000 in relation to the acquisition in OYY is regarded as a deemed shareholder contribution (note 34); and (ii) In July 2009, OYY acquired 75% equity interest in NBP with consideration of approximately HK$94,011,000. The consideration is regarded as a deemed distribution to shareholder since the Financial Information has been prepared as if NBP is a subsidiary throughout the Relevant Periods.

(c) As part of the Group Reorganisation set out in note 1, there is series of acquisitions and disposal of interests in subsidiaries between the group companies and SPG. The net amount payable by the Group to SPG and China Charmaine Pharmaceutical Company Limited ("China Charmaine") amounted to approximately HK$629,353,000.

Consolidated statements of cash flows

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
OPERATING ACTIVITIES					
Profit before tax	158,444	205,731	418,138	162,715	276,471
Adjustments for:					
Amortisation of intangible assets	698	702	612	305	196
Amortisation of prepaid lease payments	2,033	2,044	3,149	1,182	1,394
Depreciation of property, plant and equipment	44,518	54,797	64,770	26,681	27,882
Finance costs	12,086	12,336	21,705	6,126	9,444
Impairment loss on trade receivables	204	41	355	—	—
Interest income	(479)	(1,854)	(8,292)	(3,311)	(2,220)
Loss (gain) on disposal/write-off of property, plant and equipment	1,847	1,992	(72)	(131)	(155)
Gain on disposal of subsidiaries	—	(3,015)	—	—	—
Loss on disposal of available-for-sale investment	485	—	—	—	—
Loss on written off of intangible assets	820	—	—	—	—
Dividend from equity investment	(12)	(9)	(11)	—	—
(Gain) loss on fair value change of investments held for trading	(301)	90	83	13	(27)
Reversal of impairment loss previously recognised in respective of trade receivables and inventories	—	—	(804)	(297)	—
Recognition of fair values of financial guarantee contracts issued	—	15,445	17,676	16,849	5,130
Amortisation of financial guarantee liability	—	(4,858)	(14,908)	(3,078)	(4,697)
Government grants	(3,426)	(5,756)	(5,261)	(695)	(769)
Share of results of associates	(4,547)	—	—	—	—

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Operating cash flows before movements in working capital	212,370	277,686	497,140	206,359	312,649
Increase in inventories	(36,874)	(79,604)	(85,177)	(33,910)	(88,627)
Increase in trade and other receivables	(69,145)	(70,892)	(85,748)	(45,772)	(211,466)
Increase (decrease) in bills receivables	(23,557)	(44,636)	(70,471)	(20,650)	53,853
Decrease (increase) in trade receivables due from related companies	18,649	(5,726)	(28,942)	(35,750)	4,373
Decrease in amounts due from associates	341	—	—	—	—
(Decrease) increase in trade and other payables	(17,336)	18,691	110,618	30,840	170,747
Increase in trade payables due to related companies	4,135	19,208	17,921	6,189	10,338
Increase (decrease) in bills payables	4,431	33,444	—	(7,993)	(1,756)
Cash generated from operations	93,014	148,171	355,341	99,313	250,111
Income Tax paid	(18,838)	(31,564)	(48,274)	(16,868)	(44,949)
Interest paid	(12,061)	(12,410)	(21,434)	(3,867)	(7,092)
NET CASH FROM OPERATING ACTIVITIES	62,115	104,197	285,633	78,578	198,070

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(1,410)	(147,888)	(292,359)	(147,405)	(150,100)
Prepaid lease payments paid	—	—	(30,237)	(29,527)	—
Deposits for acquisition of prepaid lease payments	—	(29,412)	—	—	—
Purchase of intangible assets	(2,558)	—	(1,665)	—	—
Acquisition of subsidiaries *(note 34)*	139,524	—	—	—	—
Proceed on disposal of partial interest in a subsidiary	—	9,795	—	—	—
Proceeds on disposal of available-for-sale investments	538	1,136	—	—	—
Proceeds on disposal of assets held for sale	34,091	—	—	—	—
Proceeds on disposal of property, plant and equipment	1,548	996	697	2,188	182
Dividends received from unlisted investments	12	9	11	—	—
Interest received	479	1,854	8,292	3,311	2,220
Advances to related parties	(47,674)	(23,542)	(31,549)	—	—
Repayment of advances to related companies	—	47,675	23,581	23,566	31,534
Placement (release) of construction retention deposits	432	10,230	6,037	(1,336)	(4,384)
Withdrawal of restricted bank deposits	1,706	10,170	92,165	71,880	3,543
Placement of restricted bank deposits	(4,978)	(75,079)	(23,665)	(11,314)	(3,694)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	121,710	(194,056)	(248,692)	(88,637)	(120,699)

	For the year ended December 31,			For the five months ended May 31,	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
FINANCING ACTIVITIES					
Dividend paid	(85,078)	(89,243)	(46,959)	(46,959)	(118,144)
Dividend paid to non-controlling interests	(149)	(748)	(647)	(639)	(975)
Repayment of bank loans	(136,364)	(246,857)	(313,253)	(72,289)	(172,839)
Repayment of government loan	(2,273)	(2,841)	—	—	—
New bank loans raised	261,363	144,000	433,735	228,916	185,185
Proceeds from capital injection	—	26,704	—	—	61,728
Advances from related companies	—	307,773	87,917	667	(53,268)
Repayment of advances from related companies	(147,238)	—	(60,901)	(60,902)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(109,739)	138,788	99,892	48,794	(98,313)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,086	48,929	136,833	38,735	(20,942)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	49,582	123,668	172,895	172,895	310,423
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	—	298	695	191	(37)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	123,668	172,895	310,423	211,821	289,444

NOTES TO FINANCIAL INFORMATION

1. GENERAL AND GROUP REORGANISATION

The Company was incorporated in the BVI as a private limited liability company on May 23, 2012. The address of its registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the BVI, holds approximately 51.22% of the issued share capital of CPG. By virtue of an agreement, Legend Holdings Limited ("Legend"), an investment holding company established in the PRC, is entitled to exercise or control the exercise of the shares held by Massive Giant in CPG. Therefore, Legend is regarded as an ultimate holding company of the CPG.

As at January 1, 2009, Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), a company established in the PRC, was wholly owned by Massive Top Limited ("Massive Top"), a limited liability company incorporated in Hong Kong and its ultimate holding company was Legend. SPG directly owned interest of 98.69% in XNW and 26.36% interest in OYY while NBP was a wholly owned subsidiary of CPG at January 1, 2009. OYY further owned 100% interest in I&E and Huasheng.

In February 2009, SPG further acquired 73.64% equity interest in OYY from third parties and OYY became a wholly owned subsidiary of SPG since then (see Note 34).

In July 2009, CPG transferred 100% interest in NBP to China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a wholly owned subsidiary of Massive Top, and then China Charmaine transferred 75% interest in NBP to OYY in the same month.

In December 2009, Legend transferred the entire beneficial interest in Massive Top to Hony Capital Fund III, L.P., a Cayman Islands exempted limited partnership, and Massive Top ceased to be a subsidiary of Legend and became a subsidiary of Hony Capital Fund III, L.P..

In August 2010, OYY disposed 45% equity interest in Huasheng to China Charmaine at cash consideration of approximately HK$9.8 million, and as a result of which Huasheng became a non-wholly owned subsidiary of OYY.

In December 2010, OIP was established in PRC and became a wholly owned subsidiary of OYY.

In January 2012, Dragon Merit was incorporated as an investment holding company and beneficially owned by Massive Top. The Group was further reorganised during April and May 2012 which involved (i) transfer of 75% equity interests in NBP from OYY to China Charmaine, as a result of which NBP became a wholly-owned subsidiary of China Charmaine; (ii) transfer of 100% equity interest in NBP to Dragon Merit from China Charmaine, as a result, of which NBP became a wholly-owned subsidiary of Dragon Merit; (iii) transfer of 100% equity interest in OYY from SPG to NBP, as a result of which OYY became a wholly owned subsidiary of NBP; and (iv) transfer of 98.69% shares of XNW from SPG to NBP, as a result of which XNW became a non-wholly owned subsidiary of NBP.

On May 23, 2012, the Company was incorporated as an investment holding company and its intermediate holding Company is Massive Top. Shares of Dragon Merit were exchanged, on a one to one basis, for the shares of the Company on May 31, 2012. As a result, Dragon Merit became wholly owned subsidiary of the Company and there was no change in ultimate control or ultimate ownership interest of the entities comprising the Group as a result of this transaction.

As a result of the abovesaid transactions and as at the date of report, the Company's immediate holding company is Joyful Horizon Limited, a limited liability company incorporated in the BVI. Its intermediate holding company is Massive Top Limited and its ultimate controlling party is Hony Capital Fund III, L.P..

The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity.

The Financial Information of the Group has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by HKICPA. The consolidated statements of comprehensive income, consolidated statements changes in equity and consolidated statements of cash flow of the Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where is a shorter period.

The functional currency of the Company is Renminbi ("RMB"), which is also the functional currency of the operating subsidiaries of the Group. The Financial Information is presented in Hong Kong Dollar ("HK$") for the convenience of the shareholders of CPG, as CPG is listed in Hong Kong.

The Financial Information is prepared on a going concern basis as explained in note 6b.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA issued a number of new and revised Hong Kong Accounting Standard ("HKAS"), HKFRSs, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for the Group's financial period beginning on January 1, 2012. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all these new HKFRSs and other existing HKFRSs consistently throughout the Relevant Periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective during the Relevant Periods.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 — 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after January 1, 2013
[2] Effective for annual periods beginning on or after January 1, 2015
[3] Effective for annual periods beginning on or after July 1, 2012
[4] Effective for annual periods beginning on or after January 1, 2014

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

- HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) — Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

- HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013.

The directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after January 1, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, other than those involving entities under common control, are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses which are not combination of entities under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the recognition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other income/other expenses in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held to maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, (including trade and other payables, bills payables, trade payables due to related companies, dividend payable, amounts due to related companies, government loans and unsecured bank loans) are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment loss on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of and asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of an asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2009, 2010 and 2011 and 31 May 2012, are approximately HK$93,378,000, HK$96,674,000, HK$101,448,000, and HK$100,211,000. Details are set out in note 16.

Estimated impairment of trade receivables from a third party

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, 2010 and 2011 and May 31, 2012, the carrying amounts of the Group's trade receivable from third parties are approximately HK$236,088,000, HK$272,859,000, HK$402,204,000 and HK$615,641,000, net of allowance of or doubtful debts of approximately HK$962,000, HK$1,039,000, HK$1,141,000 and HK$1,127,000, respectively.

Useful lives and impairment assessment of property, plant, and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimation is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at December 31, 2009, 2010 and 2011 and May 31, 2012, the carrying amounts of property, plant and equipment are approximately HK$473,913,000, HK$608,094,000 and HK$909,376,000 and HK$987,702,000, respectively. Details of the movement for property, plant and equipment are disclosed in note 14.

Write off of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews the aging of the inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down inventories in that year. As of December 31, 2009, 2010 and 2011, and May 31, 2012, the carrying amounts of the inventories are approximately HK$139,217,000, HK$218,821,000, HK$304,490,000 and HK$393,117,000, respectively, net of provision for inventories of approximately HK$464,000, HK$481,000, nil and nil, respectively.

Fair value of financial guarantee contracts

The directors of the Company use their judgment in selecting the default risk method to determine the fair value of financial guarantee contracts upon initial recognition of these contracts. The main assumptions for determining the fair value of financial guarantee contracts are the probability of default by the specified counterparty extrapolated from market-based credit information and the market default rates. The carrying amount of the financial guarantee contracts are approximately nil, HK$10,587,000, HK$13,355,000 and HK$13,788,000 as at December 31, 2009, 2010 and 2011 and May 31, 2012, respectively.

The directors believe that the chosen valuation techniques and assumptions, as set out in note 35, are appropriate in determining the fair value of financial guarantee contracts.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 27 and amount due to related companies in note 22, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt and the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Held for trading investments	643	573	490	517
Loans and receivables (including cash and cash equivalents)	463,276	648,022	926,690	1,026,025
Available-for-sale investments	1,136	—	—	—
Financial liabilities				
Amortised cost	642,809	985,340	1,324,136	2,140,813
Financial guarantee contracts	—	10,587	13,355	13,788

6b. Financial risk management objectives and policies

The major financial instruments of the Group include available-for-sale investments, trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, held for trading investments, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, trade payables due to related companies, dividend payable, amounts due to related companies, bank loans and financial guarantee contracts. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollars ("USD"), and bank balances and cash denominated in USD and HK$, which expose the Group to foreign currency risk.

The Group and the Company currently do not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by the management are as follows:

	Liabilities				Assets			
	As at December 31,			As at May 31,	As at December 31,			As at May 31,
	2009	2010	2011	2012	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
HK$	–	–	–	–	–	718	754	744
USD	–	–	–	205,109	88,258	44,643	145,434	148,734

Sensitivity analysis

The Group are mainly exposed to HK$ and USD.

The following tables detail the sensitivity of the Group to a 5% (2010: 5%) increase and decrease in RMB against HK$ and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the relevant currency. For a 5% strengthing of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$ *(i)*	—	31	32	32
USD *(ii)*	3,751	1,897	6,181	(2,396)

(i) This is mainly attributable to the exposure outstanding on HK$ bank balances at year/period end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, receivables and amount due to a related company at year/period end.

(ii) Interest rate risk

The Group's bank balances carry interest at floating rates and have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rates. The directors of the Company consider the Group's exposure is not significant as those interest bearing bank balances are within a short maturity period.

The Group is also exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 27 for details of these loans), which are raised from the banks in the PRC.

The Group is exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 27 for details of these borrowings). It is the policy of the Group to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group to cash flow interest rate risk due to the fluctuation of the prevailing interest rates.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of benchmark interest rate of the PRC ("Benchmark Rate") arising from the Group's RMB loans raised by certain subsidiaries of the Company.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the years ended December 31, 2009, 2010 and 2011, and the five months ended May 31, 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by HK$580,000, HK$800,000, HK$577,000 and HK$1,296,000, respectively.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity investments (note 18). The directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

As at December 31, 2011, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

— the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

— the amounts of contingent liabilities in relating to financial guarantees issued by the Group and the Company as disclosed in note 35.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk on trade receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, restricted bank deposits and bank balances and cash by geographical location is mainly in the PRC. The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with good reputation.

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, the Group have available unutilised bank loan facilities HK$250,000,000, HK$58,824,000, HK$111,111,000 and HK$256,097,000, respectively. Details of which are set out in note 27.

The Group's current liabilities exceeded its current assets by approximately HK$74,152,000, HK$117,711,000 and HK$719,785,000 as at December 31, 2010 and 2011 and May 31, 2012, respectively. In order to improve the Group's financial position and liquidity, the Company issued one ordinary share for a total cash consideration of RMB640 million (equivalent to approximately HK$780 million) to the immediate holding company in June 2012. Further, the Group has undrawn banking facilities of approximately HK$256 million available as at May 31, 2012. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future after taking into account the aforesaid proceeds from issue of shares, banking facilities available and internally generated funds. Accordingly, the Financial Information has been prepared on a going concern basis.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

As at December 31, 2009

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	167,753	113,529	—	—	281,282	281,282
Bills payables	—	10,795	9,091	1,591	—	21,477	21,477
Trade payables due to related companies	—	4,255	—	—	—	4,255	4,255
Amount due to related companies	—	26,136	—	—	—	26,136	26,136
Government loan	6.57	2,841	—	—	—	2,841	2,841
Bank loans							
— floating-rate	5.16	—	—	58,651	79,545	138,196	136,364
— fixed rate	5.17	—	—	175,961	—	175,961	170,454
Financial guarantee contracts		—	5,714	3,428	—	9,142	—
		211,780	128,334	239,631	79,545	659,290	642,809

As at December 31, 2010

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	262,113	48,898	—	—	311,011	311,011
Bills payables	—	—	11,764	43,157	—	54,921	54,921
Trade payables due to related companies	—	23,463	—	—	—	23,463	23,463
Amounts due to related companies	—	191,777	142,132	—	—	333,909	333,909
Dividend payables	—	50,271	—	—	—	50,271	50,271
Bank loans							
— floating-rate	4.78	—	—	133,599	65,072	198,671	188,235
— fixed-rate	5.18	—	—	24,232	—	24,232	23,530
Financial guarantee contracts	—	—	129,412	339,741	154,376	623,529	10,587
		527,624	332,206	540,729	219,448	1,620,007	995,927

As at December 31, 2011

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	389,931	57,785	—	—	447,716	447,716
Bills payables	—	—	13,951	—	—	13,951	13,951
Trade payables due to related companies	—	41,384	—	—	—	41,384	41,384
Amounts due to related companies	—	360,633	292	—	—	360,925	360,925
Dividend payables	—	114,481	—	—	—	114,481	114,481
Bank loans							
— floating-rate	5.99	—	—	76,848	67,359	144,207	135,802
— fixed rate	6.60	—	—	218,532	—	218,532	209,877
Financial guarantee contracts	—	24,691	49,383	922,577	237,917	1,234,568	13,355
		931,120	121,411	1,217,957	305,276	2,575,764	1,337,491

As at May 31, 2012

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount at 31.5.2012
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	278,147	225,991	—	—	504,138	504,138
Bills payables	—	—	—	12,195	—	12,195	12,195
Trade payables due to related companies	—	51,722	—	—	—	51,722	51,722
Amounts due to related companies	—	766,965	50,894	—	104,503	922,362	922,362
Dividend payables	—	296,737	—	—	—	296,737	296,737
Bank loans							
— floating-rate	6.40	—	—	253,660	64,879	318,539	304,878
— fixed rate	6.56	—	49,180	—	—	49,180	48,781
Financial guarantee contracts	—	45,732	141,463	1,030,294	100,804	1,318,293	13,788
		1,439,303	467,528	1,296,149	270,186	3,473,166	2,154,601

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The measurement of Held for trading investment is categorised as Level 1 fair value measurements based on the degree to which the fair value is derived from quoted prices in active market.

There were no transfers between Level 1 and 2 in the years/period.

7. REVENUE AND SEGMENT INFORMATION

	For the year ended December 31,			For the five months ended May 31,	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Sale of goods	1,296,275	1,757,586	2,407,445	956,093	1,292,548

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, board of directors, in order to allocate resources to the segments and to assess their performance.

Information reported to the directors are based upon which the Group is organised.

The Group's reportable and operating segments for financial reporting purposes are as follows:

(a) NBP
(b) OYY Group
(c) XNW

All reportable segments and engaged in the manufacture and sales of pharmaceutical products.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended December 31, 2009:

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE						
External sales	125,391	691,185	479,699	1,296,275	—	1,296,275
Inter-segment sales	—	—	4,675	4,675	(4,675)	—
TOTAL REVENUE	125,391	691,185	484,374	1,300,950	(4,675)	1,296,275

Inter-segment sales are charged at prevailing market rates.

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
SEGMENT (LOSS) PROFIT	(10,654)	87,408	77,143			153,897
Share of profit of associates						4,547
Profit before tax						158,444

For the year ended December 31, 2010:

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE						
External sales	179,732	1,070,080	507,774	1,757,586	—	1,757,586
Inter-segment sales	16	—	2,642	2,658	(2,658)	—
TOTAL REVENUE	179,748	1,070,080	510,416	1,760,244	(2,658)	1,757,586

Inter-segment sales are charged at prevailing market rates.

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
SEGMENT PROFIT AND PROFIT BEFORE TAX	14,020	144,707	47,004			205,731

For the year ended December 31, 2011:

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE						
External sales	398,249	1,375,391	633,805	2,407,445	—	2,407,445
Inter-segment sales	514	68	3,171	3,753	(3,753)	—
TOTAL REVENUE	398,763	1,375,459	636,976	2,411,198	(3,753)	2,407,445

Inter-segment sales are charged at prevailing market rates.

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
SEGMENT PROFIT AND PROFIT BEFORE TAX	144,438	201,918	71,782			418,138

For the five months ended May 31, 2011 (unaudited):

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
SEGMENT REVENUE						
External sales	128,752	554,978	272,363	956,093	—	956,093
Inter-segment sales	1	—	1,709	1,710	(1,710)	—
TOTAL REVENUE	128,753	554,978	274,072	957,803	(1,710)	956,093

Inter-segment sales are charged at prevailing market rates.

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
SEGMENT PROFIT AND PROFIT BEFORE TAX	33,297	94,829	34,589			162,715

For the five months ended May 31, 2012:

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE						
External sales	262,505	711,728	318,315	1,292,548	—	1,292,548
Inter-segment sales	—	11,824	1,353	13,177	(13,177)	—
TOTAL REVENUE	262,505	723,552	319,668	1,305,725	(13,177)	1,292,548

Inter-segment sales are charged at prevailing market rates.

	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
SEGMENT PROFIT AND PROFIT BEFORE TAX	113,716	131,803	30,952			276,471

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment. This is the measure reported to the board of directors for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NBP	164,708	278,095	434,953	553,809
OYY Group	783,357	1,083,166	1,473,377	1,584,626
XNW	343,890	391,260	499,091	537,589
Total segment assets	1,291,955	1,752,521	2,407,421	2,676,024
Unallocated	7,341	5,708	1,493	1,105
Consolidated total assets	1,299,296	1,758,229	2,408,914	2,677,129

Segment liabilities

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NBP	(52,365)	(156,139)	(182,210)	(714,039)
OYY Group	(553,243)	(760,503)	(1,011,296)	(1,087,127)
XNW	(111,110)	(168,355)	(254,456)	(341,865)
Total segment liabilities	(716,718)	(1,084,997)	(1,447,962)	(2,143,031)
Unallocated	—	—	—	(213,845)
Consolidated total liabilities	(716,718)	(1,084,997)	(1,447,962)	(2,356,876)

For the purposes of monitoring segment performances and allocating resources among segments:

- all assets are allocated to operating segments other than deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than deferred tax liabilities and amount due to a related company of the Company on acquisition of NBP (note 31(ii)). Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

For the year ended December 31, 2009:

Amounts included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	815	29,703	34,084	—	64,602	—	64,602
Addition to intangible assets	1,738	—	—	—	1,738	—	1,738
Addition to prepaid lease payment	—	45,475	—		45,475	—	45,475
Depreciation and amortisation	14,805	18,519	13,925	—	47,249	—	47,249
Allowance for trade receivables	—	204	—	—	204	—	204
Research and development expenditure	10,100	8,132	6,315	—	24,547	—	24,547
Legal and professional fee	10,254	19,933	6,922	—	37,109	—	37,109
Finance cost	276	10,636	1,174	—	12,086	—	12,086
Interest income	(44)	(407)	(28)	—	(479)	—	(479)
Loss on disposal of available-for-sale investment	—	—	485	—	485	—	485
Gain on fair value change of investments held for trading	—	(301)	—	—	(301)	—	(301)
Dividend income from equity investment	—	(12)	—	—	(12)	—	(12)
Loss (gain) on disposal of property, plant and equipment	127	(43)	1,763	—	1,847	—	1,847

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of results from associates	—	—	—	—	—	(4,547)	(4,547)

For the year ended December 31, 2010:

Amounts included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	20,391	115,309	36,185	—	171,885	—	171,885
Depreciation and amortisation	17,037	24,730	15,776	—	57,543	—	57,543
Allowance for trade receivables	—	41	—	—	41	—	41
Research and development expenditure	8,825	17,101	6,199	—	32,125	—	32,125
Legal and professional fee	7,218	19,738	8,031	—	34,987	—	34,987
Finance cost	154	11,172	1,010	—	12,336	—	12,336
Interest income	(91)	(556)	(1,207)	—	(1,854)	—	(1,854)
Gain on disposal of subsidiaries	—	(3,015)	—	—	(3,015)	—	(3,015)
Loss on fair value change of investments held for trading	—	90	—	—	90	—	90
Dividend income from equity investment	—	(9)	—	—	(9)	—	(9)
Loss on disposal of property, plant and equipment	8	1,960	24	—	1,992	—	1,992

For the year ended December 31, 2011:

Amounts included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	21,526	269,714	38,871	—	330,111	—	330,111
Addition to intangibles assets	1,665	—	—	—	1,665	—	1,665
Addition to prepaid lease payment	—	59,649	—	—	59,649	—	59,649
Depreciation and amortisation	18,508	29,333	20,690	—	68,531	—	68,531
Reversal of allowance for inventories	—	—	(492)	—	(492)	—	(492)
Allowance for trade receivables	—	43	—	—	43	—	43
Research and development expenditure	7,425	15,711	2,853	—	25,989	—	25,989
Legal and professional fee	4	15,309	117	—	15,430	—	15,430
Finance cost	—	16,311	5,394	—	21,705	—	21,705
Interest income	(318)	(728)	(7,246)	—	(8,292)	—	(8,292)
Loss on fair value change of investments held for trading	—	83	—	—	83	—	83
Dividend income from equity investment	—	(11)	—	—	(11)	—	(11)
Loss (gain) on disposal of property, plant and equipment	1	59	(132)	—	(72)	—	(72)

For the five months ended May 31, 2011 (unaudited):

Amounts included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	900	54,649	14,343	—	69,892	—	69,892
Addition to prepaid lease payment	—	58,939	—	—	58,939	—	58,939
Depreciation and amortisation	7,578	12,944	7,646		28,168	—	28,168
Reversal of allowance on trade receivables	—	(297)	—	—	(297)	—	(297)
Research and development expenditure	7,005	6,146	956	—	14,107	—	14,107
Legal and professional fee	4	6,552	115	—	6,671	—	6,671
Finance cost	—	3,921	2,205	—	6,126	—	6,126
Interest income	(45)	(161)	(3,105)	—	(3,311)	—	(3,311)
Loss on fair value change of investments held for trading	—	13	—	—	13	—	13
Gain on disposal of property, plant and equipment	—	—	(131)	—	(131)	—	(131)

For the five months ended May 31, 2012:

Amounts included in the measure of segment profit or loss or segment assets:

	NBP	OYY Group	XNW	Others	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	11,495	102,369	4,437	—	118,301	—	118,301
Depreciation and amortisation	7,606	13,120	8,746	—	29,472	—	29,472
Research and development expenditure	4,337	7,058	2,625	—	14,020	—	14,020
Legal and professional fee	5	9,646	49	—	9,700	—	9,700
Finance cost	—	7,501	1,943	—	9,444	—	9,444
Interest income	(115)	(143)	(1,962)	—	(2,220)	—	(2,220)
Gain on fair value change of investments held for trading	—	(27)	—	—	(27)	—	(27)
Loss (gain) on disposal of property, plant and equipment	8	(163)	—	—	(155)	—	(155)

Geographical information

The following is an analysis of the Group's revenue by geographical market based on geographical location of customers for the years/period:

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
The PRC (country of domicile)	786,283	1,163,855	1,657,899	638,569	953,756
Other Asian regions	85,555	184,150	188,848	102,348	91,624
Americas	220,263	165,440	223,949	94,599	109,313
Europe	188,386	215,799	326,748	111,855	125,704
Others	15,788	28,342	10,001	8,722	12,151
	1,296,275	1,757,586	2,407,445	956,093	1,292,548

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

Product information

The following is an analysis of the Group's revenue by product lines for the years/period:

	For the year ended 31 December			For the five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Bulk drugs					
Antibiotics	147,046	244,090	299,419	131,175	79,952
Caffeine	278,670	313,932	379,468	160,708	199,169
Others	262,998	251,017	320,953	137,723	149,823
	688,714	809,039	999,840	429,606	428,944
Finished drugs					
"NBP" product series	111,973	164,786	364,502	120,049	239,107
"Oulaining" product series	28,897	82,391	148,434	51,401	175,137
"Xuanning" product series	44,039	71,083	123,173	41,082	77,742
"Weihong" product series	51,322	75,646	98,545	44,635	57,333
"Ouyi"product series	58,049	75,154	65,826	27,783	37,663
Others	313,281	479,487	607,125	241,537	276,622
	607,561	948,547	1,407,605	526,487	863,604
	1,296,275	1,757,586	2,407,445	956,093	1,292,548

None of the Group's customers contributed over 10% of the total revenue of the Group in years/period.

8. PROFIT BEFORE TAX

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before tax has been arrived at after charging (crediting):					
Staff costs, including directors' remuneration *(note 10)*					
Salaries, wages and other benefits	105,168	132,008	154,351	63,461	73,861
Contribution to retirement benefit schemes	11,995	16,450	21,256	7,393	11,047
Total staff costs	117,163	148,458	175,607	70,854	84,908
Amortisation of intangible assets (included in administrative expense)	698	702	612	305	196
Amortisation of prepaid lease payments	2,033	2,044	3,149	1,182	1,394
Depreciation of property, plant and equipment	44,518	54,797	64,770	26,681	27,882
Total depreciation and amortisation	47,249	57,543	68,531	28,168	29,472

	For the year ended December 31,			For the five months ended May 31,	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Auditor's remuneration	411	562	444	148	274
Government grant income *(note 29)*	(3,426)	(5,756)	(5,261)	(695)	(769)
Impairment loss (reversed) on trade receivables	204	41	43	(297)	—
Reversal of allowance for inventories *(Note ii)*	—	—	(492)	—	—
Interest income	(479)	(1,854)	(8,292)	(3,311)	(2,220)
Gain on disposal of subsidiaries	—	(3,015)	—	—	—
Loss on disposal of available-for-sale investment	485	—	—	—	—
Loss on written off of intangible assets	820	—	—	—	—
Dividend income from equity investment	(12)	(9)	(11)	—	—
(Gain) loss on fair value change of investments held for trading	(301)	90	83	13	(27)
Loss (gain) on disposal/write-off of property, plant and equipment(included in other income/other expenses)	1,847	1,992	(72)	(131)	(155)
Legal and professional fee	37,109	34,987	15,430	6,671	9,700
Net foreign exchange losses	51	1,021	2,133	1,478	330
Rental expenses	5,110	8,531	7,543	2,067	1,340
Advertising and promotion expenses	42,354	73,221	83,831	28,287	81,917
Research and development expenditure recognised as an expense (included in other expenses)	24,547	32,125	25,989	14,107	14,020

Note:

(i) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement for the years ended December 31, 2009, 2010, 2011 and the five months ended May 31, 2011 (unaudited) and 2012.

(ii) During the year ended December 31, 2011, there was a reversal of allowance for inventories of approximately of HK$492,000 recognised because of subsequent sales of the relevant inventories.

9. INCOME TAX EXPENSE

	For the year ended December 31,			For the five months ended May 31,	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
The tax charge comprises:					
PRC Enterprise Income Tax					
— current year	26,596	29,161	56,576	22,523	47,542
Deferred taxation *(note 28)*	190	1,838	4,388	3,445	9,110
	26,786	30,999	60,964	25,968	56,652

The Company is tax exempt under the law of the British Virgin Islands.

Dragon Merit is subject to 16.5% of the estimated assessable profit under Hong Kong Profits Tax. No provision for Hong Kong Profits Tax has been made as income neither arises in, nor is derived from, Hong Kong.

The basic tax rate of the Company's PRC subsidiaries is 25%, under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law.

Pursuant to the relevant laws and regulations in the PRC, established before March 16, 2007 are entitled to exemption from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years. NBP enjoyed tax exemption for the year ended December 31, 2008 and 2009 and is entitled for 50% tax relief for the years ended December 31, 2010, 2011 and 2012.

In addition, OYY and XNW, are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate to be 15% for a period of 3 years up to 2014.

The charge for the year ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2011 (unaudited) and 2012 to PRC EIT has been relieved by approximately HK$190,000, HK$1,838,000, HK$4,388,000, HK$3,445,000 (unaudited) and HK$374,000, respectively, as a result of tax losses brought forward from previous years.

The tax charge for the year/period can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before tax	158,444	205,731	418,138	162,715	276,471
Tax at the domestic income tax rate of 25%	39,611	51,433	104,535	40,679	69,118
Tax effect of income not taxable for tax purpose	(163)	—	—	—	(737)
Tax effect of expenses not deductible for tax purpose	9,758	6,052	6,176	3,851	11,508
Tax effect of share of results of an associate	(1,137)	—	—	—	—
Utilisation of tax losses previously not recognised	(41)	—	—	—	—
Tax effect of deductible temporary differences not recognised	985	517	357	254	330
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	(22,174)	(26,599)	(50,198)	(18,808)	(32,226)
Others	(53)	(404)	94	(8)	(77)
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries	—	—	—	—	8,736
Tax charge for the year/period	26,786	30,999	60,964	25,968	56,652

Details of deferred taxation and unused tax losses are set out in note 28.

10. DIRECTORS' EMOLUMENTS

For the five months ended May 31, 2012

	Wang Shunlong	**Chan Lai**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Fee	—	—	—
Other emoluments:			
— salaries and other benefits	71	18	89
— contributions to retirement benefits scheme	—	—	—
	71	18	89

No emolument is paid or payable to the directors of the Company during the year ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2011. No remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments during the Relevant Periods.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group for the Relevant Periods, none was director of the Group whose emoluments is included in the disclosures in note 10 above. The emoluments of the five individuals for the Relevant Periods are as follows:

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Employees					
— salaries and other benefits	1,003	1,347	1,555	707	761
— contributions to retirement benefits scheme	84	102	117	48	52
	1,087	1,449	1,672	755	813

The emoluments of each of the five highest paid individuals in the Group for the Relevant Periods were below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDEND

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Dividend recognised as distribution during the year/ period:					
NBP					
2012	—	—	—	—	6,505
OYY					
2009	73,863	—	—	—	—
2010	—	83,120	—	—	—
2011	—	—	60,241	—	—
2012	—	—	—	—	220,464
	73,863	83,120	60,241	—	220,464
XNW					
2009	11,364	—	—	—	—
2010	—	57,142	—	—	—
2011	—	—	49,397	48,809	—
2012	—	—	—	—	74,406
Less: dividend paid to non-controlling interest	(149)	(748)	(647)	(639)	(975)
	11,215	56,394	48,750	48,170	73,431
Total	85,078	139,514	108,991	48,170	300,400

Note: The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

13. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Plant and machinery	Furniture, fixtures and office equipment	Computer software	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At January 1, 2009	155,243	197,719	12,747	50	41,409	407,168
Additions	4,143	20,988	1,135	23	38,313	64,602
Acquired on acquisition of subsidiaries	48,886	98,464	4,488	440	1,538	153,816
Transfers	15,295	1,903	33	—	(17,231)	—
Disposals/write-off	—	(7,798)	(594)	—	—	(8,392)
At December 31, 2009	223,567	311,276	17,809	513	64,029	617,194
Exchange adjustments	10,558	14,492	931	46	3,247	29,274
Additions	9,200	31,903	4,444	68	126,270	171,885
Transfers	42,692	48,777	1,225	—	(92,694)	—
Disposals/write-off	(5,299)	(10,008)	(1,377)	—	—	(16,684)
At December 31, 2010	280,718	396,440	23,032	627	100,852	801,669
Exchange adjustments	16,398	22,349	1,449	67	11,522	51,785
Additions	795	21,817	3,705	—	303,794	330,111
Transfers	28,403	10,419	38	—	(38,860)	—
Disposals/write-off	—	(821)	(1,114)	—	—	(1,935)
At December 31, 2011	326,314	450,204	27,110	694	377,308	1,181,630
Exchange adjustments	(4,801)	(7,636)	(517)	(17)	(3,759)	(16,730)
Additions	19,204	6,715	1,206	—	91,176	118,301
Transfers	11,401	129,321	9,079	—	(149,801)	—
Disposals/write-off	—	(587)	—	—	—	(587)
At May 31, 2012	352,118	578,017	36,878	677	314,924	1,282,614
ACCUMULATED DEPRECIATION AND IMPAIRMENT *(Note)*						
At January 1, 2009	27,361	75,398	982	18	—	103,759
Provided for the year	9,574	32,531	1,942	471	—	44,518
Eliminated on disposals/write-off	—	(4,542)	(454)	—	—	(4,996)
At December 31, 2009	36,935	103,387	2,470	489	—	143,281
Exchange adjustments	2,875	5,959	312	44	—	9,190
Provided for the year	13,450	38,481	2,843	23	—	54,797
Eliminated on disposals/write-off	(4,106)	(8,397)	(1,190)	—	—	(13,693)
At December 31, 2010	49,154	139,430	4,435	556	—	193,575
Exchange adjustments	4,655	9,981	519	64	—	15,219
Provided for the year	16,722	44,808	3,231	9	—	64,770
Eliminated on disposals/write-off	—	(241)	(1,069)	—	—	(1,310)
At December 31, 2011	70,531	193,978	7,116	629	—	272,254
Exchange adjustments	(1,400)	(3,081)	(166)	(17)	—	(4,664)
Provided for the period	7,519	18,826	1,533	4	—	27,882
Eliminated on disposals/write-off	—	(560)	—	—	—	(560)
At May 31, 2012	76,650	209,163	8,483	616	—	294,912
CARRYING VALUES						
At December 31, 2009	186,632	207,889	15,339	24	64,029	473,913
At December 31, 2010	231,564	257,010	18,597	71	100,852	608,094
At December 31, 2011	255,783	256,226	19,994	65	377,308	909,376
At May 31, 2012	275,468	368,854	28,395	61	314,924	987,702

Note: An impairment loss on buildings, plant and machinery and furniture, fixtures and office equipment of approximately HK$189,000, HK$7,657,000, and HK$11,000 were recognised in 2008 related to the OYY Group segment. These assets with the aggregate carrying amount of approximately HK$7,857,000 were fully impaired and were not in use since impairment.

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

Buildings in the PRC	Over the shorter of the relevant lease of 20 to 25 years,or 4% — 5%
Plant and machinery	8% — 10%
Furniture, fixtures and office equipment	20% — 33.33%
Computer software	20% — 50%

15. PREPAID LEASE PAYMENTS

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed for reporting purpose as:				
Current asset	2,033	2,104	3,431	3,389
Non-current asset	68,810	69,134	129,221	126,267
	70,843	71,238	132,652	129,656

Prepaid lease payments comprise medium-term leasehold land in the PRC. The land use rights are amortised on a straight-line basis over lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

16. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 31 December 2009 *(note 34)*	93,378
Exchange adjustments	3,296
At 31 December 2010	96,674
Exchange adjustments	4,774
At 31 December 2011	101,448
Exchange adjustments	(1,237)
At 31 May 2012	100,211

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit ("CGU") as follows:

	As at December 31,			May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OYY Group	93,378	96,674	101,448	100,211

During the year ended 31 December 2009, 2010, and 2011 and the five months ended 31 May 2012, management of the Group determines that there is no impairment of the above-mentioned cash-generating units containing the goodwill. The basis of the recoverable amounts of the cash-generating units and their major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% per annum, for OYY Group. Cash flows beyond the 5-year period are extrapolated based on past trends of on pricing cycle of the Group's pharmaceutical products. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of these units.

17. OTHER INTANGIBLE ASSETS

	Patent	**Technical know-how**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At January 1, 2009	281	8,631	8,912
Additions	—	1,738	1,738
At December 31, 2009	281	10,369	10,650
Exchange adjustments	11	240	251
At December 31, 2010	292	10,609	10,901
Exchange adjustments	55	348	403
Additions	1,665	—	1,665
At December 31, 2011	2,012	10,957	12,969
Exchange adjustments	(24)	(90)	(114)
At May 31, 2012	1,988	10,867	12,855
ACCUMULATED AMORTISATION AND IMPAIRMENT *(Note)*			
At January 1, 2009	—	4,735	4,735
Provided for the year	32	666	698
At December 31, 2009	32	5,401	5,433
Exchange adjustments	3	84	87
Provided for the year	32	670	702
At December 31, 2010	67	6,155	6,222
Exchange adjustments	5	142	147
Provided for the year	48	564	612
At December 31, 2011	120	6,861	6,981
Exchange adjustments	(3)	(40)	(43)
Provided for the period	84	112	196
At May 31, 2012	201	6,933	7,134
CARRYING VALUES			
At December 31, 2009	249	4,968	5,217
At December 31, 2010	225	4,454	4,679
At December 31, 2011	1,892	4,096	5,988
At May 31, 2012	1,787	3,934	5,721

Note: An impairment loss on technical know-how of approximately HK$1,334,000 was recognised in 2008 related to the OYY Group segment. These assets were not in use since impairment was made.

Technical know-how mainly represents techniques and formulae acquired for the development of products and production technology.

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

Patent	3 to 10 years
Technical know-how	5 to 10 years

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprised of investment in unlisted equity securities issued by private entity established in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

During the year ended December 31, 2009 and 2010, the Group disposed certain unlisted equity securities with carrying amount of approximately HK$1,023,000 and HK$1,136,000 respectively. A loss on disposal of approximately HK$485,000 and nil have been recognised in profit or loss for the year ended December 31, 2009 and 2010, respectively.

19. INVENTORIES

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	26,665	31,785	75,774	137,501
Work in progress	20,589	36,616	47,833	94,362
Finished goods	91,963	150,420	180,883	161,254
	139,217	218,821	304,490	393,117

20. TRADE AND OTHER RECEIVABLES

	As at December 31,			As at May 31,
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	237,050	273,898	403,345	616,768
Less: allowance for doubtful debts	(962)	(1,039)	(1,141)	(1,127)
	236,088	272,859	402,204	615,641
Prepayment for purchase of raw material	36,583	67,184	21,090	26,839
Utility deposits	2,744	3,701	4,410	5,253
Prepayment for consulting fee	5,000	4,118	568	—
Other tax recoverable	1,021	4,224	5,599	2,107
Others	1,926	6,132	16,639	16,670
	283,362	358,218	450,510	666,510

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date at the end of the reporting period:

	As at December 31,			As at May 31,
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	233,043	261,476	391,563	583,604
91 to 180 days	3,018	10,955	8,371	29,918
181 to 365 days	27	428	2,270	2,119
	236,088	272,859	402,204	615,641

No impairment loss is provided for the trade receivables that are neither past due nor impaired (i.e. aged within 90 days) because these receivables are within the credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$3,045,000, HK$11,383,000, HK$10,641,000 and HK$32,037,000 which are past due (i.e. aged over 90 days) as at 31 December 2009, 2010 and 2011 and 31 May 2012, respectively, for which the Group has not provided for impairment loss as the amounts are still considered recoverable and of good credit quality. The Group does not hold any collateral over these balances. The average age of these receivable is 120 days.

Ageing of trade receivables which are past due but not impaired

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
91 to 180 days	3,018	10,955	8,371	29,918
181 to 365 days	27	428	2,270	2,119
	3,045	11,383	10,641	32,037

Movements in the allowance for doubtful debts

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	758	962	1,039	1,141
Impairment loss on trade receivables	204	41	355	—
Impairment losses reversed	—	—	(312)	—
Exchange adjustments	—	36	59	(14)
Balance at end of the year/period	962	1,039	1,141	1,127

The Group's trade receivables that are denominated in foreign currency are set out below:

Denominated in USD	*HK$'000*
As at 31 December 2009	87,053
As at 31 December 2010	32,546
As at 31 December 2011	130,846
As at 31 May 2012	144,003

21. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

22. RELATED AND CONNECTED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Apart from other arrangements with related parties disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following. The significant transactions with these companies during the year/period, and have balances with them at the end of the reporting period, are as follows:

(I) Related and connected companies

Name of company	Nature of transactions/balances	For the year ended December 31, 2009 HK$'000	2010 HK$'000	2011 HK$'000	For the five months ended May 31, 2011 HK$'000 (unaudited)	2012 HK$'000
SPG and its subsidiaries *(note 1)*						
	Purchase of raw materials	1,041	1,161	1,418	806	450
	Sale of finished drugs products	25,269	30,923	39,316	12,347	19,520
	Sale of raw materials	—	569	786	—	—
	Interest income received	—	—	5,853	2,498	1,852
	Dividend paid	85,078	139,514	108,991	48,170	300,400

	As at December 31, 2009 HK$'000	2010 HK$'000	2011 HK$'000	As at May 31, 2012 HK$'000
Balance due from/to the SPG Group				
— trade receivables				
aged 0-90 days	1,957	7,401	17,206	30,311
aged 91-180 days	170	31	2,009	7,767
aged over 180 days	—	—	—	122
	2,127	7,432	19,215	38,200
— trade payables				
aged 0-90 days	2,449	513	4,773	5,849
aged 91-180 days	25	—	—	—
	2,474	513	4,773	5,849
— other receivables	47,674	11	—	—
— other payables – current	—	333,909	360,925	817,859
— other payables – non current	—	—	—	104,503
— dividend payable	—	50,271	114,481	296,737

Name of company	Nature of transactions/balances	2009 HK$'000	2010 HK$'000	2011 HK$'000	2011 HK$'000 (unaudited)	2012 HK$'000
CPG and its subsidiaries *(note 2)*						
	Purchase of raw materials	6,161	19,403	24,088	9,916	24,920
	Sale of finished drugs products	15,892	2,427	1,525	1,146	677
	Sale of utility	801	810	987	487	334
	Product processing services	10,940	9,530	14,511	6,846	—
	Rental income	2,248	2,260	397	—	—
	Sale of raw materials	—	9,618	306	276	—
	Consumable expenses	—	372	1,509	934	854
	Purchase of equipment	—	—	549	—	—

	As at December 31, 2009 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2011 HK$'000	As at May 31, 2012 HK$'000
Balance due from/to the CPG Group				
— trade receivables				
aged 0-90 days	5,549	7,037	24,186	676
aged 91-180 days	163	—	10	53
	5,712	7,037	24,196	729
— trade payables				
aged 0-90 days	40	3,609	507	853
aged 91-180 days	1,741	16,936	32,547	45,020
	1,781	20,545	33,054	45,873
— other receivables	4	4	—	—

Name of company	Nature of transactions/balances	For the year ended December 31, 2009 HK$'000	2010 HK$'000	2011 HK$'000	For the five months ended May 31, 2011 HK$'000 (unaudited)	2012 HK$'000
Hony Capital Fund III, L.P., the intermediate holding company of SPG and CPG						
	Consultancy fee paid	26,136	22,857	—	—	—
	Other payables	26,136	—	—		—
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong"), a jointly controlled entity of CPG Group						
	Purchase of raw materials	5,358	10,490	8,685	2,621	4,574
	Sale of raw materials	—	—	19	—	—

	As at December 31, 2009 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2011 HK$'000	As at May 31, 2012 HK$'000
Balance due from/to Huarong				
— trade receivables				
aged 0-90 days	904	—	—	109
— trade payables				
aged 0-90 days	—	2,405	3,557	—
— other receivables	21	23,551	31,534	—

Total		As at December 31, 2009 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2011 HK$'000	As at May 31, 2012 HK$'000
	Balance due from/to				
	— trade receivables	8,743	14,469	43,411	39,038
	— trade payables	4,255	23,463	41,384	51,722
	— other receivables *(Note 3)*	47,699	23,566	31,534	—
	— other payables – current *(Note 4)*	26,136	333,909	360,925	817,859
	— other payables – non current *(Note 4)*	—	—	—	104,503
	— dividend payables	—	50,271	114,481	296,737

Note 1: SPG is the Company's intermediate holding company prior to May 2012 while it changed to a fellow subsidiary of the Group after group restructuring as described in note 1.

Note 2: CPG is the Company's fellow subsidiary throughout the Relevant Periods.

Note 3: Amounts are unsecured, non-interest bearing and repayable on demand.

Note 4: Amounts are unsecured, non-interest bearing and repayable on demand except that on 31 May 2012, SPG agreed to change the maturity of a balance of RMB97,705,193 (equivalent to approximately HK$104,503,000) to 31 May 2014. Accordingly, the balance is presented as non-current amount due to a related party as at 31 May 2012. Imputed interest is computed using the prevailing market interest rate of 6.56% per annum for comparable long-term borrowings on 31 May 2012. The discount at 31 May 2012 amounted to approximately HK$14,649,000 and is recorded as a capital contribution in the consolidated statement of changes in equity.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK$511,364,000, HK$270,588,000, HK$333,333,000 and HK$548,780,000, respectively, granted to the Group. As at December 31, 2009, 2010 and 2011 and May 31, 2012, the extent of utilisation by the Group amounted to approximately HK$261,364,000, HK$211,765,000, HK$222,222,000 and HK$292,683,000, respectively.

(II) Compensation of key management personnel

The remuneration of key management personnel of the Group during the years/period is as follows:

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Short-term benefits	1,003	1,347	1,555	707	761
Post-employment benefits	84	102	117	48	52
	1,087	1,449	1,672	755	813

The above remuneration is determined by the remuneration committee having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

As certain of the key management personnel of the Group also provide services to other SPG group companies, their remuneration were recorded in the financial statement of SPG and has not been allocated to the Group.

23. HELD FOR TRADING INVESTMENTS

Held for trading investments comprise equity securities listed in the PRC.

24. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.15%, 0.01% to 0.40%, 0.01% to 1.67% and 0.02% to 1.10% as at December 31, 2009, 2010 and 2011 and May 31, 2012, respectively.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, restricted bank deposits represent deposits required to be placed in banks for securing short term banking facilities and are classified as current assets. The restricted bank deposits will be released upon settlement of relevant short term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK$	**USD**
	HK$'000	*HK$'000*
As at December 31, 2009	—	1,205
As at December 31, 2010	718	12,097
As at December 31, 2011	754	14,588
As at May 31, 2012	744	4,731

25. TRADE AND OTHER PAYABLES

	As at December 31,			**As at May 31,**
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	75,446	72,668	142,614	215,082
Customer deposits	9,594	26,247	29,444	24,400
Other tax payables	8,807	7,051	16,051	38,191
Construction retention monies received	731	10,961	16,998	12,614
Consultation fee payable	186	686	609	1,058
Interest payable	309	235	518	1,185
Freight charges payable	11,098	6,132	4,694	4,682
Utilities charges payable	4,035	4,623	2,668	3,202
Construction cost and acquisition of property, plant and equipment payable *(note 31(i))*	106,110	130,107	167,859	136,060
Government grant *(note 29)*	14,317	21,124	30,423	31,141
Receipt in advance from customers	34,023	31,330	41,697	70,136
Staff welfare payable	60,243	57,425	65,282	60,923
Accrued promotion expenses and selling commission	5,652	9,466	5,502	51,767
Other accrual expenses	11,074	11,078	14,549	24,996
	341,625	389,133	538,908	675,437

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at December 31,			**As at May 31,**
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	51,594	71,878	85,799	184,536
91 to 180 days	22,392	659	56,815	30,357
More than 180 days	1,460	131	—	189
	75,446	72,668	142,614	215,082

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

26. BILLS PAYABLES

All bills payables of the Group are aged within 180 days and not yet due at the end of the reporting period.

27. BORROWINGS

	As at December 31, 2009 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2011 HK$'000	As at May 31, 2012 HK$'000
Unsecured bank loans				
— floating-rate RMB bank loans	136,364	188,235	135,802	304,878
— fixed-rate RMB bank loans	170,454	23,530	209,877	48,781
	306,818	211,765	345,679	353,659
Government loan	2,841	—	—	—
	309,659	211,765	345,679	353,659

The above borrowings are repayable as follows:

	2009	2010	2011	2012
Within one year	230,114	152,941	283,951	292,683
More than one year, but not more than two years	79,545	—	61,728	60,976
More than two years, but not more than five years	—	58,824	—	—
	309,659	211,765	345,679	353,659
Less: Amounts due within one year shown under current liabilities	(230,114)	(152,941)	(283,951)	(292,683)
Amounts due after one year	79,545	58,824	61,728	60,976

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

	As at December 31, 2009	As at December 31, 2010	As at December 31, 2011	As at May 31, 2012
Effective interest rate:				
Floating-rate RMB bank loans	4.86% to 7.47% per annum	4.78% to 5.31% per annum	4.78% to 7.70% per annum	4.78% to 7.70% per annum
Fixed-rate RMB bank loans	4.78% to 7.47% per annum	4.78% to 5.31% per annum	4.78% to 6.63% per annum	6.56% to 6.63% per annum

The floating-rate of RMB bank loans are subject to interest at discounted PRC Benchmark Rate plus a spread.

All bank loans are denominated in the functional currency of the relevant group entities.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, SPG and its subsidiaries gave guarantee to secure borrowings of the Group.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the Group had undrawn loan facilities to the extent of approximately HK$250,000,000, HK$58,823,000, HK$111,111,000 and HK$60,976,000, respectively, in respect of floating-rate RMB bank loans.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the Group had undrawn facilities to the extent of nil, nil, nil and HK$195,121,000, respectively, in respect fixed-rate RMB bank loans.

Included in government loan represented principal RMB6,000,000 (equivalent to HK$5,692,000) received from the PRC government in 2005. The loan carried interest of 6.57% and was repayable in instalments over 3 years starting from 2008 and it was repaid in full in 2010. The carrying amount of the loan approximates its fair value.

28. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at December 31, 2009	As at December 31, 2010	As at December 31, 2011	As at May 31, 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax asset	7,341	5,708	1,493	1,105
Deferred tax liability	—	—	—	(8,736)
	7,341	5,708	1,493	(7,631)

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year are as follows:

	Tax loss	Undistributed profit of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*
At January 1, 2009	7,531	—	7,531
Charge to profit or loss	(190)	—	(190)
At December 31, 2009 and January 1, 2010	7,341	—	7,341
Charge to profit or loss	(1,838)	—	(1,838)
Exchange adjustments	205	—	205
At December 31, 2010 and January 1, 2011	5,708	—	5,708
Charge to profit or loss	(4,388)	—	(4,388)
Exchange adjustments	173	—	173
At December 31, 2011 and January 1, 2012	1,493	—	1,493
Charge to profit or loss	(374)	(8,736)	(9,110)
Exchange adjustments	(14)	—	(14)
At May 31, 2012	1,105	(8,736)	(7,631)

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the Group has unused tax losses of approximately HK$54,453,000, HK$38,238,000, HK$5,899,000 and HK$4,410,000, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of HK$54,453,000, HK$38,238,000, HK$5,899,000 and HK$4,410,000, respectively.

The unused tax losses will be expired as follow:

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2013	54,453	—	—	—
2014	—	36,730	4,310	2,782
2015	—	1,508	1,589	1,628
	54,453	38,238	5,899	4,410

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from January 1, 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable. During the five months period ended May 31, 2012, deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to the whole amount of undistributed profits of the PRC subsidiaries amounting to approximately HK$174,722,000. No deferred taxation has been provided for the undistributed accumulated profits as at December 31, 2009, 2010 and 2011 as the PRC subsidiaries were previously held by entities which were PRC tax residents during those periods.

There was no other significant deferred taxation for the year or at the end of the reporting period.

29. GOVERNMENT GRANTS

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current *(included in other payables in note 25)*				
— Acquisition of property, plant and equipment *(note a)*	673	696	731	722
— Other subsidies *(note b)*	13,644	20,428	29,692	30,419
	14,317	21,124	30,423	31,141
Non-current				
— Acquisition of property, plant and equipment *(note a)*	7,913	7,493	7,135	6,753
	22,230	28,617	37,558	37,894

Note a: Government grants include cash subsidies received from PRC government by OYY which was specific for the purchase of plant and machineries. The Group has complied with the conditions attaching to the grants as at the end of the reporting periods and transferred to profit or loss over the useful lives of the related assets. During the year ended December 31, 2009, 2010, 2011 and the five months ended May 31, 2012, the Group recognised income of approximately HK$673,000, HK$678,000, HK$714,000 and HK$299,000, respectively.

Note b: Other subsidies are generally provided in relation to development of certain pharmaceutical products or to improve effectiveness of the production or enhancement of environmental protection. Since the Group has not complied with the conditions attaching to certain of grants as at the end of the reporting periods and the grants are refundable in accordance with contract terms, amounts are included as payables. During the year ended December 31, 2009, 2010, 2011 and the five months ended May 31, 2012, the Group recognised income of approximately HK$2,753,000, HK$5,078,000, HK$4,547,000 and HK$470,000, respectively.

30. SHARE CAPITAL

For the purpose of the Financial Information, the share capital shown on the consolidated statements of financial position represented the followings:

	As at December 31,			As at May 31,
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NBP	191,463	191,463	191,463	—
OYY	86,932	113,636	113,636	—
XNW	165,872	165,872	165,872	—
The Company *(note)*	—	—	—	—
Less: amount attributed to non-controlling interest	(2,173)	(2,173)	(2,173)	—
Total	442,094	468,798	468,798	—

Note: Share capital of the Company being HK$8 as of May 31, 2012.

31. MAJOR NON-CASH TRANSACTIONS

(i) During the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2011 (unaudited) and 2012, construction costs and acquisition of property, plant and equipment amounted to approximately HK$106,110,000, HK$130,107,000, HK$167,859,000, HK$112,950,000 and HK$136,060,000, respectively, were unsettled and included in other payables.

(ii) As part of the group reorganisation as set out in note 1, OYY disposed its 75% interest in NBP to China Charmaine at a consideration of approximately RMB126,071,000 (equivalent to HK$153,745,000) while Dragon Merit purchased 100% shares of NBP from China Charmaine at approximately RMB168,095,000 (equivalent to HK$205,109,000) and NBP acquired 100% equity interest of OYY and 98.69% equity interest in XNW from SPG at approximately RMB296,695,000 (equivalent to HK$361,823,000) and RMB172,603,000 (equivalent to HK$210,492,000), respectively in May 2012. These considerations are unsettled and included in amounts due from/ to related parties as at May 31, 2012.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

	For the year ended December 31,			For the five months ended May 31,	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of warehouse and motor vehicles	5,110	5,969	7,543	2,067	1,340

At the end of the reporting periods, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,038	1,335	1,491	1,226
In the second to fifth year inclusive	3,027	2,060	1,034	557
	4,065	3,395	2,525	1,783

Operating lease payments represent rentals payable by the Group for certain of its warehouses and motor vehicles. Leases are negotiated and rentals are fixed for terms of one to five years.

The Group as lessor

Property rental income earned during the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2011 (unaudited) and 2012 were approximately HK$2,248,000, HK$2,260,000, HK$397,000, HK$397,000 (unaudited) and nil, respectively.

At the end of the reporting periods, the Group had contracted with tenants for the following future minimum lease payments:

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,248	2,327	—	—
In the second to fifth year inclusive	2,809	582	—	—
	5,057	2,909	—	—

33. CAPITAL COMMITMENTS

At the end of the reporting periods, the Group had the following capital commitments:

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	29,189	112,091	198,722	167,735

34. ACQUISITION OF A SUBSIDIARY

SPG acquired 73.64% of the issued share capital of OYY from third parties for a cash consideration approximately of HK$256,079,000 in February 2009 and OYY became a wholly owned subsidiary since then. This acquisition has been accounted for using the purchase method.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	153,816
Prepaid lease payments	45,475
Inventories	80,328
Trade and other receivables	151,390
Tax recoverable	988
Held-for-trading investment	342
Bank balances and cash	139,524
Trade and other payable	(195,875)
Bank overdraft	(136,364)
Government grant	(9,259)
Total net assets acquired	230,365
Less: previously held interest of 26.36% held by the Group	(67,664)
	162,701

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	256,079
Plus: previously held interest of 26.36% held by the Group	67,664
Less: net assets acquired	(230,365)
Goodwill arising on acquisition *(note 16)*	93,378

Goodwill arose in the acquisition of OYY because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of OYY. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Cash inflow arising on acquisition of OYY

	HK$'000
Cash and cash balances acquired *(note)*	(139,524)

Note: No cash outflow on OYY acquisition as the interest was acquired by SPG and the purchase consideration paid by SPG is accounted for as deemed contribution to the Group.

Included in the profit for the year ended December 31, 2009 is approximately HK$75,471,000 attributable to the additional business generated by OYY. Revenue for the year ended December 31, 2009 includes approximately HK$691,533,000 generated from OYY.

Had the acquisition been completed on January 1, 2009, total group revenue for the year would have been approximately HK$1,550,215,000, and profit for the year ended December 31, 2009 would have been approximately HK$148,232,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2009, nor is it intended to be a projection of future results.

35. CONTINGENT LIABILITIES AND GUARANTEES

	As at December 31,			As at May 31,
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in respect of credit facilities granted to				
(i) SPG				
— amount guaranteed	—	552,940	1,197,531	1,243,905
— amount utilised	—	494,118	1,097,284	1,070,366
(ii) third parties				
— amounts guaranteed	9,091	70,588	37,037	74,390
— amounts utilised	9,091	64,706	37,037	42,683

As at December 31, 2009, 2010 and 2011 and May 31, 2012, an amount of nil, HK$10,587,000, HK$13,355,000, and HK$13,788,000, respectively, has been recognised in the consolidated statement of financial position as liabilities.

The movement of guarantee liabilities are shown as below:

	HK$'000
At January 1, 2009 and December 31, 2009	—
— Recognition of fair values of financial guarantee contracts at initial recognition	15,445
— Amortization of financial liabilities	(4,858)
At December 31, 2010	10,587
— Recognition of fair values of financial guarantee contracts at initial recognition	17,676
— Amortization of financial liabilities	(14,908)
At December 31, 2011	13,355
— Recognition of fair values of financial guarantee contracts at initial recognition	5,130
— Amortization of financial liabilities	(4,697)
At May 31, 2012	13,788

The fair values were calculated by using the default risk method for the banking facilities obtained by the related parties and the third parties. The fair values were based on certain key assumptions on credit strength of the borrowers and default rate. Financial guarantee contracts are initially recognised at fair value and subsequently amortised in accordance with HKAS 18 Revenue over the guarantee periods, ranging from one to two years. No guarantee liabilities had been utilised throughout the Relevant Periods.

36. EMPLOYEE RETIREMENT BENEFIT SCHEMES

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

B. EVENTS AFTER THE REPORTING PERIOD

On June 30, 2012, the Company issued and allocated one share of par value US$1 for a consideration of RMB 639,800,000 (equivalent to approximately HK$780,244,000) to its shareholder. The capital injection was satisfied in cash and fully settled in July 2012.

In August 2012, the guarantees given to banks in respect of credit facilities granted to SPG and the third parties as at May 31, 2012 (note 35) are all subsequently released.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or its subsidiaries in respect of any period subsequent to May 31, 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

You should read the following discussion and analysis with the audited consolidated financial information, including the notes thereto, as of and for the years ended December 31, 2009, 2010 and 2011 and the five months periods ended May 31, 2011 and May 31, 2012 included in the Accountants' Report set out in Appendix II to this Circular. The Accountants' Report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants. You should read the Accountants' Report included as Appendix II to this circular in its entirety and not rely merely on the information contained in this section.

The following is the management discussion and analysis of the Target Group for each of the three financial years ended December 31, 2011 and for the five months ended May 31, 2012:

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Target Group is mainly engaged in the manufacture and sale of Oxiracetam Capsule and Oxiracetam Powder Injection with a brand name "OuLaining", (Oxiracetam Capsule is a first-to-market generic drug which treats dysmnesia and mental retardation resulting from mild to moderate vascular dementia, senile dementia and brain trauma and Oxiracetam Powder Injection is an exclusive formulation drug and has the same applicability as OuLaining Capsule), Levamlodipine Maleate Tablet with a brand name "Xuanning" (a patent drug which treats hypertension) and Butylphthalide Soft Capsule and Butylphthalide Injection with a brand name "NBP" (a Class I patent drug for treating acute ischemic stroke), patent of generic drugs as well as active pharmaceutical ingredients (APIs) including azithromycin, caffeine, and aminophylline.

Revenue

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded revenue of HK$1,296,275,000, HK$1,757,586,000, HK$2,407,445,000 and HK$1,292,548,000 respectively.

The Target Group recorded sustained growth in its sales revenues, with a 35.6% increase from 2009 to 2010, and a 37.0% increase from 2010 to 2011, whereas the sales revenue for the five months ended May 31, 2012 showed a 35.2% increase from the same period last year. This was mainly attributable to the continuous efforts of the Target Group in expanding new markets for its pharmaceutical products and the rapid growth in sales of new pharmaceutical products such as Butylphthalide Soft Capsule, "OuLaining (Oxiracetam Capsule and Oxiracetam Powder Injection)" and "Xuanning (Levamlodipine Maleate Tablet)".

Cost of Sales

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded cost of sales of HK$770,909,000, HK$1,038,193,000, HK$1,370,535,000 and HK$616,726,000, respectively.

Gross Profit

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded gross profit of HK$525,366,000, HK$719,393,000, HK$1,036,910,000 and HK$675,822,000, respectively.

The gross profit of the Target Group grew in line with the increase in sales revenue. For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded gross margin of 40.5%, 40.9%, 43.1% and 52.3% respectively. The continued growth in gross margin of the Target Group, particularly the significant growth in the first five months in 2012, is mainly due to the continuous optimisation of the Target Group's product structure, and the acceleration in growth in sales and increase in proportion of high-margin products.

Other Income

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded other income of HK$19,022,000, HK$23,437,000, HK$28,010,000 and HK$4,499,000, respectively.

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group did not record any material gain on disposal of property, plant and equipment.

Selling and Distribution Expenses

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded selling and distribution expenses of HK$243,072,000, HK$334,677,000, HK$452,844,000 and HK$320,920,000, respectively. The Target Group actively engaged in the expansion of new business areas and markets to grow its sales revenue and marketing expenses increased accordingly.

Administrative Expenses

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded administrative expenses of HK$102,374,000, HK$139,368,000, HK$138,325,000 and HK$58,408,000, respectively. Mainly due to the increase in scale of operation and research and development expenses, higher administrative expenses were recorded from 2010 onwards but remained stable thereafter. Despite an increase in labour costs due to a general increase in wages in the PRC and changes in the social insurance system, administrative expenses for the five months ended May 31, 2012 remained stable due to the Target Group's stringent cost management.

Finance Costs

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the finance costs of the Target Group were HK$12,086,000, HK$12,336,000, HK$21,705,000 and HK$9,444,000, respectively.

Income Tax Expense

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded income tax expense of HK$26,786,000, HK$30,999,000, HK$60,964,000 and HK$56,652,000, respectively. Both CSPC OYY and CSPC XNW are recognised as advanced technology enterprise, and have obtained approvals from the relevant tax authorities for the applicable tax rate to be 15%. The basic tax rate of CSPC NBP is 25%. However, CSPC NBP enjoyed the exemption for the year ended December 31, 2009 and is entitled for 50% tax relief for the years ended December 31, 2010, 2011 and 2012.

Profit After Tax

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the Target Group recorded profit after tax of HK$131,658,000, HK$174,732,000, HK$357,174,000 and HK$219,819,000, respectively.

FINANCIAL POSITION

Liquidity and Financial Resources

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the principal source of liquidity of the Target Group was the cash generated from operations and financing activities.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the Target Group had total interest-bearing borrowings of HK$306,818,000, HK$211,765,000, HK$345,679,000 and HK$353,659,000, respectively. The respective amounts out of the total borrowings repayable within one year were HK$227,273,000, HK$152,941,000, HK$283,951,000 and HK$292,683,000. All the borrowings are loans granted by banks in the PRC and denominated in RMB. As at December 31, 2009, December 31, 2010, December 31, 2011 and May 31, 2012, approximately 44%, 89%, 39% and 86% of the borrowings were on a floating rate basis respectively, with the remaining on a fixed rate basis.

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the bank balances and cash of the Target Group were HK$123,668,000, HK$172,895,000, HK$310,423,000 and HK$289,444,000, respectively.

Charges on Assets

The Target Group did not have any charge on assets as at December 31, 2009, 2010 and 2011 and May 31, 2012.

Gearing ratio

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the net gearing ratios of the Target Group (calculated on the basis of the Target Group's total interest-bearing borrowings net of bank balances and cash over total equity) were 31.4%, 5.8%, 3.7% and 20.1%, respectively. After the increase in share capital of RMB639,800,000 (equivalent to approximately HK$780,244,000) by the Target on June 30, 2012, with the substantial increase in the total equity, the gearing ratio was reduced correspondingly.

Trade and Bills Receivables

The trade and bills receivables of the Target Group represented receivables from the sales of its products. For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the turnover days of the Target Group's trade and bills receivables (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales the PRC) were approximately 72 days, 69 days, 76 days and 75 days respectively. The turnover days were in line with the Group's normal credit period of 90 days.

Inventories

The inventories of the Target Group included raw materials, work-in-progress and finished products. For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, the turnover days of the Target Group's inventories (ratio of inventory balance to cost of sales) were 66 days, 77 days, 81 days and 97 days, respectively. The turnover days of inventories increased in 2012, mainly due to an expansion in the Target Group's production scale and the resultant increase in raw materials inventories.

Material acquisition and disposal of subsidiaries and associated companies

For the three financial years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, there was no material acquisition and disposal of subsidiaries and associated companies by the Target Group.

Significant investments

The Target Group did not hold any significant investments for the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012.

Contingent Liabilities

As at December 31, 2009, 2010 and 2011 and May 31, 2012, corporate guarantees of HK$9,091,000, HK$623,528,000, HK$1,234,568,000 and HK$1,318,295,000 were given by the Target Group to banks in respect of credit facilities granted to certain related companies and third parties. All such guarantees in respect of credit facilities granted to related companies and third parties have been discharged in full in August 2012.

Capital Commitments

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the capital commitments of the Target Group in respect of the purchase of property, plant and equipment were HK$29,189,000, HK$112,091,000, HK$198,722,000 and HK$167,735,000, respectively. The capital commitments increased over this period, mainly due to projects involving construction of new production lines and the replacement and refurbishment of the existing production facilities.

Foreign Exchange Risk

The sales of the Target Group were mainly denominated in RMB, with export sales mainly denominated in United States dollars. The management of the Target Group closely monitors exchange rate movements, and will take measures such as forward foreign exchange contracts to reduce the foreign exchange risk when considered necessary.

Staff and Remuneration Policy

For the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2012, total staff costs (including retirement benefit contributions and directors' emoluments) of the Target Group were HK$117,163,000, HK$148,458,000, HK$175,607,000 and HK$84,908,000, respectively.

The remuneration and bonus policies of the Target Group were determined by the performance of the individual employees.

The Target Group has not adopted any share option scheme.

The Target Group has established a vocational training system to provide continuous training programmes for its employees to improve their overall qualification.

Employees

As at December 31, 2009, 2010 and 2011 and May 31, 2012, the Target Group had 3,652, 3,967, 4,456 and 4,336 employees, respectively.

Plans for material investments and capital assets

During the year ended December 31, 2009, the Target Group did not have any plans for material investments or capital assets.

During the year ended December 31, 2010, the Target Group planned to improve the existing facilities for the purpose of the preparation of non-antibiotic drugs in solid dosage form, drugs in oral solid dosage form in compliance with US FDA standard and drugs in powder injection form, the total capital commitment of which was approximately RMB340 million. These investments have been completed in 2011 and no further capital commitment to such investments is required.

During the year ended December 31, 2011, the Target Group had plans for launch of new production facilities for azithromycin bulk drugs, improvement of existing production facilities to modify its warehouse and power equipment and expansion of caffeine production capacity, the total capital commitments of which were approximately RMB214 million, RMB10.5 million and RMB7.27 million respectively. These investments have been completed in May 2012 and no further capital commitment to such investments is required.

As at May 31, 2012, the Target Group had authorized the expansion of production facilities for powder injection products and the storage areas. This is a self-funded project and the total investment commitment is estimated to be approximately HK$274.56 million and as at the Latest Practicable Date, approximately HK$163.33 million has been invested into this project.

Segmental Operations

CSPC OYY Group

(i) Revenue, cost of sales, gross profit margin, expenses and net profit

The segmental financial information of the CSPC OYY Group for the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2011 and 2012 is set out in the following table:

	Five months ended May 31,		Year ended December 31,		
	2012	2011	2011	2010	2009
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Revenue	723.55	554.98	1,375.45	1,070.08	691.19
Cost of sales	327.05	319.27	802.82	591.63	391.50
Gross profit	396.50	235.71	572.63	478.45	299.69
Gross profit margin	54.80%	42.47%	41.63%	44.71%	43.36%
Expenses	264.70	140.88	370.71	333.74	212.28
Segment profit	131.80	94.83	201.92	144.71	87.41

CSPC OYY Group recorded sustained growth in its revenue for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The increase was mainly due to the increase in sales of its major products, including “Xuanning” and “OuLaining”, which was the result of a more established sales force in CSPC OYY Group and the expansion of its distribution network and hospital coverage over the years. The products of CSPC OYY Group have become more widely recognized among doctors and hospitals, which directly contributed to the high rate of growth in sales.

The cost of sales and gross profit of CSPC OYY Group grew steadily for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, which was mainly attributable to and in line with the increase in revenue. For the years ended December 31, 2009, 2010 and 2011, the gross profit margin of CSPC OYY Group remained relatively stable. In contrast, the gross profit margin for the five months ended May 31, 2012 grew rapidly, which was mainly due to the increase in sales of "Xuanning" product series, which enjoys individual pricing and exclusive production in the market, as well as the "OuLaining" product series, which are higher margin products of CSPC OYY.

The expenses of CSPC OYY Group sustained a constant growth for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The increase was mainly attributable to the devotion of further financial resources in the marketing campaign for the products of CSPC OYY and was generally in line with the increase in sales.

As a result of the above, the net profit of CSPC OYY Group has grown rapidly for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012.

(ii) CSPC OYY Group's major products

For the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, the revenue from the sales of CSPC OYY's key products were:

(a) for "Xuanning" series, HK$52.34 million, HK$71.08 million, HK$123.17 million and HK$77.74 million, respectively;

(b) for "OuLaining (Oxiracetam Capsule)", HK$31.93 million, HK$67.16 million, HK$88.88 million and HK$47.73 million, respectively.

"OuLaining (Oxiracetam Powder Injection)" was launched in 2010, the revenues from its sales were HK$15.23 million, HK$59.55 million and HK$127.41 million for the year ended December 31, 2010 and 2011 and for the five months ended May 31, 2012, respectively.

The revenue from the sales of CSPC OYY's key products for the year ended December 31, 2009 contained in this paragraph were the sales revenue of CSPC OYY's key products for the whole year ended December 31, 2009. Save and except for the above disclosure, the financial information of CSPC OYY for the year ended

December 31, 2009 in this circular represents the financial information of CSPC OYY for the period after it has become a subsidiary of SPG in February 2009. CSPC OYY is accounted for as an associate using the equity method of accounting prior to it becoming a subsidiary of SPG.

(iii) Business Development and Prospects

CSPC OYY Group has devoted and will continue to devote significant resources in marketing the "Xuanning" and "OuLaining" products in order to expand its hospital, as well as community hospital and retail, coverage. Further, CSPC OYY will continue to devote its resources in the research and development of new medical products.

As at the date of this circular, CSPC OYY Group has several pending drug applications under review by the SFDA, which include Atorvastatin, a drug to lower cholesterol and Cefditoren Pivoxil, an antibiotic used to treat bacterial infection.

CSPC NBP

(i) Revenue, cost of sales, gross profit margin, expenses and net profit

The segmental financial information of CSPC NBP for the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2011 and 2012 is set out in the following table:

	Five months ended May 31,		**Year ended December 31,**		
	2012	**2011**	**2011**	**2010**	**2009**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Revenue	262.51	128.75	398.76	179.75	125.39
Cost of sales	32.97	17.47	45.65	30.14	25.27
Gross profit	229.54	111.28	353.11	149.61	100.12
Gross profit margin	87.44%	86.43%	88.55%	83.23%	79.85%
Expenses	115.82	77.98	208.67	135.59	110.77
Segment profit (loss)	113.72	33.30	144.44	14.02	(10.65)

CSPC NBP recorded sustained growth in its revenue for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The increase was mainly due to the increase in sales in the major product of CSPC NBP, namely Butylphthalide Soft Capsule and Butylpthalide infusion. In particular, the large increase of sales from 2010 to 2011 was primarily due to the rapid increase in sales of the Butylphthalide Soft Capsule. Although the Butylphthalide Soft Capsule was admitted to the NRDL (2009) on November 27, 2009, the admission did not have an immediate impact on the revenue of CSPC NBP until 2011 as the updated NRDL (2009) was only officially implemented in the second half of 2010 and the increased penetration of Butylphthalide Soft Capsule in different regions of China as a result of the close coordination with and the numerous academic presentations organized to provincial and municipal hospitals and medical experts by CSPC NBP, with assistance from CSPC OYY and SPG, became more effective in 2010. In addition, the introduction of the Butylphthalide infusion towards the end of 2010 also contributed to the large increase in the revenue of CSPC NBP in 2011.

The cost of sales and gross profit of CSPC NBP grew steadily for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, which was mainly attributable to and in line with the increase in revenue. For the same period, the gross profit margin of CSPC NBP also sustained a continued growth, which was mainly attributable to the increase in production and sales volume, which resulted in the reduction of fixed costs.

The expenses of CSPC NBP also sustained a constant growth for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The increase was mainly attributable to the expansion of its sales and marketing team and was generally in line with the increase in sales. The number of staff in the marketing team has increased from approximately 200 staff in 2009 to more than 500 staff in 2012. In addition, the increase in the number of clinical marketing conferences organized by the business development department of CSPC NBP has also contributed to the increase in expenses for the period.

Due to the higher growth rate in revenue compared to that of expenses, as well as the reduction of fixed costs caused by the increase in sales volume, the net profit of CSPC NBP has grown rapidly for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012.

(ii) CSPC NBP's major products

For the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, the revenue from sales of Butylphthalide Soft Capsule were HK$111.97 million, HK$163.35 million, HK$330.71 million and HK$191.06 million, respectively. For the years ended December 31, 2010 and 2011 and the five months ended May 31, 2012, the revenue from sales of Butylphthalide infusion were HK$1.44 million, HK$33.79 million and HK$48.05 million, respectively.

The total sales revenue of CSPC NBP and Butylphalide products for each of the six years ended December 31, 2011 and the five months ended May 31, 2012 are set out below:

	Year ended 31 December						Five months ended 31 May
	2006	2007	2008	2009	2010	2011	2012
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
(Note 1)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Total sales revenue of CSPC NBP	17.12	35.55	68.40	125.39	179.75	398.76	262.51
Butylphthalide soft capsule	14.48	28.30	55.07	111.97	163.35	330.71	191.06
Butylphthalide infusion *(Note 2)*	—	—	—	—	1.44	33.79	48.05

Note 1: RMB vs HKD exchange rate at of 31 December 2006, 2007,and 2008 from Bloomberg, a publicly available database that delivers world economic news, stock futures, stock quotes and finance advise.

Note 2: Butylphthalide infusion was launched to the market in 2010.

(iii) Business Development and Prospects

From 2009 to 2011, SPG implemented a number of measures to boost the revenue of CSPC NBP. In 2009, SPG reorganized the corporate structure of CSPC NBP by appointing CSPC OYY's general manager as CSPC NBP's general manager, as well as integrating the sales and distribution system of CSPC NBP with that of CSPC OYY in order to increase the efficiency of the sales force of CSPC NBP and expand hospital coverage. The restructure also saw the formation of a more experienced sales team and marketing team, with the intention to effectively promote the brand name of CSPC NBP. In 2010, following the admission of the Butylphthalide Soft Capsule to the NRDL (2009) in 2009, CSPC NBP, with the assistance of CSPC OYY and SPG, commenced coordinating and arranging presentations with higher tier hospitals and medical experts in order to increase the penetration of Butylphthalide Soft Capsule in different regions of China. During the same year, CSPC NBP continued in expanding its research and development program and successfully launched its other major product, namely the Butylphthalide infusion. In 2011, SPG further invested in CSPC NBP by way of shareholders loan with the aim of expanding the sales network and further developing marketing and research departments of CSPC NBP.

Following its development from 2009 to 2011, CSPC NBP intends to further intensify its marketing campaign to extend its hospital coverage from the current focus in tertiary hospitals in first and second tier cities to secondary and county central hospitals of second and third tier cities. Further, CSPC NBP will devote its resources to conduct clinical trials on the Butylphthalide products and other patent drugs, as well as expand its marketing campaign to various academic institutions.

As at the date of this circular, CSPC NBP has four pending patent applications in relation to preparation and medical use of Butylphthalide in the PRC.

CSPC XNW

(i) Revenue, cost of sales, gross profit margin, expenses and net profit

The segmental financial information of CSPC XNW for the years ended December 31, 2009, 2010 and 2011 and for the five months ended May 31, 2011 and 2012 is set out in the following table:

	Five months ended May 31,		**Year ended December 31,**		
	2012	**2011**	**2011**	**2010**	**2009**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Revenue	319.67	274.07	633.98	510.42	484.37
Cost of sales	269.88	219.60	525.82	419.08	358.81
Gross profit	49.79	54.47	108.16	91.34	125.56
Gross profit margin	15.57%	19.87%	17.07%	17.90%	25.92%
Expenses	18.84	19.88	36.38	44.34	48.42
Segment profit	30.95	34.59	71.78	47.00	77.14

CSPC XNW recorded sustained growth in its revenue for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The increase was mainly due to the increase in sales of its major product, namely caffeine, which was the result of the expanded production capacity throughout the period.

The cost of sales of CSPC XNW grew steadily for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, which was mainly attributable to and in line with the increase in revenue.

The gross profit fluctuated during the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The decrease in gross profit from 2009 to 2010 was due to the decrease in market price of caffeine products. The increase in gross profit from 2010 to 2011 was mainly attributable to the rapid growth in sales volume, as well as the technology upgrade of the production lines of CSPC XNW, causing a decrease in cost of sales per unit. The gross profit for the five months ended May 31, 2012 was lower than that of the same period in 2011, which was caused by further decrease in the market price of the caffeine products. During the same period, the gross profit margin of CSPC XNW decreased constantly, which was also mainly due to drop in market price of the caffeine products.

The expenses of CSPC XNW experienced a continuous decrease for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012. The decrease was mainly attributable to the improved internal expense management system in CSPC XNW.

As a result of the above, the net profit of CSPC XNW also experienced fluctuation for the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012.

(ii) *CSPC XNW's major products*

With the expanded production capacity of caffeine and success of CSPC XNW in market development, sales of caffeine products consistently increased over the years. For the years ended December 31, 2009, 2010 and 2011 and the five months ended May 31, 2012, the total sales volume of the principal product of CSPC XNW, caffeine, were 7,366 tonnes, 8,391 tonnes, 10,467 tonnes, and 5,318 tonnes, respectively, and the revenues from the sales of caffeine products were HK$278.67 million, HK$313.93 million, HK$379.47 million and HK$199.17 million, respectively.

(iii) Business Development and Prospects

CSPC XNW intends to devote its resources to further enhance and upgrade its production technology in order to further reduce the cost of production, with the objective of becoming a more competitive participant in the caffeine market. In addition, CSPC XNW will engage in further market development to expand its customer base in order to further increase its market share. Further, CSPC XNW will engage in further research and development of its caffeine products with an aim to explore new business opportunities.

CSPC OYY GROUP, CSPC NBP AND CSPC XNW

The gross profit margins of the CSPC OYY Group, CSPC NBP and CSPC XNW for the three years and five months ended May 31, 2012 are within the range of 42% to 55%, 80% to 89% and 16% to 26%, respectively. The reason for such differences in gross profit margin is due to the different product composition of each of the CSPC OYY Group, CSPC NBP and CSPC XNW. CSPC OYY Group.

CSPC NBP has a relatively higher gross profit margin (as compared that against CSPC OYY Group and CSPC XNW) is because its only major product, "NBP" (Butylphthalide) and "NBP" (Butylphthalide) is a Class I patent drug, as at the Latest Practicable Date, not subject to government price controls and hence enjoys higher profit margin. For the three years and five months ended May 31, 2012, the revenue of "NBP" (Butylphthalide) account for approximately, 89.3%, 91.7%, 91.5% and 91.1% of the CSPC NBP's total revenue, respectively.

CSPC OYY Group has a lower gross profit margin than CSPC NBP due to its larger portfolio comprising over 200 formulated drug products, including higher margin products, such as "Xuanning" series (which enjoys individual pricing and exclusive production in the market) and "OuLaining" series as well as a vast number of other products of lower gross profit margin. For the three years and five months ended May 31, 2012, the aggregate revenue of CSPC OYY Group's major products, namely the "Xuanning" series and "OuLaining" series, account for approximately 10.6%, 14.3%, 19.7% and 35.5% of the CSPC OYY Group's total revenue, respectively.

CSPC XNW's products are all bulk drug products, with caffeine being its major product. Unlike high-end finished drugs like "NBP" (Butylphthalide) of CSPC NBP or "Xuanning" series and "OuLaining" series of CSPC OYY Group, bulk drug products in general have lower gross profit margin. The gross profit margin of caffeine has decreased over the three years and five months ended May 31, 2012 because of the decrease in market price of caffeine products.

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation is this Circular in respect of the unaudited pro forma financial information of the Enlarged Group.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA PHARMACEUTICAL GROUP LIMITED

We report on the unaudited pro forma financial information of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Robust Sun Holdings Limited by the Company might have affected the financial information presented, for inclusion in Appendix IV of the circular dated September 27, 2012 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Section A of Appendix IV to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at June 30, 2012 or any future date.; or
- the results and cash flows of the Group for the year ended December 31, 2011 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 27, 2012

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information") has been prepared to illustrate the effect of the Acquisition.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 and Rule 14.69(4)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It has been prepared by the Directors for illustrative purpose.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on the unaudited consolidated statement of financial position of the Group as at June 30, 2012 as extracted from the published 2012 interim report of the Company and the audited consolidated statement of financial position of the Target Group as at May 31, 2012 as extracted from the accountants' reports set out in Appendix II to this Circular, after making pro forma adjustments relating to the Transactions, as if the Transactions had been completed on June 30, 2012.

The unaudited pro forma consolidated income statement and the unaudited proforma consolidated statement of cash flows of the Enlarged Group are prepared based on (i) the audited consolidated income statement and the audited consolidated statement of cash flows of the Group for the year ended December 31, 2011 as extracted from the published 2011 annual report of the Company; and (ii) the audited consolidated statements of comprehensive income and the audited consolidated statements of cash flows of the Target Group for the year ended December 31, 2011 as extracted from the accountants' reports as set out in Appendix II to this Circular, after making pro forma adjustments relating to the Transactions, as if the Transactions had been completed on January 1, 2011.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to predict what the results or cash flows of the Enlarged Group will be after the Transactions or the financial position that will be attained upon completion of the Transactions.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the 2011 annual report and 2012 interim report of the Company and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT JUNE 30, 2012

	The Group as at June 30, 2012	The Target Group as at May 31, 2012	Pro forma adjustments		Pro forma adjustments		Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*		*HK$'000*		*HK$'000*
Non-current assets									
Property, plant and equipment	4,822,705	987,702							5,810,407
Prepaid lease payments	342,780	126,267							469,047
Intangible asset	223,978	5,721	(99,067)	*2b*					130,632
Goodwill	161,880	100,211	(161,880)	*2b*					100,211
Interests in a jointly controlled entity	27,796	—							27,796
Available-for-sale investments	4,148	—							4,148
Deferred tax assets	—	1,105							1,105
	5,583,287	1,221,006	(260,947)		—		—		6,543,346
Current assets									
Inventories	1,476,352	393,117							1,869,469
Trade and other receivables	1,753,730	666,510							2,420,240
Bills receivables	340,556	58,705							399,261
Prepaid lease payments	9,991	3,389							13,380
Tax recoverable	22,656	983							23,639
Trade receivables due from related companies	67,001	39,038					(46,602)	*3*	59,437
Trade receivables due from a connected company	41,368	—							41,368
Amount due from a jointly controlled entity	49,575	—							49,575
Held-for-trading investment	—	517							517
Restricted bank deposits	28,697	4,420							33,117
Bank balances and cash	962,054	289,444			(15,500)	*2g*	780,244	*4*	2,016,242
	4,751,980	1,456,123	—		(15,500)		733,642		6,926,245

	The Group as at June 30, 2012	The Target Group as at May 31, 2012	Pro forma adjustments		Pro forma adjustments		Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*		*HK$'000*		*HK$'000*
Current liabilities									
Trade and other payables	1,890,365	675,437							2,565,802
Bills payables	580,610	12,195							592,805
Trade payables due to related companies	—	51,722					(46,602)	*3*	5,120
Amount due to an immediate holding company	—	—							—
Amounts due to related companies	70,384	817,859							888,243
Tax liabilities	14,298	15,487							29,785
Dividend payables	—	296,737							296,737
Financial guarantee obligations	—	13,788							13,788
Other financial liabilities	4,786	—							4,786
Unsecured bank loans	1,368,888	292,683							1,661,571
	3,929,331	2,175,908	—		—		(46,602)		6,058,637
Net current assets	822,649	(719,785)	—		(15,500)		780,244		867,608
Total assets less current liabilities	6,405,936	501,221	(260,947)		(15,500)		780,244		7,410,954
Non-current liabilities									
Unsecured bank loans	562,724	60,976							623,700
Government grants	—	6,753							6,753
Deferred tax liabilities	15,319	8,736							24,055
Amount due to a related company	—	104,503							104,503
Convertible bonds	—	—			5,289,762	*2f*			5,289,762
	578,043	180,968	—		5,289,762		—		6,048,773
	5,827,893	320,253	(260,947)		(5,305,262)		780,244		1,362,181
Capital and reserves									
Share capital	152,977	—			119,566	*2f*			272,543
Share premium	1,116,727	—	—		2,200,005	*2f*			3,316,732
Reserves	4,413,564	308,733	(260,947)	*2a, 2c, 2d & 2e*	(7,624,833)	*2f & 2g*	780,244	*4*	(2,383,239)
Non-controlling interests	144,625	11,520							156,145
	5,827,893	320,253	(260,947)		(5,305,262)		780,244		1,362,181

C. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED DECEMBER 31, 2011

	The Group for the year ended December 31, 2011	The Target Group for the year ended December 31, 2011	Pro forma adjustments		Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*		*HK$'000*
Revenue	7,379,481	2,407,445	(28,136)	*5*			9,758,790
Cost of sales	(5,897,943)	(1,370,535)	28,136	*5*	26,347	*6*	(7,213,995)
Gross Profit	1,481,538	1,036,910	—		26,347		2,544,795
Other income	125,799	28,010	(14,908)	*5*			138,901
Selling and distribution expenses	(521,724)	(452,844)					(974,568)
Administrative expenses	(602,700)	(138,325)	14,908	*5*			(726,117)
Other expenses	(105,791)	(31,140)			(15,500)	*7*	(152,431)
Fair value changes of convertible bonds					2,173,945	*9*	2,173,945
Recognition of financial guarantee contracts issued	—	(17,676)					(17,676)
Amortisation of financial guarantee liabilities		14,908					14,908
Share of profit of a jointly controlled entity	10,554	—					10,554
Gain on bargain purchase	—	—	—		2,454,574	*8*	2,454,574
Finance costs	(73,315)	(21,705)					(95,020)
Profit before tax	314,361	418,138	—		4,639,366		5,371,865
Income tax expense	(63,912)	(60,964)	—		—		(124,876)
Profit for the year	250,449	357,174	—		4,639,366		5,246,989

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED DECEMBER 31, 2011

	The Group for the year ended December 31, 2011	The Target Group for the year ended December 31, 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES					
Profit before tax	314,361	418,138	4,639,366	*6, 7, 8, & 9*	5,371,865
Adjustments for:					
Amortisation of intangible assets	45,475	612	(26,347)	*14*	19,740
Amortisation of prepaid lease payments	8,381	3,149			11,530
Depreciation of property, plant and equipment	551,103	64,770			615,873
Finance costs	73,315	21,705			95,020
Impairment loss on inventories	30,850				30,850
Impairment loss on trade receivables	1,290	355			1,645
Interest income	(9,100)	(8,292)			(17,392)
(Gain) loss on disposal/ write-off of property, plant and equipment	(1,208)	(72)			(1,280)
Share of profit of a jointly controlled entity	(10,554)	—			(10,554)
Fair value changes on other financial liabilities	1,321	—			1,321
Dividend from equity investment	—	(11)			(11)
Loss on fair value change of investments held for trading	—	83			83
Reversal of impairment loss previously recognised in respect of trade receivables and inventories	—	(804)			(804)
Recognition of fair values of financial guarantee contracts issued	—	17,676			17,676
Amortisation of financial guarantee liability	—	(14,908)			(14,908)
Changes of fair value of convertible bonds	—	—	(2,173,945)	*11*	(2,173,945)
Gain on bargain purchase	—	—	(2,454,574)	*10*	(2,454,574)
Government grants	—	(5,261)			(5,261)
Operating cash flows before movements in working capital	1,005,234	497,140	(15,500)	*7*	1,486,874
Increase in inventories	(398,363)	(85,177)			(483,540)
Increase in trade and other receivables	(277,570)	(85,748)			(363,318)
Decrease (increase) in bills receivables	176,488	(70,471)			106,017
Increase in trade receivables due from related companies	(763)	(28,942)			(29,705)
Increase in trade receivables due from a connected company	(8,792)	—			(8,792)
Decrease in amount due from a jointly controlled entity	2,774	—			2,774
(Decrease) increase in trade and other payables	(36,167)	110,618			74,451
Increase in amounts due to related companies	2,477	17,921			20,398

	The Group for the year ended December 31, 2011	The Target Group for the year ended December 31, 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
Cash generated from operations	465,318	355,341	(15,500)		805,159
Interest received	9,100	—			9,100
Interest paid	—	(21,434)			(21,434)
Income tax paid	(130,126)	(48,274)			(178,400)
Income tax refunded	14,013	—			14,013
NET CASH FROM OPERATING ACTIVITIES	358,305	285,633	(15,500)		628,438
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(794,209)	(292,359)			(1,086,568)
Additions of intangible assets	(88,325)	(1,665)			(89,990)
Prepaid lease payments paid	(42,538)	(30,237)			(72,775)
Proceeds on disposal of property, plant and equipment	28,025	697			28,722
Acqusition of subsidiaries	—	—	1,099,806	*12*	1,099,806
Dividends received from unlisted investments	—	11			11
Interest received	—	8,292			8,292
Repayment of advances to related companies	—	23,581			23,581
Advances to related parties	—	(31,549)			(31,549)
Placement of construction retention deposits	—	6,037			6,037
Withdrawal of restricted bank deposits	—	92,165			92,165
Placement of restricted bank deposits	—	(23,665)			(23,665)
NET CASH USED IN INVESTING ACTIVITIES	(897,047)	(248,692)	1,099,806		(45,933)
FINANCING ACTIVITIES					
Repayment of unsecured bank loans	(444,075)	(313,253)			(757,328)
Dividend paid	(179,696)	(46,959)			(226,655)
Interest paid	(73,315)	—			(73,315)
Share repurchased	(20,833)	—			(20,833)
Dividend paid to non-controlling interests	(17,103)	(647)			(17,750)
New unsecured bank loans raised	895,133	433,735			1,328,868
Increase in bills payables	256,867	—			256,867
Decrease in restricted bank deposits	11,601	—			11,601
Advances from related companies	—	87,917			87,917
Capital injection from immediate holding company	—	—	780,244	*13*	780,244
Repayment of advances from related companies	—	(60,901)			(60,901)
NET CASH FROM FINANCING ACTIVITIES	428,579	99,892	780,244		1,308,715
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(110,163)	136,833	1,864,550		1,891,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,099,806	172,895	(1,099,806)	*12*	172,895
Effect of foreign exchange rate changes	44,893	695			45,588
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	1,034,536	310,423	764,744		2,109,703

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. For the purpose of this Unaudited Pro Forma Financial Information, conversion of US$ into HK$ is based on the exchange rate of US$1.00 to HK$7.8 for consolidated statement of financial position.

Notes to the Unaudited Pro Forma Consolidated Statement of Financial Position:

2. The Company will acquire 100% of the equity interest in the Target through (1) the allotment and issuance of 1,195,655,037 new shares at an issue price of HK$1.90 per share, with total issue price amount of HK$2,271,744,570.30 and (2) issuance of the Convertible Bonds with an aggregate principal amount of US$860,032,747.40 (equivalent to HK$6,708,255,429.70) to the Seller on the Completion Date. As the Acquisition will result in the selling shareholder of the Target Group receiving shares representing 43.87% of the voting rights of the Company and Convertible Bonds of the Company which will result in the selling shareholder holding a total of 78.83% (assuming issuance of maximum number of Conversion Shares and no adjustment to the principal amount of the Convertible Bonds and the Conversion Price) of enlarged issued share capital of the Company. Further, the Target Group's relative size (measured in terms of profit of the Target Group and the Group for the year ended December 31, 2011 and five months period ended May 31, 2012 and valuation) is significantly greater than those of the existing Group. For this purpose, valuation of the Group is determined to be the Company's market capitalisation of HK$2,967,747,322 which is calculated by the closing market price of HK$1.94 as at June 30, 2012 times the outstanding number of shares of the Company whereas the valuation of the Target Group is determined to be the Consideration of this Acquisition. The Target Group is identified as the accounting acquirer and therefore, the Acquisition is accounted for as a reverse acquisition, under Hong Kong Financial Reporting Standard ("HKFRS") 3, "Business Combinations" ("HKFRS 3").

For accounting purpose, the Target Group is the accounting acquirer and the Company (the accounting acquiree) is deemed to have been acquired by the Target Group. In applying the purchase method of accounting to effect a "reverse acquisition", the gain on bargin purchase as of the acquisition date is measured as the excess of the fair value of the identifiable assets and liabilities of the Group immediately prior to the Acquisition over the deemed cost of the business combination (deemed consideration).

The identifiable assets and liabilities of the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value estimated by the Directors under the purchase method of accounting.

The adjustments represent:

a. crediting the deemed consideration amounted to approximately HK$2,967,747,000 to other reserve. The deemed consideration for the Acquisition accounted for as a reverse acquisition represents the fair value of 1,529,766,661 ordinary shares of the Company in issue immediately prior to the Acquisition. For the purpose of the Pro Forma Financial Information, the fair value of these ordinary shares of the Company is assumed to be equal to the published closing market price of HK$1.94 per share at June 30, 2012, as the Pro Forma Financial Information is prepared on the assumption as if the Acquisition were completed on June 30, 2012.

b. fair value adjustments on intangible assets (representing the Group's internally generated development costs) and goodwill of the Group of approximately HK$99,067,000 and HK$161,880,000, respectively, being the carrying amounts of these intangible assets and goodwill as at June 30, 2012.

Intangible assets of the Group and their carrying amounts as at June 30, 2012 are as follows:

	HKD'000
Technical know-how	95,823
Development costs	99,067
Trademarks and certificates	25,916
Utility rights	3,172
	223,978

In the opinion of the Directors, as the valuation of all identifiable assets and liabilities will be carried out at the Completion Date, for the purpose of the preparation of the Pro Forma Financial Information, provisional fair values of all assets and liabilities are used which are determined to be the net book values of the respective assets and liabilities as at June 30, 2012, except for development costs, which the Directors have determined that their fair values could not be measured reliably in view of the fact that they were internally developed by the Group and some of the projects are still at development stage. The development costs are not recognised as separate identifiable assets as to do so would only result in increasing the bargain purchase gain and accordingly the entire development costs of HK$99,067,000 as at June 30, 2012 are adjusted to nil.

The Group considered that the technical know-how recognised in the Group's consolidated financial statements relates to techniques and formulae of various products which the Group acquired from third parties over the past years and hence the Group determines that the fair values are measured reliably.

No fair value adjustments are made to recognise any other intangible assets as identified in the Acquisition in arriving at their provisional fair values.

In addition, no goodwill was assumed to arise as the Acquisition gave rise to a bargain purchase as determined in note 2(c). Therefore, the entire goodwill of HK$161,880,000 as at June 30, 2012 is adjusted to nil.

The provisional fair values of all identifiable assets and liabilities are subject to change upon the completion of the valuation carried out as of the date of the Completion of the Acquisition.

The provisional fair value of net identifiable assets attributable to the owners of the Group as of June 30, 2012 is as follows:

	HK$'000
Net assets of the Group as of 30 June, 2012	5,827,893
Less: Adjustments to eliminate development cost and goodwill as mentioned above	(260,947)
Non-controlling interest of the Group as of 30 June, 2012	(144,625)
	5,422,321

c. the recognition of provisional gain on bargain purchase by the Target (the accounting acquirer) arising from the Acquisition as follows:

	HK$'000
Provisional fair value of the net identifiable assets and liabilities attributable to the owners of the Group as of 30 June, 2012 per 2(b) above	5,422,321
Less: Fair value of deemed consideration per 2(a) above	(2,967,747)
Gain on bargain purchase	2,454,574

Since the deemed consideration and the fair value of the identifiable assets and liabilities of the Group at the Completion Date may be substantially different from the provisional fair values used in the preparation of this Unaudited Pro Forma Financial Information, the final amount of identifiable assets and liabilities, as well as gain on bargain purchase and deemed consideration to be recognised in connection with the Acquisition at the Completion Date could be materially different from the estimated amount stated herein.

d. the elimination of (i) share capital of the Target amounting to HK$8 and (ii) pre-acquisition reserves of the Group amounting to HK$4,413,564,000.

e. the adjustment to reflect the share capital and share premium of the Company by debiting the other reserve of approximately HK$152,977,000 and HK$1,116,727,000, respectively, as at June 30, 2012. Upon completion of a reverse acquisition, it is required to reflect the legal capital (share capital and share premium) of the accounting acquiree, that is the Company, as at June 30, 2012 in the financial statements of the Target Group in accordance with the Appendix B paragraph 21 of HKFRS 3, which states that consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree).

f. the Company will satisfy the Consideration by (1) the allotment and issuance of 1,195,655,037 new shares at assumed fair value of HK$1.94 per share with credit to share capital and share premium of approximately HK$119,566,000 and HK$2,200,005,000, respectively; and (2) issuance of two tranches of Convertible Bonds with principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) and US$86,003,274.70 (equivalent to HK$670,825,542.66) to the Seller at the Completion Date. The recording of the issuance of these shares and Convertible Bonds will result in corresponding debits in other reserve.

Convertible Bonds are non-redeemable and no cash payment will be made by the Group, and are convertible into the Company's ordinary shares at a conversion price of HK$2.15. The principal amount of the Convertible Bonds is subjected to downward adjustment depending on the financial performance of the Target Group for the year ending December 31, 2012 and December 31, 2013. The number of shares that will ultimately be issued by the Company to the Seller will vary depending on the profitability of the Target Group. In accordance with HKAS32 "Financial Instruments: Presentation" ("HKAS 32") paragraph 18, it states that the substance of a financial instrument, rather than its legal form, governs its classification on the issuer's balance sheet. In general, debt element is the contractual obligation by the issuer to deliver cash or other financial assets, while the equity element is represented by the holder's right to receive an equity return in the form of dividends, if declared.

Although the Convertible Bonds do not contain any contractual obligation by the issuer to deliver cash or other financial assets, the Convertible Bonds fails the "fixed-for-fixed" requirement in HKAS 32 paragraph 11 as the Company may be obliged to deliver a variable number of its ordinary shares because of the downward adjustment depending on the financial performance of the Target Group for the year ending December 31, 2012 and December 31, 2013. Accordingly whole Convertible Bonds instrument is classified as financial liabilities at fair value through profit and loss of the Enlarged Group. Accordingly, no separate amounts of the debt and equity components were arrived at when determining the fair values of the Convertible Bonds.

The benchmark levels of HK$600 million and HK$800 million are relating to profit of the Target Group for the year ending December 31, 2012 and 2013, respectively. Upon the Completion, the Company will assess the probability of meeting the benchmark levels of net profit of HK$600 million for the year ending December 31, 2012 and HK$800 million for the year ending December 31, 2013 and the related potential downward adjustment to the maximum principal amount of the Convertible Bonds after taking into consideration of the latest financial performance of the Target Group when determining the fair values of the Convertible Bonds. For simplicity and for the purpose of the preparation of the Unaudited Pro Forma Financial Information, it is assumed that there would be no downward adjustment to the maximum principal amount of the Convertible Bonds.

If the net profits achieved by the Target Group during the years ending December 31, 2012 and 2013 are less than HK$600 million and HK$800 million, respectively, the principal amount of the Convertible Bonds will be adjusted downward according to the terms and conditions of the Convertible Bonds. For the year ending December 31, 2012, if the net profit of the Target Group is less than HK$600 million, the principal amount of the Tranche I Bonds will be reduced by the formula: the maximum amount of the Tranche I Bonds times the fraction of the actual net profit of the Target Group during the year ending December 31, 2012 and HK$600 million. For the year ending December 31, 2013, if the net profit of the Target Group is less than HK$800 million, the principal amount of the Tranche II Bonds will be reduced to zero.

The Directors consider that benchmark levels of net profits of the Target Group of HK$600 million and HK$800 million do not represent the level of net profit of the Target Group anticipated by the Company for the year ended December 31, 2012 or any future period and were not determined based on any estimate, projection, forecast of profits or losses or previous profits or losses or any valuation or assets or business or discounted cash flows or projections of profits, earnings or cash flows of the Target Group.

Based on the above said assumption, the fair value of Tranche I Bonds and Tranche II Bonds are estimated at approximately HK$4,794,162,000 and HK$495,600,000, respectively, by Jones Lang LaSalle Corporate Appraisal and Advisory Limited a firm of independent qualified valuer not connected to the Group. The fair value of the Convertible Bonds are determined based on the value of converted shares less discount of the period that holder cannot exercise the Convertible Bonds calculated under at-the-money put (“ATM Put”).

The inputs used in the calculation are as follows:

	Tranche I Bonds	Tranche II Bonds
Valuation date	June 30, 2012	June 30, 2012
Principal Amount	HK$6,037,429,887	HK$670,825,543
Conversion Price	HK$2.15	HK$2.15
No of shares to be converted	2,808,106,924	312,011,880
Closing market price of the Company at the valuation date	HK$1.94	HK$1.94
Diluted share price	No dilution effect as the closing market price is lower than the conversion price	No dilution effect as the closing market price is lower than the conversion price
For calculation of discount for the period holder cannot exercise the Convertible Bonds		
Share price used in ATM Put	HK$1.94	HK$1.94
Exercise Price	HK$1.94	HK$1.94
Risk free rate	0.13%	0.18%
Dividend Yield	0%	0%
Implied Volatility	35%	35%
Starting date of the conversion	31 March 2013	31 March 2014

The risk free rate used is referred to the yield of the Hong Kong Monetary Authority Exchange Fund Bills and Notes.

The closing market price of the Company, dividend yield and implied volatility are reference to the published information by Bloomberg. Bloomberg is a publicly available database that delivers world economic news, stock futures, stock quotes, & finance advice.

For the purpose of the preparation of the Pro Forma Financial Information, the starting date of the conversion of the Convertible Bonds is determined to be the last day of March of 2013 and 2014 for Tranche I Bonds and Tranche II Bonds, respectively, as this is the last day of announcing the Company's consolidated financial result for the year ending December 31, 2012 and 2013 in accordance with the Listing Rules.

Since the fair values of the Company's shares and Convertible Bonds at the Completion Date may be substantially different from the provisional fair value used in the preparation of this unaudited pro forma consolidated statement of financial positions of the Enlarged Group, the final amounts of the fair value of the new shares and Convertible Bonds to be recognised in connection with the Acquisition at the Completion Date could be different from the estimated amounts stated herein.

Further, the financial impact of the potential downward adjustments (if any) to the principal amounts of the Convertible Bonds will be ascertained only at the respective dates of completion of the Acquisition and of the financial reporting period end dates after taking into consideration the latest financial performance and conditions of the Target Group as of these dates, and the relevant facts and circumstances. For further details of the adjustment provisions, please refer to "Letter from the Board" of the Circular.

g. the estimated acquisition-related legal and professional expenses of approximately HK$15,500,000 which would be recognised in profit or loss upon the Completion. This adjustment will not have continuing effect on the Enlarged Group.

The above adjustments will have the following impact to reserves:

	Adjustments	*HK$'000*
Deemed consideration	*2a*	2,967,747
Gain on bargin purchase	*2c*	2,454,574
Elimination of pre-acqusition reserve of the Group	*2d*	(4,413,564)
Adjustment of share capital and share premium of the Company to reflect its "legal capital"	*2e*	(1,269,704)
		(260,947)
Issuance of new shares	*2f*	(2,319,571)
Issuance of Convertible Bonds	*2f*	(5,289,762)
Esimated acqusition-related cost charged to profit and loss	*2g*	(15,500)
		(7,624,833)

3. The adjustment represents the elimination of intercompany balances between the Group and the Target Group.

4. The adjustment represents injection of funds amounted to RMB639,800,000 (equivalent to approximately HK$780,244,000) by the Seller Group by way of Capitalisation Issue and it is one of conditions required to complete the Acquisition. The Capitalisation Issue provides the Target Group with the required funds to settle the Outstanding Payment which is included in amount due to a related company balances as at May 31, 2012. The capital injection was satisfied in cash and fully settled in July 2012.

Notes to the Unaudited Pro Forma Consolidated Income Statement:

5. The adjustment represents the elimination of transactions between the Group and the Target Group, including (i) sales and purchase amounting to approximately HK$28,136,000, (2) product processing service fee amounting to approximately HK$14,511,000 and (3) rental income and expenses amounting to approximately HK$397,000.

6. The adjustment represents the reversal of the amortisation of approximately HK$26,347,000 of intangible assets as a result of revaluation adjustment of intangible assets amounting to approximately HK$99,067,000 per note 2(b) above. For the purpose of the preparation of the Unaudited Pro Forma Consolidated Income Statement, it is assumed that the fair value of the identifiable assets and liabilities of the Group are based on the same amount as at June 30, 2012. This adjustment is calculated based on the respective asset's useful life over a straight-line basis and expected to have a continuing effect on the Enlarged Group.

7. The adjustment represents estimated acquisition-related legal and professional expenses of approximately HK$15,500,000 which would be recognised in profit or loss upon the Completion. This adjustment will not have continuing effect on the Enlarged Group.

8. The adjustment represents the recognition of gain on bargain purchase by the Target (the accounting acquirer) in connection with the Acquisition, which is assumed to amount to approximately HK$2,454,574,000 per note 2(c) above. For the purpose of the preparation of the Unaudited Pro Forma Consolidated Income Statement, it is assumed that the deemed consideration and the fair value of the identifiable assets and liabilities of the Group are based on the same amount as at June 30, 2012.

9. The adjustment represents the changes in fair value of convertible bonds between January 1, 2011 and December 31, 2011 amount to approximately HK$2,173,945,000 with calculation as follows:

	HK$'000
Fair value of Convertible Bonds as of January 1, 2011	6,666,485
Fair value of Convertible Bonds as of December 31, 2011	4,492,540
Changes in fair value of Convertible Bonds	2,173,945

The fair value of the Convertible Bonds is estimated by the same valuation methodology and assumption as described in note 2(f) above with the following inputs:

Tranche I Bonds

Valuation date	January 1, 2011	December 31, 2011
Principal Amount	HK$6,037,429,887	HK$6,037,429,887
Conversion Price	HK$2.15	HK$2.15
No of shares to be converted	2,808,106,924	2,808,106,924
Closing market price of the Company at the valuation date	HK$4.34	HK$1.71
Diluted share price	HK$2.67	No dilution effect noted as the closing market price is lower than the conversion price
For calculation of discount for the period holder cannot exercise the Convertible Bonds		
Share price used in ATM Put	HK$2.67	HK$1.71
Exercise Price	HK$2.67	HK$1.71
Risk free rate	0.67%	0.27%
Dividend Yield	0%	0%
Implied Volatility	35%	35%
Starting date of the conversion	March 31, 2013	March 31, 2013
Fair value of the Convertible Bonds	HK$6,021,365,183	HK$4,066,492,149

Tranche II Bonds

Valuation date	January 1, 2011	December 31, 2011
Principal Amount	HK$670,825,543	HK$670,825,543
Conversion Price	HK$2.15	HK$2.15
No of shares to be converted	312,011,880	312,011,880
Closing market price of the Company at the valuation date	HK$4.34	HK$1.71
Diluted share price	HK$2.67	No dilution effect noted as the closing market price is lower than the conversion price

For calculation of discount for the period holder cannot exercise the Convertible Bonds

Share price used in ATM Put	HK$2.67	HK$1.71
Exercise Price	HK$2.67	HK$1.71
Risk free rate	1.07%	0.41%
Dividend Yield	0%	0%
Implied Volatility	35%	35%
Starting date of the conversion	March 31, 2014	March 31, 2014
Fair value of the Convertible Bonds	HK$645,119,362	HK$426,047,630

The risk free rate used is referred to the yield of the Hond Kong Monetary Authority Exchange Fund Bills and Notes.

The closing market price of the Company, dividend yield and implied volatility are reference to the published information by Bloomberg. Bloomberg is a publicly available database that delivers world economic news, stock futures, stock quotes, & finance advice.

For the purpose of the preparation of the Pro Forma Financial Information, the starting date of the conversion of the Convertible Bonds is determined to be the last day of March of 2013 and 2014 for Tranche I Bonds and Tranche II Bonds, respectively, as this is the last day of announcing the Company's consolidated financial result for the year ending December 31, 2012 and 2013 in accordance with the Listing Rules.

The benchmark levels of HK$600 million and HK$800 million are relating to profit of the Target Group for the year ending December 31, 2012 and 2013, respectively. Upon the Completion, the Company will assess the probability of meeting the benchmark levels of net profit of HK$600 million for the year ending December 31, 2012 and HK$800 million for the year ending December 31, 2013 and the related potential downward adjustment to the maximum principal amount of the Convertible Bonds after taking into consideration of the latest financial performance of the Target Group when determining the fair values of the Convertible Bonds. For simplicity and for the purpose of preparation of the Unaudited Pro forma Consolidated Income Statement, it is assumed that there would be no downward adjustment on the maximum principal amount of the Convertible Bonds.

The assumed fair value gain arose because of the significant decline in the fair value of each share of the Company from HK$4.11 per share as at January 1, 2011 to HK$1.71 per share as at December 31, 2011 which impacts the diluted share price used in the fair value measurement.

Notes to the Unaudited Pro Forma Consolidated Statement of Cash Flows:

10. The adjustment represents the recognition of gain on bargain purchase by the Target (the accounting acquirer) in connection with the Acquisition, which is assumed to amount to approximately HK$2,454,574,000 per note 2(c) above.

    For the purpose of the preparation of the Unaudited Pro Forma Consolidated Statement of Cash Flows, it is assumed that the deemed consideration and the fair value of the identifiable assets and liabilities of the Group are based on the same amount as at June 30, 2012.

11. The adjustment represents the changes in fair value of Convertible Bonds between January 1, 2011 and December 31, 2011 amount to approximately HK$2,173,945,000.

    The benchmark levels of HK$600 million and HK$800 million are relating to profit of the Target Group for the year ending December 31, 2012 and 2013, respectively. Upon the Completion, the Company will assess the probability of meeting the benchmark levels of net profit of HK$600 million for the year ending December 31, 2012 and HK$800 million for the year ending December 31, 2013 and the related potential downward adjustment to the maximum principal amount of the Convertible Bonds after taking into consideration of the latest financial performance of the Target Group when determining the fair values of the Convertible Bonds. For simplicity and for the purpose of preparation of the Unaudited Pro Forma Consolidated Statement of Cash Flows, it is assumed that there would be no downward adjustment on the maximum principal amount of the Convertible Bonds. Details of the Convertible Bonds and calculation of the changes in fair value per notes 2(f) and 9 above.

12. The adjustment represents the acquisition of the Group's bank and cash balances of approximately HK$1,099,806,000 as at January 1, 2011.

13. The adjustment represents RMB639,800,000 (equivalent to approximately HK$780,244,000) capital injection made by the Seller per note 4 above.

14. The adjustment represents the reversal of amortisation of approximately HK$26,347,000 of intangible assets as a result of revaluation adjustment of intangible assets amounting to approximately HK$99,067,000 per note 6 above.

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 June 2012 of the property interests of Robust Sun Holdings Limited.

JONES LANG LASALLE 仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

September 27, 2012

The Board of Directors
Robust Sun Holdings Limited
P.O. Box 957,
Offshore Incorporations Centre,
Road Town, Tortola,
British Virgin Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Robust Sun Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 30 June 2012 (the "date of valuation").

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

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

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group IV which is currently under construction as at the date of valuation, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interest in Group II, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

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

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

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

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

We have been shown copies of various title documents including State-Owned Land Use Rights Certificates, Building Ownership Certificates, official plans and tenancy agreements relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Seller's PRC legal advisers — Global Law Office concerning the validity of the property interests in the PRC.

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

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in the period from 15 August 2012 to 16 August 2012 by Wayne Xiao. Wayne Xiao possesses more than 3 years' valuation experience in the PRC.

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

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

Our valuation certificates are attached below.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C. H. Chan
MRICS MHKIS RPS (GP)
Director

Note: Gilbert C. H. Chan is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and 19 years of properties valuation experience in the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	**Property**	**Capital value in existing state as at 30 June 2012** *RMB*	**Interest attributable to the Group**	**Capital value attributable to the Group as at 30 June 2012** *RMB*
1.	A parcel of land 7 buildings and various structures located at No. 88 Yangzi Road Economic Development Zone Shijiazhuang Hebei Province the PRC	105,550,000	100%	105,550,000
2.	A parcel of land 21 buildings and various structures located at No. 36 Fuqiang Road West City District Luancheng County Shijiazhuang Hebei Province the PRC	101,260,000	98.69%	99,930,000
3.	A parcel of land 42 buildings and various structures No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	102,760,000	100%	102,760,000

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 30 June 2012	Interest attributable to the Group	Capital value attributable to the Group as at 30 June 2012
		RMB		*RMB*
4.	A parcel of land and various structures located at Shihuo Road North Xinhua District Shijiazhuang Hebei Province the PRC	6,720,000	100%	6,720,000
	Sub-total:	316,290,000		314,960,000

SUMMARY OF VALUES

Group II — Property interest rented and occupied by the Group in the PRC

No.	**Property**	**Capital value in existing state as at 30 June 2012** *RMB*	**Interest attributable to the Group**	**Capital value attributable to the Group as at 30 June 2012** *RMB*
5.	A portion of a parcel of land and a building located at the intersection between Yangzi Road and Taxi Avenue Economic Development Zone Shijiazhuang Hebei Province the PRC	No commercial value	100%	No commercial value
	Sub-total:	No commercial value		No commercial value

SUMMARY OF VALUES

Group III — Property interests held for investment by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2012 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 30 June 2012 *RMB*
6.	3 units of a building located at No. 88 Yangzi Road Economic Development Zone Shijiazhuang Hebei Province the PRC	300,000	100%	300,000
7.	A building located at No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	640,000	100%	640,000
8.	A building located at No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	140,000	100%	140,000
	Sub-total:	1,080,000		1,080,000

SUMMARY OF VALUES

Group IV — Property interest held under development by the Group in the PRC

No.	Property	Capital value in existing state as at 30 June 2012	Interest attributable to the Group	Capital value attributable to the Group as at 30 June 2012
		RMB		*RMB*
9.	2 parcels of land 11 buildings and various structures located at eastern side of Taxi Avenue northern side of Huaian Road southern side of Yangzi Road western side of Tazhong Main Street Economic Technology Development Zone Shijiazhuang City Hebei Province the PRC	218,360,000	100%	218,360,000
	Sub-total:	218,360,000		218,360,000
	Grand total:	535,730,000		534,400,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
1.	A parcel of land 7 buildings and various structures No. 88 Yangzi Road Economic Development Zone Shijiazhuang Hebei Province the PRC	The property comprises a parcel of land with a site area of approximately 99,304 sq.m. and 6 buildings and various ancillary structures erected thereon which were completed in various stages between 2005 and 2010. The buildings have a total gross floor area of approximately 23,442.49 sq.m. The buildings mainly include 2 industrial buildings, 2 security rooms, a canteen and a complex building. The structures mainly include boundary fences, roads, pools and pipes. The land use rights of the property have been granted on 24 August 2007 for a term expiring on 20 December 2053 for industrial use.	The property is currently occupied by the CSPC NBP for production and office purposes.	105,550,000 100% interest attributable to the Company: RMB105,550,000

Notes:

1. CSPC NBP Pharmaceutical Co., Ltd (石藥集團恩必普藥業有限公司, "CSPC NBP") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate — Gao Guo Yong (2007) Di No. 063, the land use rights of the parcel of land with a site area of approximately 99,304sq.m. has been granted to CSPC NBP for a term with the expiry date as at 20 December 2053 for industrial use.

3. Pursuant to a Building Ownership Certificate — Gao Cheng Fang Quan Zheng Liang Cun Zi Di No. 1145000038, 5 buildings with a total gross floor area of approximately 23,008.33 are owned by CSPC NBP.

4. For the remaining 2 buildings with a total gross floor area of approximately 555 sq.m., we have not been provided with any title certificate.

5. In the valuation of this property, we have attributed no commercial value to the building mentioned in note 4 which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB691,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.

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

   a. CSPC NBP owns the legal and valid state-owned land use rights of this parcel of land, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   b. CSPC NBP has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates;

   c. CSPC NBP has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   d. The property is not subject to any encumbrance and mortgage; and

   e. CSPC NBP has not obtained the Building Ownership Certificates and requisite construction permits for the properties mentioned in note 4, but the buildings are located at the land which CSPC NBP owns the legal and valid state-owned land use rights. It is less likely that NBP could not occupy and use the building due to the lack of the building title certificate.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
2.	A parcel of land 21 buildings and various structures No. 36 Fuqiang Road West City District Luancheng County Shijiazhuang Hebei Province the PRC	The property comprises a parcel of land with a site area of approximately 112,060.10 sq.m. and 6 buildings and various ancillary structures erected thereon which were completed in various stages between 1993 and 2004. The buildings have a total gross floor area of approximately 37,372.79 sq.m. The buildings mainly include industrial buildings, warehouse, office, canteen and car park. The structures mainly include boundary wall, wells, roads, pools and pipes. The land use rights of the property have been granted on 26 August 2008 for a term expiring on 22 October 2031 for industrial use.	The property is currently occupied by the CSPC XNW for production purpose.	101,260,000 98.69% interest attributable to the Company: RMB99,930,000

Notes:

1. CSPC XNW Pharmaceutical Joint Stock Company Limited (石藥集團新諾威製藥股份有限公司, "CSPC XNW") is a 98.69% interest owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate — Luan Guo Yong (2008) Di No. 29, the land use rights of the parcel of land with a site area of approximately 112,060.10 sq.m. has been granted to CSPC XNW for a term with the expiry date as at 22 October 2031 for industrial use.

3. Pursuant to a Building Ownership Certificate — Luan Cheng Fang Quan Zheng Zi Di No. 014000204301400150, 21 buildings with a total gross floor area of approximately 37,372.79 are owned by CSPC XNW.

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

   a. With the land use rights terms and the permitted use in accordance with the land use rights certificates, CSPC XNW owns the legal and valid state-owned land use rights of this parcel of land, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   b. CSPC XNW has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates;

   c. CSPC XNW has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities; and

   d. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
3.	A parcel of land 42 buildings and various structures No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	The property comprises a parcel of land with a site area of approximately 83,811.90 sq.m. and 42 buildings and various ancillary structures erected thereon which were completed in various stages between 1968 and 2011. The buildings have a total gross floor area of approximately 52,528.60 sq.m. The buildings mainly include industrial building, warehouse, office, canteen and car park. The structures mainly include bridge, roads, pools and pipes. The land use rights of the property have been granted for a term expiring on 27 April 2055.	The property is currently occupied by the CSPC OYY for production, warehouse and office purposes.	102,760,000 100% interest attributable to the Company: RMB102,760,000

Notes:

1. CSPC Ouyi Pharmaceutical. Co., Ltd (石藥集團歐意藥業有限公司, "CSPC OYY") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate — Qiao Xi Guo Yong (2009) Di No. 00148, the land use rights of the parcel of land with a site area of approximately 83,811.90 sq.m. have been granted to CSPC OYY for various terms with expiry dates as at 27 April 2055.

3. Pursuant to 10 Building Ownership Certificates — Shi Fang Quan Zheng Xi Zi Di No. 450000375, 378, 379, 380, 381, 382, 383, 384, 385 and 386, 35 buildings with a total gross floor area of approximately 53,448.64 are owned by CSPC OYY.

4. For the 7 buildings with a total gross floor area of approximately 4,044.8 sq.m., we have not been provided with any title certificate.

5. In the valuation of this property, we have attributed no commercial value to the buildings mentioned in note 4 which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be RMB6,563,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.

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

   a. CSPC OYY owns the legal and valid state-owned land use rights of this parcel of land, and freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities.

   b. CSPC OYY has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates, subject to the registration or filing with relevant governmental authorities;

   c. CSPC OYY has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   d. The property is not subject to any encumbrance and mortgage; and

   e. CSPC OYY has not obtained the Building Ownership Certificates and requisite construction permits for the properties mentioned in note 4, but the buildings are located at the land which CSPC OYY owns the legal and valid state-owned land use rights. It is less likely that CSPC OYY could not occupy and use the building due to the lack of the building title certificate.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
4.	A parcel of land and various structures located at Shihuo Road North Xinhua District Shijiazhuang Hebei Province the PRC	The property comprises a parcel of land with a site area of approximately 20,234.50 sq.m. and various ancillary structures erected thereon which were completed in 2006. The structures mainly include warehouse. The land use rights of the property have been granted for a term expiring on 10 November 2043.	The property is currently occupied by the CSPC OYY for warehouse purpose.	6,720,000 100% interest attributable to the Company: RMB6,720,000

Notes:

1. CSPC Ouyi Pharmaceutical. Co., Ltd (石藥集團歐意藥業有限公司, "CSPC OYY") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate – Xin Hua Guo Yong (2010) Di No. 00001, the land use rights of the parcel of land with a site area of approximately 20,234.50 sq.m. have been granted to CSPC OYY for various terms with expiry dates as at 10 November 2043.

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

   a. CSPC OYY owns the legal and valid state-owned land use rights of this parcel of land, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities; and

   b. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

Group II — Property interest rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 RMB
5.	A portion of a parcel of land and a building located at the intersection between Yangzi Road and Taxi Avenue Economic Development Zone Shijiazhuang Hebei Province the PRC	The property comprises a portion of a parcel of land with a site area of approximately 2,000 sq.m. and a building which was completed in about 2010. The building has a gross floor area of 1,200 sq.m. The property is leased to CSPC NBP from SPG, a connected party for a term expiring on the expiry date of the State-owned Land Use Rights Certificate owned by SPG as at 20 December 2053, with an option to renew if the land use rights are extended for a further term expiring on the renewed expiry date without any fee.	The property is currently occupied by the CSPC NBP Pharmaceutical Co., Ltd for production purpose.	No commercial value 100% interest attributable to the Company: No commercial value

Notes:

1. CSPC NBP Pharmaceutical Co., Ltd (石藥集團恩必普藥業有限公司, "CSPC NBP") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate — Gao Guo Yong (2007) Di No. 062, the land use rights of the parcel of land with a site area of approximately 58,918sq.m. has been granted to Shijiazhuang Pharmaceutical Group Company Limited (石藥集團有限公司, "SPG"), a connected party, for a term with the expiry date as at 20 December 2053 for industrial use.

3. According to a confirmation letter issued by SPG on 21 June 2012, SPG agrees that CSPC NBP can use the portion of the land without charge until the expiry date of the State-owned Land Use Rights Certificate.

4. For the building with a gross floor area of approximately 1,200 sq.m., we have not been provided with any title certificate.

5. In the valuation of this property, we have attributed no commercial value to the building mentioned in note 2 which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building as at the date of valuation would be RMB3,876,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.

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

   a. Lessor SPG is the legal owner and has right to lease out the property to CSPC NBP. The Confirmation Letter is valid, legally binding and enforceable on both parties in accordance with the PRC Laws;

   b. SPG, the legal owner of the land which the building is located, has approved CSPC NBP to use the land free of charge and according to the "Approval Notice of relocation and transformation of the 10 tons Butylphthalide Raw Material Drug Project of Shijiazhuang Pharmaceutical Group NBP Pharmaceutical Co., Ltd." issued by Shijiazhuang Development and Reform Commission, it is less likely that CSPC NBP could not occupy and use the building due to the lack of the building title certificate as mentioned in note 4; and

   c. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

Group III — Property interests held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
6.	3 units of a building located at No. 88 Yangzi Road Economic Development Zone Shijiazhuang Hebei Province the PRC	The property comprises 3 units of a building which was completed in 2005. The property has a gross floor area of approximately 120 sq.m. The land use rights of the property have been granted on 24 August 2007 for a term expiring on 20 December 2053 for industrial use.	The property is currently occupied by the Shiyao Ouyi International Pharmaceutical Co., Ltd. for temporary office purpose.	300,000 100% interest attributable to the Company: RMB300,000

Notes:

1. CSPC NBP Pharmaceutical Co., Ltd (石藥集團恩必普藥業有限公司, "CSPC NBP") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificate — Gao Guo Yong (2007) Di No. 063, the land use rights of the parcel of land with a site area of approximately 99,304sq.m. has been granted to CSPC NBP for a term with the expiry date as at 20 December 2053 for industrial use.

3. Pursuant to a Building Ownership Certificate — Gao Cheng Fang Quan Zheng Liang Cun Zi Di No. 1145000038, the 3 units of the building with a gross floor area of approximately 120 sq.m. is owned by CSPC NBP.

4. According to a Tenancy Agreement, the property with a gross floor area of approximately 120 sq.m. is rented to Shiyao Ouyi International Pharmaceutical Co., Ltd, a connected party for a term of 2 years commencing from 10 December 2010 and expiring on 9 December 2012 at an annual rent of RMB50,000, exclusive of water and electricity charges.

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

   a. CSPC NBP has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates;

   b. CSPC NBP has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   c. The Tenancy Agreement has not been registered with the relevant authority but will not affect the legality of the Tenancy Agreement; and

   d. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
7.	A building located at No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	The property comprises a building which was completed in about 1978. The property has a gross floor area of approximately 1,500 sq.m. The land use rights of the property have been granted for a term expiring on 27 April 2055 for industrial use.	The property is currently occupied by the Shijiazhuang Pharmaceutical Group Huasheng Co., Ltd for production purpose.	640,000 100% interest attributable to the Company: RMB640,000

Notes:

1. CSPC Ouyi Pharmaceutical. Co., Ltd (石藥集團歐意藥業有限公司, "CSPC OYY") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificates — Qiao Xi Guo Yong (2009) Di No. 00148, the land use rights of the parcel of land with a site area of approximately 83,811.90 sq.m. has been granted to CSPC OYY for a term with expiry dates as at 27 April 2055.

3. Pursuant to a Building Ownership Certificate — Shi Fang Quan Zheng Xi Zi Di No. 450000379, a portion of the building with a gross floor area of approximately 1,500 sq.m. is owned by CSPC OYY.

4. According to a Tenancy Agreement, the property with a gross floor area of approximately 1,500 sq.m. is rented to Shijiazhuang Pharmaceutical Group Huasheng Co., Ltd. (石家莊製藥集團華盛製藥有限公司, "Huasheng"), a connected party for a term of 2 years commencing from 1 January 2011 and expiring on 31 December 2013 at an annual rent of RMB360,000, exclusive of water and electricity charges.

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

   a. CSPC OYY has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates;

   b. CSPC OYY has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   c. The Tenancy Agreement has not been registered with the relevant authority but will not affect the legality of the Tenancy Agreement; and

   d. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
8.	A building located at No. 276 Zhong Shan Road West Qiaoxi District Shijiazhuang Hebei Province the PRC	The property comprises a building which was completed in about 2006. The property has a gross floor area of approximately 120 sq.m. The land use rights of the property have been granted for a term expiring on 27 April 2055 for industrial use.	The property is currently occupied by the CSPC Ouyi Import and Export Trade Co., Ltd for office purpose.	140,000 100% interest attributable to the Company: RMB140,000

Notes:

1. CSPC Ouyi Pharmaceutical. Co., Ltd (石藥集團歐意藥業有限公司, "CSPC OYY") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to a State-owned Land Use Rights Certificates — Qiao Xi Guo Yong (2009) Di No. 00148, the land use rights of the parcel of land with a site area of approximately 83,811.90 sq.m. has been granted to CSPC OYY for a term with expiry dates as at 27 April 2055.

3. Pursuant to a Building Ownership Certificate — Shi Fang Quan Zheng Xi Zi Di No. 450000381, a portion of the building with a gross floor area of approximately 120 sq.m. is owned by CSPC OYY.

4. According to a Tenancy Agreement, the property with a gross floor area of approximately 120 sq.m. is rented to CSPC Ouyi Import and Export Trade Co., Ltd (石藥集團歐意進出口貿易有限公司, "I & E"), a connected party for a term of 20 years commencing from 1 October 2006 and expiring on 30 September 2026 at an annual rent of RMB50,000, exclusive of water, electricity and other outgoing charges.

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

   a. CSPC OYY has legally obtained the building ownership rights of the property, and has the rights to use, occupy, transfer, lease and otherwise mortgage of the property in accordance with the valid term and usages stipulated by the title certificates;

   b. CSPC OYY has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities, subject to the registration or filing with relevant governmental authorities;

   c. The Tenancy Agreement has not been registered with the relevant authority but will not affect the legality of the Tenancy Agreement; and

   d. The property is not subject to any encumbrance and mortgage.

VALUATION CERTIFICATE

Group IV — Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2012 *RMB*
9.	2 parcels of land 11 buildings and various structures located at eastern side of Taxi Avenue northern side of Huaian Road southern side of Yangzi Road western side of Tazhong Main Street Economic Technology Development Zone Shijiazhuang City Hebei Province the PRC	The property comprises 2 parcels of land for 2 proposed production developments with a total of 6 industrial buildings, 3 warehouses and various structures. The total site area is approximately 136,896 sq.m. The structures are mainly roads and hangers. The property is scheduled to be completed in December 2012. Upon completion, the buildings of the property will have a total gross floor area of approximately 63,576 sq.m. and the details are set out as following: **Planned Gross Floor Area** *(sq.m.)* Production Plant 53,608 Warehouse 9,968 **Total:** 63,576 The total construction cost is estimated to be approximately RMB176,070,000, of which RMB89,496,000 had been paid as at the date of valuation. The estimated capital value of the property after completion (excluding the lands) is approximately RMB176,070,000. The land use rights of the property have been granted for a common term of 49 years expiring on 24 February 2061 for industrial use.	The property is currently under construction (was under construction as at the date of valuation).	218,360,000 100% interest attributable to the Group: RMB218,360,000

Notes:

1. CSPC Ouyi Pharmaceutical. Co., Ltd (石藥集團歐意藥業有限公司, "CSPC OYY") is a wholly owned subsidiary of Robust Sun Holdings Limited.

2. Pursuant to 2 State-owned Land Use Rights Certificates — Gao Guo Yong (2009) Di No. 022 and 023, the land use rights of the 2 parcels of land with a total site area of approximately 136,896 sq.m. have been granted to CSPC OYY for a common term with expiry dates as at 24 February 2061.

3. Pursuant to 2 Construction Land Planning Permits — Gao Cheng Shi (2011) Gao Guo Tu Chu Zi Di No. 015 and 016 in favour of CSPC OYY, buildings with a total gross floor area of approximately 54,711.95 sq.m. have been approved for construction.

4. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 130182201100022 in favour of CSPC OYY, buildings with a total gross floor area of approximately 54,711.95 sq.m. have been approved for construction.

5. Pursuant to a Construction Work Commencement Permit — No. 1300183050185001 in favour of CSPC OYY, permission by the relevant local authority was given to commence the construction work.

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

   a. As confirmed by CSPC OYY, the construction works have not been completed and therefore have not applied for the relevant real estate title certificate. CSPC OYY has obtained the requisite construction permits as mentioned in notes 3, 4 and 5 for the construction commencement of this building and upon acceptance of completion in respect of the construction works planning, building completion, fire, environmental aspects, there is no legal impediment for obtaining the Building Title Certificate; and

   b. The property is not subject to any encumbrance and mortgage.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm to the best of their knowledge and belief and based on information provided by the Seller that the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date, (ii) after Completion and upon allotment and issue of the Consideration Shares and (iii) upon allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds will be as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
3,000,000,000	Shares of a nominal value of HK$0.10 each	300,000,000
Issued and fully paid:		
1,529,766,661	Shares of a nominal value of HK$0.10 each	152,976,666.1

After Completion and upon allotment and issue of the Consideration Shares

Authorised:		*HK$*
30,000,000,000	Shares of a nominal value of HK$0.10 each	3,000,000,000
Issued and fully paid:		
2,725,421,698	Shares of a nominal value of HK$0.10 each	272,524,169.8

Upon allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds

Authorised:		*HK$*
30,000,000,000	Shares of a nominal value of HK$0.10 each	3,000,000,000
Issued and fully paid:		
5,845,540,502	Shares of a nominal value of HK$0.10 each	584,554,050.2

3. DISCLOSURE OF INTERESTS

At the Latest Practicable Date, the interests and short positions of the Directors or the chief executives of the Company in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered on the register maintained by the Company referred to therein, or which were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long positions in Shares and underlying Shares

Name of Director	Capacity	Name of Company in which shares are held	Number of shares held	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date (%) *(Note 1)*
Cai Dongchen	Beneficial owner	The Company	4,438,000	0.29%
Chak Kin Men	Beneficial Owner	The Company	4,000	0.00026%

Note:

1. Such percentage is calculated upon the issued share capital of the Company as at the Latest Practicable Date, being 1,529,766,661 Shares in issue.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, Warrants, underlying shares and debentures of the Company or any of 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 and short positions which they were 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 were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective associates (as defined in the Listing Rules) was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any existing or proposed service contracts with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. LITIGATION

The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints 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 that as such have been in violation of the federal and state laws of the United States. It is alleged in these 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 sought damages and other relief on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. As at the Latest Practicable Date, four complaints have been served on the Company and three complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company filed a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of May 27, 2008. In addition, on August 31, 2009, the Company filed an alternative motion for summary judgment to dismiss the direct purchaser action. On July 17, 2012, the Court denied these motions.

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the Court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

Fact discovery relevant to merits was concluded in October 2008. Expert discovery on damages shall be completed by September 7, 2012

On January 26, 2012, the Court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. The Court denied that motion on September 6, 2011. On February 9, 2012, the Court denied defendants' request for permission to immediately appeal its September 2011 order.

On May 21, 2012, plaintiffs filed a motion for preliminary approval of settlements with one of the defendants in all actions. This defendant agreed to settle with direct purchasers for US$9.5 million and indirect purchasers for US$1 million. It also agreed to comply with any injunction the Court may enter against any other defendant. The Court preliminarily approved the settlements on June 14, 2012. The Court will hold a hearing on October 17, 2012 to consider final approval of the settlements.

The Court has set a trial date of November 5, 2012.

The director and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Company and the subsidiary have appointed legal advisers to advise them in the legal proceedings and the outcome of these actions cannot be estimated with reasonable certainty as this stage.

Save as disclosed above, as at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL INTERESTS IN CONTRACT AND ASSETS OF THE GROUP

Mr. Cai Dongchen, Mr. Feng Zhengying, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin and Mr. Wang Zhenguo, each an executive Director of the Company is indirectly interested in the Seller and the Target Group. Mr. Cai Dongcheng is the shareholder of a 10% shareholder of the Guarantor as well as the general partner of a limited partnership which is a 15% shareholder of the Guarantor, each of Mr. Feng Zhengying, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin and Mr. Wang Zhenguo is a limited partner to such partnership. Given that each of Mr. Cai, Mr. Feng, Mr. Pan, Mr. Wang Huaiyu, Mr. Lu and Mr. Wang Zhenguo has a material interest in the Acquisition, each of them is required to abstain from voting on the resolution(s) approving the Acquisition pursuant to the articles of association of the Company and the Listing Rules at the relevant board meeting convened for the Transactions.

Save as disclosed above, as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group. As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since December 31, 2011 (being the date to which the latest published audited financial statements of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular:

(a) the Sale and Purchase Agreement and the Amendment Agreement; and

(b) an agreement dated October 25, 2011 entered among CSPC Hebei Zhongren Pharmaceutical Co., Ltd（石藥集團河北中潤製藥有限公司）("**CSPC Hebei Zhongrun**") (a non-wholly owned subsidiary of the Company), CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.,（石藥集團中諾藥業(石家莊)有限公司）("**CSPC Zhongnuo**"), CSPC (Shijiazhuang) High Medical Technology Development Co., Ltd.（石藥集團石家莊高科醫藥科技開發有限公司）("**CSPC HMTD**") and Hebei Hong Yuan Chemical Co., Ltd.（河北宏源化工有限公司）("**Heibei Hong Yuan**"), whereby CSPC Hebei Zhongrun agreed to merge CSPC Zhongnuo, CSPC HMTD and Hebei Hong Yuan by way of absorption and, upon absorption, the registered capital and the total investment of CSPC Hebei Zhongrun were increased to RMB906,300,300 and RMB1,803,544,500, respectively.

9. EXPERT AND CONSENT

The following are the qualifications of the experts (the "**Experts**") who have given opinion or advice which is contained in this circular:

Deloitte Touche Tohmatsu	Certified Public Accountants
China Galaxy International Securities (Hong Kong) Co., 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
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer and consultant in relation to the property interests of the Target Group and the valuer of the Convertible Bonds.
Dacheng Law Offices	PRC legal adviser

Each of the Experts 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 respectively appear.

As at the Latest Practicable Date, none of the Experts has any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, none of the Experts has any direct or indirect interests in any assets which have been, since December 31, 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(a) The registered office, head office and principal place of business of the Company in Hong Kong is at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

(b) The Company's share registrar and transfer office in Hong Kong is Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Lee Ka Sze, Carmelo, being a practising solicitor (as defined in the Legal Practitioners Ordinance (Cap. 159 of the Laws of Hong Kong)).

(d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the office of the Company from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" in this appendix and other contracts referred to in this circular (including the Master Sales Agreements);

(c) an asset swap agreement dated May 22, 2009 entered into by CCPCL and the Company in relation to the Asset Swap, pursuant to which the Company agreed to transfer its 100% equity interests in CSPC NBP to CCPCL and CCPCL agreed to transfer its 100% equity interest in Hong Yuan to the Company at a consideration of HK$125,000,000;

(d) the Sale and Purchase Agreement and the Amendment Agreement;

(e) the written consents from Deloitte Touche Tohmatsu, China Galaxy International Securities (Hong Kong) Co., Limited, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Dacheng Law Offices referred to in the section headed "Expert and Consent" in this appendix;

(f) the annual reports of the Company for the three years ended December 31, 2011 and the interim report of the Company for the six months ended June 30, 2012;

(g) the letter from the Independent Financial Adviser dated September 27, 2012, the text of which is set out pages 65 to 144 of this circular;

(h) the accountants' report of the Target Group prepared by Deloitte Touche Tohmatsu, as set out in Appendix II of this circular;

(i) the report from the Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group, as set out in Appendix IV of this circular; and

(j) the property valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, as set out in Appendix V of 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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of China Pharmaceutical Group Limited (the "**Company**") will be held at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong at 10:00 a.m. on October 19, 2012, for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the authorized share capital of the Company be increased from HK$300,000,000 divided into 3,000,000,000 shares of HK$0.10 each ("**Shares**") to HK$3,000,000,000 divided into 30,000,000,000 Shares by the creation of 27,000,000,000 additional Shares and that any one director of the Company (each a "**Director**") is hereby authorized generally to do all things he or she in his or her sole and absolute discretion deems necessary and appropriate to effect and implement the same

2. "**THAT**

(a) the sale and purchase agreement dated June 17, 2012 (as amended and supplemented by the amendment agreement dated September 24, 2012 and otherwise from time to time, the "**Sale and Purchase Agreement**") entered into among the Company, Joyful Horizon Limited (the "**Seller**") and Massive Top Limited (the "**Guarantor**") in relation to the acquisition of the entire issued share capital of Robust Sun Holdings Limited (the "**Target**"), a copy of which has been produced to the EGM, marked "A" and initialed by the Chairman of the EGM for the purpose of identification, whereby the Seller has agreed to sell, and the Company has agreed to purchase the entire issued share capital of the Target beneficially at an aggregate consideration of HK$8,980,000,000 upon the terms and subject to the conditions therein contained (the "**Acquisition**"), be and is hereby approved, confirmed and ratified;

(b) the creation and issue by the Company of the Convertible Bonds (as defined in the circular dated September 27, 2012 despatched to the shareholders of the Company (the "**Circular**")) to the Seller (or, at the Seller's request, to the Guarantor or its wholly owned subsidiaries) upon the completion of the Acquisition in accordance with the Sale and Purchase Agreement in an aggregate principal amount of US$860,032,747.40, (subject to adjustment) be and are hereby approved;

(c) the allotment and issue of new shares of the Company upon the exercise of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK$2.15 (subject to adjustment) be and are hereby approved;

(d) the allotment and issue of 1,195,655,037 Consideration Shares (as defined in the Circular) at the issue price of HK$1.90 per Share to the Seller (or, at the Seller's request, to the Guarantor or its wholly owned subsidiaries) upon the completion of the Acquisition in accordance with the Sale and Purchase Agreement be and are hereby approved; and

(e) any Director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents and to take such steps as he may consider necessary, appropriate, desirable or expedient in connection with the Sale and Purchase Agreement or any transactions contemplated under the Sale and Purchase Agreement and/or to agree to such variations, amendments, or waiver of matters relating thereto as are, in the opinion of such Director, in the interest of the Company.

By Order of the Board
China Pharmaceutical Group Limited
Cai Dongchen
Chairman

Hong Kong

September 27, 2012

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company but must attend the meeting in person to represent you.

2. To be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

As at the date of this circular, the Board comprises Mr. CAI Dongchen, Mr. FENG Zhenying, Mr. CHAK Kin Man, Mr. PAN Weidong, Mr. ZHAO John Huan, Mr. WANG Shunlong, Mr. WANG Huaiyu, Mr. LU Jianmin and Mr. WANG Zhenguo as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director and Mr. HUO Zhenxing, Mr. Qi Moujia, Mr. GUO Shichang and Mr. CHAN Siu Keung, Leonard as independent non-executive directors.