



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

2007
INTERIM REPORT

Stock Code : 1093

Contents

	<i>PAGE</i>
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	6
CONDENSED CONSOLIDATED INCOME STATEMENT	7
CONDENSED CONSOLIDATED BALANCE SHEET	8
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	10
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	11
OTHER INFORMATION	24

Corporate Information

Board of Directors

Executive Directors

CAI Dongchen (*Chairman*)

YUE Jin

FENG Zhenying

JI Jianming

CHAK Kin Man

PAN Weidong

LI Zhibiao

ZHANG Zheng

Non-executive Directors

LEE Ka Sze, Carmelo

Independent Non-executive Directors

HUO Zhenxing

QI Moujia

GUO Shichang

CHAN Siu Keung, Leonard

Committees

Audit Committee

CHAN Siu Keung, Leonard (*Chairman*)

LEE Ka Sze, Carmelo

HUO Zhenxing

Remuneration Committee

CHAN Siu Keung, Leonard (*Chairman*)

LEE Ka Sze, Carmelo

HUO Zhenxing

Legal Advisers

Woo, Kwan, Lee & Lo

Auditors

Deloitte Touche Tohmatsu

Company Secretary

LEE Ka Sze, Carmelo

Authorised Representatives

CHAK Kin Man

LI Zhibiao

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Hong Kong

Share Registrar and Transfer Office

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Websites

www.irasia.com/listco/hk/cpg/index.htm

www.cpg.hk

Management Discussion and Analysis

Business Review and Outlook

Results

For the first half of 2007, the Group's revenue and profit attributable to equity holders of the Company amounted to HK\$2,309,051,000 and HK\$123,394,000, representing an increase of 32% and 641% over the same period of last year, respectively.

Vitamin C Series

Total sales volume of the major products of this series for the period amounted to 15,249 tonnes, an increase of 16.7% over the same period of last year. With the market supply and demand moving towards a more balanced state, product prices rebounded significantly during the current period. For the first and second quarters of the year, the average prices of vitamin C were US\$3.02 and US\$4.34 per kg respectively. The gross profit margin of the entire series increased from 15.9% in the same period of last year to 29.2% in the current period. It is expected that the upward trend of the product prices will continue in the second half of the year.

Penicillin Series

Total sales volume of the major products of this series for the period amounted to 4,676 tonnes, an increase of 26.7% over the same period of last year. After a long period of market consolidation, coupled with the lessening of market supply as a result of the more stringent environmental regulations, product prices increased sharply during the current period. The respective average prices of penicillin industrial salt, amoxicillin and 6-APA for the first quarter of the year were US\$12.96, US\$27.60 and US\$27.84 per kg whilst their respective average prices for the second quarter of the year were US\$19.12, US\$37.56 and US\$37.09 per kg. The gross profit margin of the entire series increased from 12.4% in the same period of last year to 33.8% in the current period. It is expected that the upward trend of the product prices will continue in the second half of the year.

Cephalosporin Series

Total sales volume of the major products of this series for the period amounted to 510 tonnes, a decrease of 9.1% over the same period of last year. After the significant drop in previous year, product prices recovered slightly during the current period. The average prices of 7-ACA in the first and second quarters of the year were US\$ 82.80 and US\$83.21 per kg respectively. As the production costs have increased during the current period, the gross profit margin of the entire series decreased from 20.0% in the same period of last year to 14.8% in the current period. It is expected that market conditions will be able to improve gradually.

Finished Drugs

Market competition remained fierce in the current period, revenue of this business grew slightly by 3.9% as compared with the same period of last year. Gross profit margin increased from 22.6% in the same period of last year to 23.6% in the current period. During the period, the Group has increased its efforts in developing the vitamin C health supplement market in the PRC, leading to a significant increase in the selling and distribution expenses. The finish drugs division ended up recording an operating loss of HK\$35,900,000 for the current period. Market competition is expected to remain fierce.

Patent Drug

The patent drug, butylphthalide, maintained a steady growth in sales during the period and its operating conditions have improved slightly. The Group will continue its efforts to tap into this new market.

Financial Review

Liquidity and Financial Position

For the first half of 2007, the Group's operating activities generated a net cash inflow of HK\$230,770,000. Capital expenditure amounted to HK\$244,998,000. As at June 30, 2007, the Group's current ratio was 1.0, similar to that at the end of previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivables balance to sales, inclusive of value added tax for sales in the PRC) was 52 days in the current period, as compared to 55 days in 2006. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 85 days in 2006 to 74 days in the current period.

As at June 30, 2007, the Group had total borrowings of HK\$1,626,667,000 (comprising bank loans of HK\$1,491,000,000, loan from a related company of HK\$126,000,000 and loans from immediate holding company of HK\$9,667,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$829,667,000 repayable within one year and the remaining HK\$797,000,000 repayable within two to three years. Net gearing ratio was 44%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$406,521,000 over equity attributable to equity holders of the Company at the balance sheet date.

41% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 59% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

Pledge of Assets

As at June 30, 2007, bank deposits of HK\$772,000 (12.31.2006 : HK\$4,104,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

The Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in The United States of America. The details of the antitrust complaints have been set out in the annual financial statements of the Group for the year ended December 31, 2006. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

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

Employees

As at June 30, 2007, the Group has about 10,083 permanent employees, the majority of them are employed in the PRC. The Group continues to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

Report on Review of Interim Financial Information

Deloitte.

德勤

To the Board of Directors of China Pharmaceutical Group Limited

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 7 to 23, which comprises the condensed consolidated balance sheet of China Pharmaceutical Group Limited as of June 30, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

September 13, 2007

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED JUNE 30, 2007

		For the six months ended June 30,	
		2007	2006
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	2,309,051	1,749,634
Cost of sales		<u>(1,681,790)</u>	<u>(1,427,681)</u>
Gross profit		627,261	321,953
Other income		13,485	17,336
Selling and distribution expenses		(187,563)	(111,253)
Administrative expenses		(228,290)	(156,279)
Other expenses		<u>(32,931)</u>	<u>(4,757)</u>
Operating profit		191,962	67,000
Share of results of a jointly controlled entity		(4,593)	783
Finance costs		<u>(55,075)</u>	<u>(48,115)</u>
Profit before tax	4	132,294	19,668
Income tax expense	5	<u>(10,505)</u>	<u>(3,068)</u>
Profit for the period		<u>121,789</u>	<u>16,600</u>
Attributable to:			
Equity holders of the Company		123,394	16,642
Minority interests		<u>(1,605)</u>	<u>(42)</u>
		<u>121,789</u>	<u>16,600</u>
Dividend	6	—	—
Earnings per share— Basic	7	<u>HK8.02 cents</u>	HK1.08 cents

Condensed Consolidated Balance Sheet

AT JUNE 30, 2007

		As at June 30, 2007	As at December 31, 2006
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	3,272,788	3,233,026
Prepaid lease payments		146,989	145,923
Intangible assets		48,039	48,275
Goodwill		55,764	55,764
Interest in a jointly controlled entity		17,053	21,646
Pledged bank deposits	9	772	1,312
		3,541,405	3,505,946
Current assets			
Inventories		688,654	682,935
Trade and other receivables	10	670,141	574,488
Bills receivables	10	168,680	98,501
Prepaid lease payments		4,685	4,361
Tax recoverable		2,197	1,165
Trade receivables due from a related company	11	14,361	2,660
Amount due from a jointly controlled entity	11	15,300	13,155
Pledged bank deposits	9	—	2,792
Bank balances and cash		405,749	387,405
		1,969,767	1,767,462
Current liabilities			
Trade and other payables	12	932,537	754,147
Bills payables	12	139,501	223,118
Trade payables due to a related company	11	7,017	11,360
Amounts due to related companies	11	11,759	10,454
Tax liabilities		21,068	15,002
Unsecured bank loans	13	820,000	752,000
Loans from immediate holding company	11	9,667	—
		1,941,549	1,766,081
Net current assets		28,218	1,381
Total assets less current liabilities		3,569,623	3,507,327
Non-current liabilities			
Unsecured bank loans	13	671,000	777,000
Loan from a related company	11	126,000	20,000
Loans from ultimate holding company	11	—	59,493
		797,000	856,493
Net assets		2,772,623	2,650,834
Capital and reserves			
Share capital		153,812	153,812
Reserves		2,611,223	2,487,829
Equity attributable to equity holders of the Company		2,765,035	2,641,641
Minority interests		7,588	9,193
Total equity		2,772,623	2,650,834

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED JUNE 30, 2007

	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Capital contribution	Goodwill reserve	Translation reserve	Non-distributable reserves	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2006 (audited)	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Profit for the period	—	—	—	—	—	—	16,642	16,642	(42)	16,600
Transfers	—	—	—	—	—	9,353	(9,353)	—	—	—
Release upon disposal of a subsidiary (note ii)	—	—	—	—	—	—	—	—	(1,594)	(1,594)
At June 30, 2006 (unaudited)	153,812	1,116,727	1,362	(167,254)	71,120	364,877	960,830	2,501,474	9,060	2,510,534
Exchange differences arising on translation to presentation currency recognised directly in equity	—	—	—	—	140,908	—	—	140,908	392	141,300
Loss for the period	—	—	—	—	—	—	(978)	(978)	(259)	(1,237)
Total recognised income and expense for the period	—	—	—	—	140,908	—	(978)	139,930	133	140,063
Transfers	—	—	—	—	—	17,889	(17,889)	—	—	—
Capital contribution from ultimate holding company	—	—	237	—	—	—	—	237	—	237
At December 31, 2006 (audited)	153,812	1,116,727	1,599	(167,254)	212,028	382,766	941,963	2,641,641	9,193	2,650,834
Profit for the period and total recognised income and expense for the period	—	—	—	—	—	—	123,394	123,394	(1,605)	121,789
Transfer arising on impairment on goodwill in respect of a jointly controlled entity	—	—	—	7,124	—	—	(7,124)	—	—	—
Transfers	—	—	—	—	—	22,143	(22,143)	—	—	—
At June 30, 2007 (unaudited)	153,812	1,116,727	1,599	(160,130)	212,028	404,909	1,036,090	2,765,035	7,588	2,772,623

Notes:

- (i) The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.
- (ii) During the year ended December 31, 2006, M2B.com.hk Limited, a non-wholly owned subsidiary of the Company, was disposed of.

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED JUNE 30, 2007

	For the six months ended June 30,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated by operating activities	230,770	68,830
Net cash used in investing activities:		
Purchase of property, plant and equipment	(167,979)	(126,304)
Purchase of intangible assets	(11,539)	(4,644)
Proceeds from disposal of property, plant and equipment	3,136	6
Other investing cash flows	857	(6,836)
	(175,525)	(137,778)
Net cash used in financing activities:		
Repayments of bank loans	(436,000)	(258,373)
Repayment of loans from ultimate holding company	(50,000)	—
Repayment of loan from a related company	(20,000)	—
New bank loans raised	398,000	272,727
Loan raised from a related company	126,000	—
Other financing cash flows	(54,901)	(48,115)
	(36,901)	(33,761)
Net increase (decrease) in cash and cash equivalents	18,344	(102,709)
Cash and cash equivalents at January 1	387,405	472,706
Cash and cash equivalents at June 30, represented by bank balances and cash	405,749	369,997

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED JUNE 30, 2007

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning January 1, 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)— Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC)— Int 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after March 1, 2007

³ Effective for annual periods beginning on or after January 1, 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

Geographical segments

The following is an analysis of the Group's revenue by geographical market for the period under review:

	For the six months ended June 30,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
The People's Republic of China (the "PRC")	1,469,740	1,226,593
Asia other than the PRC	560,423	284,474
Europe	143,908	125,573
America	120,457	103,136
Others	14,523	9,858
	2,309,051	1,749,634

4. Profit before tax

	For the six months ended June 30,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets	11,775	10,297
Amortisation of prepaid lease payments	2,280	2,087
Depreciation of property, plant and equipment	174,693	153,297
Employee benefits expenses, including those of directors (<i>Note</i>)	201,509	137,712
Contribution to retirement benefits schemes, including those of directors	33,487	23,335
Loss on disposal of property, plant and equipment, included in other expenses	25,145	29
Research and development expenses	4,031	3,626
Share of tax of a jointly controlled entity, included in share of results of a jointly controlled entity	—	187
Interest income	(1,195)	(1,517)

Note: The amount for the current period includes a half-year bonus of HK\$39,695,000 (1.1.2006 to 6.30.2006: Nil).

5. Income tax expense

	For the six months ended June 30,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
PRC Foreign Enterprise Income Tax		
— current year	14,619	3,068
— underprovision in prior years	886	—
— tax refund	(5,000)	—
	10,505	3,068

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both periods. The tax charge for the period arose from taxation on its subsidiaries established in the PRC.

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

In addition, pursuant to an approval granted by the relevant tax authority, a subsidiary of the Company was granted tax refund on the basis that the subsidiary of the Company has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contribution to a PRC subsidiary set up in previous years.

The tax charge for the period represents income tax provision which has taken into account of the above mentioned tax incentive.

As at June 30, 2007, the Group had unused tax losses of approximately HK\$197,751,000 (12.31.2006: HK\$141,262,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2012.

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

6. Dividend

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend.

7. Earnings per share

The calculation of the basic earnings per share for the six months ended June 30, 2007 is based on the unaudited profit for the period attributable to equity holders of the Company of approximately HK\$123,394,000 (1.1.2006 to 6.30.2006: HK\$16,642,000) and the 1,538,124,661 shares (1.1.2006 to 6.30.2006: 1,538,124,661 shares) in issue during the period.

No diluted earnings per share has been presented for the six months ended June 30, 2006 and 2007 as there were no potential ordinary shares in issue during both periods.

8. Property, plant and equipment

During the period, the Group acquired approximately HK\$244,998,000 (1.1.2006 to 12.31.2006: HK\$231,141,000) of property, plant and equipment in order to upgrade its manufacturing capabilities.

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK\$30,543,000 (1.1.2006 to 6.30.2006: HK\$1,364,000), resulting in a loss on disposal of approximately HK\$25,145,000 (1.1.2006 to 6.30.2006: HK\$29,000).

9. Pledged bank deposits

As at June 30, 2007, the Group has pledged bank deposits to banks for the acquisition of property, plant and equipment of approximately HK\$772,000 (12.31.2006: HK\$1,312,000) and the deposits were classified as non-current assets.

As at December 31, 2006, the Group also pledged approximately HK\$2,792,000 deposits to banks to secure short-term banking facilities granted to the Group and the deposits were classified as current assets. The pledges were released during the current period.

10. Trade and other receivables/Bills receivables

	As at June 30, 2007	As at December 31, 2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables	562,447	497,288
Bills receivables	<u>168,680</u>	<u>98,501</u>
	731,127	595,789
Other receivables	<u>107,694</u>	<u>77,200</u>
	<u>838,821</u>	<u>672,989</u>

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

	As at June 30, 2007	As at December 31, 2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 to 90 days	703,035	559,880
91 to 180 days	27,122	35,731
181 to 365 days	<u>970</u>	<u>178</u>
	<u>731,127</u>	<u>595,789</u>

11. Related party disclosures

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

(I) Connected parties

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2007	2006
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") and its subsidiaries, excluding the Group (the "SPG Group") (Note)	Purchase of raw materials (Note i)	176,244	132,391
	Sale of steam (Note i)	5,607	633
	Rental expenses (Note ii)	2,570	2,877
	Interest expenses on loans from immediate/ultimate holding company	2,165	1,043
		As at June 30, 2007	As at December 31, 2006
		HK\$'000 (unaudited)	HK\$'000 (audited)
Balance due from (to) the SPG Group			
— trade receivables (Note iv)		14,361	2,660
— trade payables (Note iv)		(7,017)	(11,360)
— other payables (Note iv)		(11,759)	(10,454)
— interest-free short-term loans (Note iv)		(9,667)	—
— interest-free long-term loans		—	(9,493)
— other long-term loans (Note iii)		(126,000)	(70,000)

Note: On or before June 25, 2007, SPG was the ultimate holding company of the Company and owned approximately 50.93% of the issued share capital of the Company. On June 26, 2007, Legend Holdings Limited, an investment holding company established in the PRC, acquired the entire interest of SPG from State-owned Assets Supervision and Administration Committee of Shijiazhuang Municipal People's Government and became the ultimate holding company of the Company with effect on that date.

With reference to the announcement of the Company dated April 25, 2007, a facility in the aggregate amount of RMB510,000,000 is made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB150,000,000 and RMB360,000,000, respectively. The facility is a general working capital facility for one year from April 25, 2007. As a condition under the facility, SPG has pledged 600,589,874 ordinary shares of the Company (representing approximately 39.05% of the issued share capital of the Company) in favour of the bank as security. At June 30, 2007, the extent of such facility utilised by the Group amounted to HK\$110,000,000.

As at June 30, 2007, SPG had also given corporate guarantees to banks in the PRC to secure the loan facilities to the extent of HK\$320,000,000 (12.31.2006: HK\$57,416,000) granted to the Group.

(II) Related parties, other than connected parties

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2007	2006
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Purchase of raw materials (<i>Note i</i>)	19,222	13,211
	Sale of raw materials (<i>Note i</i>)	2,298	—
	Provision of utility services by the Group (<i>Note v</i>)	4,755	4,649
		As at June 30, 2007	As at December 31, 2006
		HK\$'000 (unaudited)	HK\$'000 (audited)
Balance due from Huarong			
— dividend receivables		6,122	6,122
— other receivables (<i>Note iv</i>)		9,178	7,033

(III) Other state-owned entities in the PRC

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

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

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

(IV) Remuneration of key management personnel

The remuneration of key management personnel of the Group during the period was as follows:

	For the six months ended June 30,	
	2007	2006
	HK\$ '000	HK\$ '000
	(unaudited)	(unaudited)
Short-term benefits	4,406	5,044
Post-employment benefits	234	284
	4,640	5,328

The above remuneration is determined by the remuneration committee having regard to the Group's operating results, performance of individuals and market trends.

Notes:

- (i) The transactions were carried out with reference to the market prices.
- (ii) Rental expenses were paid in accordance with the tenancy agreements.
- (iii) Loans are interest bearing at prevailing market rates.
- (iv) At the balance sheet date, the amounts were aged within one year. The directors consider that the carrying amounts of the balances approximate their fair values.
- (v) The transactions were carried out based on the actual costs of utilities incurred by the Group.

12. Trade and other payables/Bills payables

	As at June 30, 2007	As at December 31, 2006
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Trade payables	391,111	406,100
Bills payables	139,501	223,118
	530,612	629,218
Other payables	541,426	348,047
	1,072,038	977,265

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

	As at June 30, 2007	As at December 31, 2006
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
0 to 90 days	456,710	555,975
91 to 180 days	42,337	54,433
181 to 365 days	21,942	9,917
More than 365 days	9,623	8,893
	530,612	629,218

13. Unsecured bank loans

During the period, the Group obtained new bank loans amounted to approximately HK\$398,000,000. The loans carry interest at prevailing market rates, ranging from 4.89% to 7.02% (12.31.2006: 4.47% to 6.76%) per annum and were used to finance the general operations of the Group and the acquisition of property, plant and equipment. In addition, the Group also repaid bank loans of approximately HK\$436,000,000 during the period.

14. Capital commitments

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

	As at June 30, 2007	As at December 31, 2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of		
— property, plant and equipment	58,120	77,489
— intangible assets	7,356	6,817
	65,476	84,306
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	3,436	3,016

15. Contingent liabilities

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 filed in The United States of America (the "United States"). These antitrust 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 the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to the date of this 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 Group 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 Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of the vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought to represent. On June 5, 2007, the court heard the defendants' motions to dismiss based on the legal principles of act of state, foreign sovereign compulsion and international comity. The court has taken those motions under advisement and it is not known when a ruling will be forthcoming.

Submissions concerning whether the direct purchaser case may proceed as a class action took place in May to August 2007. According to the latest timetable fixed by the court, fact discovery is scheduled to be concluded by February 29, 2008, expert discovery is scheduled to be concluded by September 19, 2008 and a pre-trial hearing will be held on November 11, 2008. The action is still in the stage of class discovery.

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

16. Post balance sheet event

On August 30, 2007, a subsidiary of the Company, Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Inner Mongolia) Co. Limited, entered into a sale and purchase agreement with SPG, the immediate holding company, and Hebei Hong Yuan Chemical Co. Limited, a wholly owned subsidiary of SPG, (together the "Vendors") to conditionally acquire the entire equity interest in Shijiazhuang Pharma Group Inner Mongolia Zhongkang Sugar Co. Limited from the Vendors at an aggregate consideration of RMB130,000,000. Details of the transaction are set out in the announcement of the Company dated August 30, 2007.

Other Information

Directors' Interests in Shares, Underlying Shares and Debentures

As at June 30, 2007, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share of the Company
Cai Dongchen	Beneficial owner	2,000,000	0.13%
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of the Company, at no time during the period was the Company, its holding company, or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Scheme

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

No option had been granted or agreed to be granted under the share option scheme since its adoption.

Substantial Shareholders

As at June 30, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of ordinary shares held	Approximate percentage of the issued share capital of the Company
Employees' Shareholding Society of Legend Holdings Limited	Interest of a controlled corporation	783,316,161 (Note i)	50.93%
Legend Holdings Limited	Interest of a controlled corporation	783,316,161 (Note i)	50.93%
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	Beneficial owner and controlled corporation	783,316,161 (Note ii)	50.93%

Notes:

- (i) Employees' Shareholding Society of Legend Holdings Limited owns 35% interest in Legend Holdings Limited which in turn owns 100% interest in SPG. Therefore, they are deemed to be interested in 783,316,161 shares of the Company in which SPG has interest.
- (ii) In respect of the 783,316,161 shares, 773,436,399 shares are held by SPG and 9,879,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at June 30, 2007.

Corporate Governance

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended June 30, 2007 with certain deviations as set out below.

Code provision A.2.1 stipulates that the roles of the chairman and managing director should be separate and should not be performed by the same individual. As disclosed in the 2006 annual report of the Company, Mr. Cai Dongchen has assumed both roles as the chairman and managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the board of directors, the Company believes that there is adequate balance of power and authority in place.

Review of Interim Results

The interim results have been reviewed by the external auditors and audit committee of the Company.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Have made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the six months ended June 30, 2007.

Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended June 30, 2007.

Disclosure under Rule 13.18 of the Listing Rules

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if SPG owns less than 40% of the issued share capital of the Company. The aggregate outstanding principal of these bank loans at June 30, 2007 was HK\$538,000,000 and the last instalment repayment is due in April 2009.

By order of the Board
CAI Dongchen
Chairman

Hong Kong
September 13, 2007