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## 2012 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

|   | Notes | For the six months ended 30 June |                                 |
|---|-------|----------------------------------|---------------------------------|
|   |       | 2012<br>HK\$'000<br>(Unaudited)  | 2011<br>HK\$'000<br>(Unaudited) |
| Revenue   | 3     | 3,172,272                        | 4,174,143                       |
| Cost of sales                                   |       | (2,749,165)                      | (3,176,152)                     |
| Gross profit                                    |       | 423,107                          | 997,991                         |
| Other income                                    |       | 39,804                           | 37,996                          |
| Selling and distribution expenses               |       | (239,344)                        | (283,070)                       |
| Administrative expenses                         |       | (261,831)                        | (312,738)                       |
| Other expenses                                  |       | (33,268)                         | (70,934)                        |
| Operating (loss) profit                         |       | (71,532)                         | 369,245                         |
| Share of results of a jointly controlled entity |       | (782)                            | 6,689                           |
| Finance costs                                   |       | (45,975)                         | (31,461)                        |
| (Loss) profit before taxation                   | 4     | (118,289)                        | 344,473                         |
| Taxation  | 5     | (12,085)                         | (68,748)                        |
| (Loss) profit for the period                    |       | <u>(130,374)</u>                 | <u>275,725</u>                  |
| (Loss) Profit for the period attributable to:   |       |                                  |                                 |
| Owners of the Company                           |       | (136,973)                        | 263,833                         |
| Non-controlling interests                       |       | 6,599                            | 11,892                          |
|   |       | <u>(130,374)</u>                 | <u>275,725</u>                  |
|   |       | <b>HK cents</b>                  | <b>HK cents</b>                 |
| (Loss) Earnings per share — Basic               | 7     | <u>(8.95)</u>                    | <u>17.21</u>                    |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

|  |              | As at<br>30 June<br>2012       | As at<br>31 December<br>2011 |
|--|--------------|--------------------------------|------------------------------|
|  | <i>Notes</i> | <i>HK\$'000</i><br>(Unaudited) | <i>HK\$'000</i><br>(Audited) |
| <b>Non-current assets</b>                      |              |                                |                              |
| Property, plant and equipment                  |              | 4,822,705                      | 4,877,186                    |
| Prepaid lease payments                         |              | 342,780                        | 350,958                      |
| Intangible assets                              |              | 223,978                        | 261,718                      |
| Goodwill                                       |              | 161,880                        | 163,878                      |
| Interest in a jointly controlled entity        |              | 27,796                         | 41,256                       |
| Available-for-sale investments                 |              | 4,148                          | 6,169                        |
|  |              | <u>5,583,287</u>               | <u>5,701,165</u>             |
| <b>Current assets</b>                          |              |                                |                              |
| Inventories                                    |              | 1,476,352                      | 1,641,060                    |
| Trade and other receivables                    | 8            | 1,753,730                      | 1,796,265                    |
| Bills receivables                              | 8            | 340,556                        | 670,034                      |
| Prepaid lease payments                         |              | 9,991                          | 10,114                       |
| Tax recoverable                                |              | 22,656                         | 9,493                        |
| Trade receivables due from related companies   |              | 67,001                         | 15,490                       |
| Trade receivables due from a connected company |              | 41,368                         | 24,128                       |
| Amount due from a jointly controlled entity    |              | 49,575                         | 24,420                       |
| Restricted bank deposits                       |              | 28,697                         | 32,113                       |
| Bank balances and cash                         |              | 962,054                        | 1,034,536                    |
|  |              | <u>4,751,980</u>               | <u>5,257,653</u>             |
| <b>Current liabilities</b>                     |              |                                |                              |
| Trade and other payables                       | 9            | 1,890,365                      | 1,904,670                    |
| Bills payables                                 | 9            | 580,610                        | 725,617                      |
| Amount due to an immediate holding company     |              | —                              | 188,036                      |
| Amounts due to related companies               |              | 70,384                         | 3,315                        |
| Tax liabilities                                |              | 14,298                         | 16,455                       |
| Other financial liabilities                    |              | 4,786                          | 1,321                        |
| Unsecured bank loans                           |              | 1,368,888                      | 880,880                      |
|  |              | <u>3,929,331</u>               | <u>3,720,294</u>             |
| <b>Net current assets</b>                      |              | <u>822,649</u>                 | <u>1,537,359</u>             |
| <b>Total assets less current liabilities</b>   |              | <u>6,405,936</u>               | <u>7,238,524</u>             |

|  | As at<br>30 June<br>2012<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2011<br><i>HK\$'000</i><br>(Audited) |
|--|--|--|
| <b>Non-current liabilities</b>               |  |  |
| Unsecured bank loans                         | 562,724  | 1,148,058  |
| Deferred tax liabilities                     | <u>15,319</u>  | <u>47,326</u>  |
|  | <u>578,043</u>   | <u>1,195,384</u>   |
| Net assets                                   | <u><u>5,827,893</u></u>                                    | <u><u>6,043,140</u></u>                                      |
| <b>Capital and reserves</b>                  |  |  |
| Share capital                                | 152,977  | 152,977  |
| Reserves                                     | <u>5,530,291</u>   | <u>5,747,262</u>   |
| Equity attributable to owners of the Company | 5,683,268  | 5,900,239  |
| Non-controlling interests                    | <u>144,625</u>   | <u>142,901</u>   |
| <b>Total equity</b>                          | <u><u>5,827,893</u></u>                                    | <u><u>6,043,140</u></u>                                      |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34, “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as 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”).

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA.

- Amendments to HKFRS 7 *Disclosures — Transfers of Financial Assets*; and
- Amendments to HKAS 12 *Deferred Tax — Recovery of Underlying Assets*.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

#### For the six months ended 30 June 2012 (Unaudited)

|   | Intermediates and<br>Bulk Drugs |                                   | Finished<br>Drugs<br>HK\$'000 | Others<br>HK\$'000 | Segment<br>total<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|---------------------------------|-----------------------------------|-------------------------------|--------------------|------------------------------|--------------------------|--------------------------|
|   | Vitamin C<br>series<br>HK\$'000 | Antibiotics<br>series<br>HK\$'000 |                               |                    |                              |                          |                          |
| SEGMENT REVENUE   |                                 |                                   |                               |                    |                              |                          |                          |
| External sales  | 653,322                         | 1,211,889                         | 1,246,885                     | 60,176             | 3,172,272                    | —                        | 3,172,272                |
| Inter-segment sales   | 725                             | 118,912                           | —                             | —                  | 119,637                      | (119,637)                | —                        |
| <b>TOTAL</b>  | <b>654,047</b>                  | <b>1,330,801</b>                  | <b>1,246,885</b>              | <b>60,176</b>      | <b>3,291,909</b>             | <b>(119,637)</b>         | <b>3,172,272</b>         |
| Inter-segment sales are charged at prevailing market rates. |                                 |                                   |                               |                    |                              |                          |                          |
| SEGMENT (LOSS) PROFIT                                       | (12,763)                        | (103,145)                         | 73,842                        | (442)              |                              |                          | (42,508)                 |
| Unallocated income  |                                 |                                   |                               |                    |                              |                          | 5,887                    |
| Unallocated central expenses                                |                                 |                                   |                               |                    |                              |                          | (34,911)                 |
| Operating loss  |                                 |                                   |                               |                    |                              |                          | (71,532)                 |
| Share of results of a jointly<br>controlled entity          |                                 |                                   |                               |                    |                              |                          | (782)                    |
| Finance costs   |                                 |                                   |                               |                    |                              |                          | (45,975)                 |
| Loss before taxation  |                                 |                                   |                               |                    |                              |                          | (118,289)                |

#### For the six months ended 30 June 2011 (Unaudited)

|   | Intermediates and<br>Bulk Drugs |                                   | Finished<br>Drugs<br>HK\$'000 | Others<br>HK\$'000 | Segment<br>total<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|---------------------------------|-----------------------------------|-------------------------------|--------------------|------------------------------|--------------------------|--------------------------|
|   | Vitamin C<br>series<br>HK\$'000 | Antibiotics<br>series<br>HK\$'000 |                               |                    |                              |                          |                          |
| SEGMENT REVENUE   |                                 |                                   |                               |                    |                              |                          |                          |
| External sales  | 977,650                         | 1,767,297                         | 1,364,192                     | 65,004             | 4,174,143                    | —                        | 4,174,143                |
| Inter-segment sales   | 867                             | 494,089                           | —                             | 138,123            | 633,079                      | (633,079)                | —                        |
| <b>TOTAL</b>  | <b>978,517</b>                  | <b>2,261,386</b>                  | <b>1,364,192</b>              | <b>203,127</b>     | <b>4,807,222</b>             | <b>(633,079)</b>         | <b>4,174,143</b>         |
| Inter-segment sales are charged at prevailing market rates. |                                 |                                   |                               |                    |                              |                          |                          |
| SEGMENT PROFIT  | 161,226                         | 136,356                           | 134,530                       | 834                |                              |                          | 432,946                  |
| Unallocated income  |                                 |                                   |                               |                    |                              |                          | 2,302                    |
| Unallocated central expenses                                |                                 |                                   |                               |                    |                              |                          | (66,003)                 |
| Operating profit  |                                 |                                   |                               |                    |                              |                          | 369,245                  |
| Share of results of a jointly<br>controlled entity          |                                 |                                   |                               |                    |                              |                          | 6,689                    |
| Finance costs   |                                 |                                   |                               |                    |                              |                          | (31,461)                 |
| Profit before taxation                                      |                                 |                                   |                               |                    |                              |                          | 344,473                  |

Segment (loss) profit represents the (loss) profit from each segment without allocation of interest income, central administrative expenses, central advertising costs, share of results of a jointly controlled entity and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

#### 4. (LOSS) PROFIT BEFORE TAXATION

|  | <b>For the six months<br/>ended 30 June</b> |               |
|--|---|---------------|
|  | <b>2012</b>                                 | 2011          |
|  | <b>HK\$'000</b>                             | HK\$'000      |
|  | <b>(Unaudited)</b>                          | (Unaudited)   |
| (Loss) profit before taxation has been arrived at after charging(crediting) the following items: |   |               |
| Amortisation of intangible assets (included in cost of sales)                                    | <b>24,105</b>                               | 21,459        |
| Amortisation of prepaid lease payments   | <b>3,946</b>                                | 4,740         |
| Depreciation of property, plant and equipment  | <b>290,636</b>                              | 281,202       |
| Impairment loss on intangible asset (included in administrative expense)                         | <b>2,115</b>                                | —             |
| (Gain) loss on disposal of property, plant and equipment (included in other income/expenses)     | <b>(538)</b>                                | 1,473         |
| Net foreign exchange (gains) losses  | <b>(20,276)</b>                             | 4,391         |
| Research and development expenses (included in other expenses)                                   | <b>31,301</b>                               | 63,395        |
| Interest income  | <b>(5,887)</b>                              | (2,302)       |
|  | <b><u>24,105</u></b>                        | <u>21,459</u> |

For the six months ended 30 June 2011 and 2012, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated income statement.

#### 5. TAXATION

|                                   | <b>For the six months<br/>ended 30 June</b> |               |
|-----------------------------------|---|---------------|
|                                   | <b>2012</b>                                 | 2011          |
|                                   | <b>HK\$'000</b>                             | HK\$'000      |
|                                   | <b>(Unaudited)</b>                          | (Unaudited)   |
| The tax charge comprises:         |   |               |
| PRC Enterprise Income Tax         |   |               |
| — Current year                    | <b>9,687</b>                                | 62,015        |
| — Underprovision in prior periods | <b>1,630</b>                                | 2,026         |
|                                   | <b><u>11,317</u></b>                        | <u>64,041</u> |
| Deferred taxation                 | <b>768</b>                                  | 4,707         |
|                                   | <b><u>12,085</u></b>                        | <u>68,748</u> |

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both periods. Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company established before 16 March 2007 is entitled to exemption from PRC Enterprise Income Tax for two years starting from its first profit-making years, followed by a 50% reduction in tax rate for the next three years ending on 31 December 2013.

In addition, certain subsidiaries of the Company are qualified as advanced technology enterprises in the PRC and have obtained approvals from the relevant tax authorities for the tax rate to be reduced to 15%.

The tax charge for both periods represents income tax provisions which have taken into account the above-mentioned tax incentives. The basic tax rate of the Company's PRC subsidiaries is 25%, except those subsidiaries described above.

In respect of the withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders, deferred taxation of HK\$768,000 (2011: HK\$4,707,000) has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits. During the period, withholding tax of HK\$32,716,000 (2011: HK\$1,242,000) has been paid.

As at 30 June 2012, the Group had unused tax losses of HK\$407,416,000 (31 December 2011: HK\$199,910,000) 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. Most of the unrecognised tax losses will expire in various dates up to 2016.

There was no other significant unprovided deferred tax for the period or at the end of the reporting period.

## **6. DIVIDENDS**

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

During the period, no final dividend was distributed to shareholders in respect of the year ended 31 December 2011 (2011: HK24 cents per share for the year ended 31 December 2010). The aggregate amount of final dividend distributed amounted to Nil (2011: HK\$367,732,000). The amount paid in the current period amounted to Nil (2011: HK\$179,696,000).

## 7. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2012 is based on the loss for the period attributable to owners of the Company of HK\$136,973,000 (2011: profit of HK\$263,833,000) and 1,529,766,661 shares in issue (2011: the weighted average number of ordinary shares of 1,532,864,584) for the period.

No diluted earnings per share has been presented for the six months ended 30 June 2012 and 2011 as there were no potential ordinary shares in issue during both periods.

## 8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

|   | As at<br>30 June<br>2012<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2011<br><i>HK\$'000</i><br>(Audited) |
|---|--|--|
| Trade receivables                         | 1,328,875  | 1,241,130  |
| <i>Less:</i> allowance for doubtful debts | <u>(15,175)</u>  | <u>(15,278)</u>  |
|   | <b>1,313,700</b>   | 1,225,852  |
| Bills receivables                         | <u>340,556</u>   | <u>670,034</u>   |
|   | <b>1,654,256</b>   | 1,895,886  |
| Other receivables                         | <u>440,030</u>   | <u>570,413</u>   |
|   | <b><u>2,094,286</u></b>                                    | <b><u>2,466,299</u></b>                                      |

The Group allows a general credit period of up to 90 days to its trade customers. The following is an analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date.

|                 | As at<br>30 June<br>2012<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2011<br><i>HK\$'000</i><br>(Audited) |
|-----------------|--|--|
| 0 to 90 days    | 1,084,609  | 1,001,965  |
| 91 to 180 days  | 191,912  | 194,449  |
| 181 to 365 days | <u>37,179</u>  | <u>29,438</u>  |
|                 | <b><u>1,313,700</u></b>                                    | <b><u>1,225,852</u></b>                                      |



## 9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

|                | As at<br><b>30 June</b><br><b>2012</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | As at<br>31 December<br>2011<br><i>HK\$'000</i><br><b>(Audited)</b> |
|----------------|---|---|
| Trade payables | 858,457   | 949,102   |
| Bills payables | <u>580,610</u>  | <u>725,617</u>  |
|                | <b>1,439,067</b>  | 1,674,719   |
| Other payables | <u>1,031,908</u>  | <u>955,568</u>  |
|                | <u><b>2,470,975</b></u>   | <u>2,630,287</u>  |

The following is an aged analysis of trade payables presented based on the invoice date.

|                    | As at<br><b>30 June</b><br><b>2012</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | As at<br>31 December<br>2011<br><i>HK\$'000</i><br><b>(Audited)</b> |
|--------------------|---|---|
| 0 to 90 days       | 787,328   | 848,658   |
| 91 to 180 days     | 52,262  | 81,919  |
| 181 to 365 days    | 18,091  | 11,474  |
| More than 365 days | <u>776</u>  | <u>7,051</u>  |
|                    | <u><b>858,457</b></u>   | <u>949,102</u>  |

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW AND OUTLOOK**

#### **Results**

Business environment remained difficult during the first half of 2012. Affected by the drop in product prices and slowdown in sales, the Group's operating results declined significantly. Revenue decreased by 24% to HK\$3,172 million and a loss attributable to shareholders of HK\$137 million was reported for the period under review.

#### **Intermediates and Bulk Drugs Business**

Product prices remained under pressure from excessive production capacity, with a significant decline in the average selling prices of vitamin C products for the first half of 2012 as compared to the same period of last year. Furthermore, market demand was weakened by the customers' ample inventory level. All these factors had a severe impact on the performance of the vitamin C series.

Market competition and government policies, which dragged demand and prices down, continued to adversely affect the performance of the antibiotic series. Nevertheless, a modest rebound in product prices in the second quarter enabled the Group to narrow the operating loss of the antibiotic series in the second quarter as compared to the loss in the first quarter. During the period under review, the Group has successfully modified its amoxicillin production facilities in Inner Mongolia to adopt enzyme production technology, which further strengthened its competitive edge.

#### **Finished Drugs Business**

Affected by the drug tender system and the restrictions on the use of antibiotics, the finished drugs business has been performing unsatisfactorily since the second half of 2011. Both product prices and sales were under pressure. However, following the Group's efforts put into market development and sales strategy improvement, performance of this business improved significantly in the second quarter. It is expected that market conditions will gradually improve following the modifications of the drug tender system.

#### **Outlook**

The overall operating environment continues to be difficult. The Group will keep on improving its production technology, sales strategy and market development with an aim to mitigate the adverse impact of market challenges.

## **Very Substantial Acquisition**

On 17 June 2012, the Company entered into a conditional agreement to acquire certain pharmaceutical businesses. The completion of this acquisition is subject to approval by independent shareholders of the Company at a general meeting to be held. The Company believes that this acquisition will provide the finished drug business with new drugs products and significantly increase the contribution from the finished drug business, provide the Group with strong growth drivers and enable the Group to become a leading pharmaceutical group with a series of high-end finished drug products.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Position**

For the first half of 2012, the Group's operating activities generated a net cash inflow of HK\$507,133,000. Debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 87 days in 2011 to 91 days. Inventory turnover period (ratio of inventory balance to cost of sales) decreased from 102 days to 98 days. As at 30 June 2012, the current ratio of the Group was 1.2, slightly lower than 1.4 in 2011. Capital expenditure in relation to the additions of production facilities amounted to HK\$297,708,000 for the period.

As at 30 June 2012, the Group's total bank balances and cash amounted to HK\$990,751,000 and total interest-bearing borrowings amounted to HK\$1,931,612,000. All of these borrowings were bank loans. Of the total borrowings, HK\$1,368,888,000 will be repayable within one year and the remaining HK\$562,724,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over total equity) slightly increased from 15.9% in 2011 to 16.1%.

48% of the Group's borrowings are denominated in Hong Kong dollars, 8% in US dollars and the remaining 44% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been closely monitoring the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

### **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 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. Up to the date of this announcement, 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 submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of 27 May 2008. In addition, on 31 August 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. On 17 July 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 7 September 2012

On 26 January 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 5 February 2010. On 6 September 2011, the Court issued an order denying defendants' joint motion for summary judgment. On 9 February 2012, the Court denied defendants' request for permission to immediately appeal its September 2011 order.

On 21 May 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 14 June 2012. The Court will hold a hearing on 17 October 2012 to consider final approval of the settlements.

The Court has set a trial date of 5 November 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.

## **Employees**

As at 30 June 2012, the Group had about 10,106 employees, the majority of them were 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.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the “Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012 with certain deviation as set out below.

Code provision A.2.1 of the Code stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company’s Chairman, has also assumed the role as the chief executive officer 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, the Company believes that there is adequate balance of power and authority in place.

Due to personal commitments, Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang, the independent non-executive directors of the Company, did not attend the annual general meeting of the Company held on 25 May 2012. These constitute a deviation of the code provision A.6.7 of the Code.

## **REVIEW OF INTERIM RESULTS**

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

## **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 30 June 2012.

By order of the Board  
**China Pharmaceutical Group Limited**  
**Cai Dongchen**  
*Chairman*

Hong Kong, 15 August 2012

*As at the date of this announcement, 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.*