



中國製藥集團有限公司  
**China Pharmaceutical  
Group Limited**  
(Stock Code: 1093)

# 2012

## Interim Report



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## CORPORATE INFORMATION

### **Board of Directors**

#### ***Executive Directors***

CAI Dongchen (*Chairman*)

FENG Zhenying

CHAK Kin Man

PAN Weidong

ZHAO John Huan

WANG Shunlong

WANG Huaiyu

LU Jianmin

WANG Zhenguo

#### ***Non-executive Director***

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

#### ***Nomination Committee***

CAI Dongchen (*Chairman*)

QI Moujia

CHAN Siu Keung, Leonard

#### ***Remuneration Committee***

CHAN Siu Keung, Leonard (*Chairman*)

LEE Ka Sze, Carmelo

HUO Zhenxing

#### ***Legal Advisers***

Woo, Kwan, Lee & Lo

#### ***Auditor***

Deloitte Touche Tohmatsu

#### ***Company Secretary***

LEE Ka Sze, Carmelo

#### ***Authorised Representatives***

CHAK Kin Man

PAN Weidong

#### ***Registered Office***

Suite 3206

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Central Plaza

18 Harbour Road

Wan Chai

Hong Kong

#### ***Share Registrar and Transfer Office***

Tricor Secretaries Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Hong Kong

#### ***Websites***

[www.irasia.com/listco/hk/cpg](http://www.irasia.com/listco/hk/cpg)

[www.cpg.hk](http://www.cpg.hk)



## 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 were named as, among others, defendants in a number of 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 directors 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 at this stage.

Further information on the antitrust complaints is set out in note 17 to the condensed consolidated financial statements.

### 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.

# 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 condensed consolidated financial statements of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 6 to 27, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
15 August 2012

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		For the six months ended 30 June	
	Notes	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (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		<b>(130,374)</b>	275,725
(Loss) profit for the period attributable to:			
Owners of the Company		(136,973)	263,833
Non-controlling interests		6,599	11,892
		<b>(130,374)</b>	275,725
		<b>HK cents</b>	<b>HK cents</b>
(Loss) earnings per share — Basic	7	<b>(8.95)</b>	17.21

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
(Loss) profit for the period	<b>(130,374)</b>	275,725
<b>Other comprehensive income</b>		
Exchange differences arising on translation to presentation currency	<b>(76,089)</b>	157,779
(Loss) gain on fair value change of available-for-sale investments	<b>(2,021)</b>	3,201
Total comprehensive (expenses) income for the period	<b><u>(208,484)</u></b>	<u>436,705</u>
Total comprehensive (expenses) income for the period attributable to:		
Owners of the Company	<b>(213,024)</b>	421,530
Non-controlling interests	<b>4,540</b>	15,175
	<b><u>(208,484)</u></b>	<u>436,705</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	As at 30 June 2012 HK\$'000 (Unaudited)	As at 31 December 2011 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	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
		<b>5,583,287</b>	<b>5,701,165</b>
<b>Current assets</b>			
Inventories		1,476,352	1,641,060
Trade and other receivables	9	1,753,730	1,796,265
Bills receivables	9	340,556	670,034
Prepaid lease payments		9,991	10,114
Tax recoverable		22,656	9,493
Trade receivables due from related companies	10	67,001	15,490
Trade receivables due from a connected company	10	41,368	24,128
Amount due from a jointly controlled entity	10	49,575	24,420
Restricted bank deposits	11	28,697	32,113
Bank balances and cash		962,054	1,034,536
		<b>4,751,980</b>	<b>5,257,653</b>
<b>Current liabilities</b>			
Trade and other payables	12	1,890,365	1,904,670
Bills payables	12	580,610	725,617
Amount due to an immediate holding company	10	—	188,036
Amounts due to related companies	10	70,384	3,315
Tax liabilities		14,298	16,455
Other financial liabilities		4,786	1,321
Unsecured bank loans	13	1,368,888	880,880
		<b>3,929,331</b>	<b>3,720,294</b>
<b>Net current assets</b>		<b>822,649</b>	<b>1,537,359</b>
<b>Total assets less current liabilities</b>		<b>6,405,936</b>	<b>7,238,524</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		As at 30 June 2012 HK\$'000 (Unaudited)	As at 31 December 2011 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Unsecured bank loans	13	562,724	1,148,058
Deferred tax liabilities		15,319	47,326
		<hr/>	<hr/>
		578,043	1,195,384
<b>Net assets</b>		<hr/>	<hr/>
		5,827,893	6,043,140
<b>Capital and reserves</b>			
Share capital	14	152,977	152,977
Reserves		5,530,291	5,747,262
		<hr/>	<hr/>
Equity attributable to owners of the Company		5,683,268	5,900,239
Non-controlling interests		144,625	142,901
		<hr/>	<hr/>
<b>Total equity</b>		5,827,893	6,043,140
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Equity attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Non-distributable reserves HK\$'000 (note i)	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2011 (Audited)	153,496	1,116,727	316	(160,130)	421	928,019	588,202	3,113,458	5,740,509	135,931	5,876,440
Exchange difference arising on translation to presentation currency	—	—	—	—	—	154,496	—	—	154,496	3,283	157,779
Profit for the period	—	—	—	—	—	—	—	263,833	263,833	11,892	275,725
Gain on fair value change of available-for-sale investments	—	—	—	—	3,201	—	—	—	3,201	—	3,201
Total comprehensive income for the period	—	—	—	—	3,201	154,496	—	263,833	421,530	15,175	436,705
Final dividend for the year ended 31 December 2010 (note 6)	—	—	—	—	—	—	—	(367,732)	(367,732)	—	(367,732)
Acquisition of additional interest in a subsidiary (note ii)	—	—	—	—	—	—	—	(260)	(260)	260	—
Shares repurchased and cancelled	(519)	—	519	—	—	—	—	(20,833)	(20,833)	—	(20,833)
Dividends declared to non-controlling interests	—	—	—	—	—	—	—	—	—	(17,103)	(17,103)
At 30 June 2011 (Unaudited)	<b>152,977</b>	<b>1,116,727</b>	<b>835</b>	<b>(160,130)</b>	<b>3,622</b>	<b>1,082,515</b>	<b>588,202</b>	<b>2,988,466</b>	<b>5,773,214</b>	<b>134,263</b>	<b>5,907,477</b>
At 1 January 2012 (Audited)	<b>152,977</b>	<b>1,116,727</b>	<b>835</b>	<b>(160,130)</b>	<b>(843)</b>	<b>1,244,676</b>	<b>599,567</b>	<b>2,946,430</b>	<b>5,900,239</b>	<b>142,901</b>	<b>6,043,140</b>
Exchange difference arising on translation to presentation currency	—	—	—	—	—	(74,030)	—	—	(74,030)	(2,059)	(76,089)
Loss for the period	—	—	—	—	—	—	—	(136,973)	(136,973)	6,599	(130,374)
Loss on fair value change of available-for-sale investments	—	—	—	—	(2,021)	—	—	—	(2,021)	—	(2,021)
Total comprehensive expenses for the period	—	—	—	—	(2,021)	(74,030)	—	(136,973)	(213,024)	4,540	(208,484)
Dilution of interest in a subsidiary (note iii)	—	—	—	—	—	—	—	—	—	8,642	8,642
Deemed acquisition of additional interest in a subsidiary (note iv)	—	—	—	—	—	—	—	(499)	(499)	(14,906)	(15,405)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(3,448)	(3,448)	3,448	—
At 30 June 2012 (Unaudited)	<b>152,977</b>	<b>1,116,727</b>	<b>835</b>	<b>(160,130)</b>	<b>(2,864)</b>	<b>1,170,646</b>	<b>599,567</b>	<b>2,805,510</b>	<b>5,683,268</b>	<b>144,625</b>	<b>5,827,893</b>

### 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 period ended 30 June 2011, the shareholding of the Group in a non wholly-owned subsidiary, CSPC (Shijiazhuang) High Medical Technology Development Co., Ltd. ("Gaoke"), has increased from 82.94% to 95%.
- (iii) During the period ended 30 June 2012, the shareholding in a non wholly-owned subsidiary, CSPC Cenway (Inner Mongolia) Pharmaceutical Co., Ltd., has decreased from 94.9% to 84.9% because non-controlling interest injected additional capital in this subsidiary.
- (iv) During the period ended 30 June 2012, the shareholding in a non wholly-owned subsidiary, Unigene Biotechnology Co., Ltd, had increased from 55% to 78.57% (note 16).

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Cash generated from operations	566,589	28,847
PRC Enterprise Income Tax paid	(26,740)	(98,875)
PRC withholding tax paid	(32,716)	(1,242)
	<u>507,133</u>	<u>(71,270)</u>
Net cash from (used in) operating activities		
Net cash used in investing activities:		
Purchases of property, plant and equipment	(199,536)	(447,973)
Purchases of intangible assets	(8,191)	(19,048)
Proceeds from disposal of property, plant and equipment	2,572	19,461
Capital contribution by non-controlling interest of subsidiary	8,642	—
Other investing cash flows	5,887	(2,445)
	<u>(190,626)</u>	<u>(450,005)</u>
Net cash (used in) from financing activities:		
New bank loans raised	459,484	534,762
Repayments of bank loans	(543,852)	(145,714)
Repayment to immediate holding company	(188,036)	—
Dividend paid to owners of the Company	—	(179,696)
Other financing cash flows	(112,814)	(59,858)
	<u>(385,218)</u>	<u>149,494</u>
Net decrease in cash and cash equivalents	(68,711)	(371,781)
Cash and cash equivalents at 1 January	1,034,536	1,099,806
Effect of foreign exchange rate changes	(3,771)	18,794
	<u>962,054</u>	<u>746,819</u>
Cash and cash equivalents at 30 June		



## 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 Bulk Drugs				Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
	Vitamin C series HK\$'000	Antibiotics series HK\$'000	Finished Drugs HK\$'000	Others 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 controlled entity							(782)
Finance costs							(45,975)
Loss before taxation							(118,289)

**3. SEGMENT INFORMATION** (Continued)  
**For the six months ended 30 June 2011 (Unaudited)**

	Intermediates and Bulk Drugs				Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
	Vitamin C series HK\$'000	Antibiotics series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000			
<b>SEGMENT REVENUE</b>							
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.							
<b>SEGMENT PROFIT</b>	<b>161,226</b>	<b>136,356</b>	<b>134,530</b>	<b>834</b>			<b>432,946</b>
Unallocated income							2,302
Unallocated central expenses							(66,003)
Operating profit							369,245
Share of results of a jointly controlled entity							6,689
Finance costs							(31,461)
Profit before taxation							<b>344,473</b>

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

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

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



## 5. TAXATION (Continued)

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 are entitled to exemption from PRC Enterprise Income Tax for two years starting from their 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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$297,708,000 (2011: HK\$359,131,000) on acquisition 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 HK\$2,034,000 (2011: HK\$20,934,000), resulting in a gain of HK\$538,000 (2011: a loss of HK\$1,473,000).

## 9. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

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

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.

## 9. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES (Continued)

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

## 10. 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 end of the reporting period, are as follows:

### (I) RELATED AND CONNECTED PARTIES

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") (a fellow subsidiary of Massive Giant Group Limited ("Massive Giant"), the majority shareholder of the Company) and its subsidiaries (the "SPG Group")	Sales of vitamin C products (note a)	1,086	2,319
	Product processing services (note b)	—	6,827
	Sales of antibiotic products (note c)	—	4,575
	Sales of antibiotic products (note d)	7,250	—
	Rental expenses (note e)	2,077	4,037
	Sales of finished drugs (note f)	16,847	13,254
	Sales of finished drugs (note g)	18,599	7,640
		<u>          </u>	<u>          </u>
		As at 30 June 2012 HK\$'000 (Unaudited)	As at 31 December 2011 HK\$'000 (Audited)
	Balance due from (to) the SPG Group		
	— trade receivables aged		
	0-90 days	67,001	15,490
		<u>          </u>	<u>          </u>
	— Other payable (note h)	70,384	3,315
		<u>          </u>	<u>          </u>

## 10. RELATED PARTY DISCLOSURES (Continued)

### (I) RELATED AND CONNECTED PARTIES (Continued)

As at 30 June 2012, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of RMB510,000,000 (31 December 2011: RMB610,000,000) granted to the Group. As at 30 June 2012, the extent of utilisation by the Group amounted to RMB510,000,000 (31 December 2011: RMB610,000,000).

During the period ended 30 June 2012, a credit facility in aggregate amount of RMB510,000,000 was made available by a bank to SPG and certain subsidiaries of the Company for RMB300,000,000 and RMB210,000,000 respectively. The credit facility is a general working capital facility for three years from 14 December 2009. At 30 June 2012, the Company did not utilise the facility.

Name of company	Nature of transactions/balances	As at	As at
		30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Massive Giant	Balance due to Massive Giant — dividend payable (note h)	—	188,036

### (II) OTHER RELATED PARTIES

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Provision of utility services by the Group (note i)	11,345	12,552
		<b>As at</b>	<b>As at</b>
		<b>30 June 2012</b>	<b>31 December 2011</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
	Balance due from Huarong		
	— dividend receivables	23,013	10,667
	— other receivables	26,562	13,753
		<b>49,575</b>	<b>24,420</b>

10. RELATED PARTY DISCLOSURES (Continued)  
(III) CONNECTED PARTIES

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the non-controlling interest of a subsidiary	Sale of intermediate products (note j)	<u>33,333</u>	<u>70,014</u>
		<b>As at 30 June 2012</b> HK\$'000 (Unaudited)	<b>As at 31 December 2011</b> HK\$'000 (Audited)
Guangdong Titan	Balance due from Guangdong Titan — trade receivables (note j) aged 0-90 days	<u>41,368</u>	<u>24,128</u>

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Short-term benefits	<u>3,851</u>	4,463
Post-employment benefits	<u>407</u>	348
	<u><b>4,258</b></u>	<u>4,811</u>

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

## 10. RELATED PARTY DISCLOSURES (Continued)

Notes:

- (a) On 13 May 2009, CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng"), a wholly-owned subsidiary of the Company, entered into an agreement with CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), a wholly-owned subsidiary of SPG, in relation to the sale of vitamin C products for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

- (b) On 13 May 2009, CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo") (note k), a wholly-owned subsidiary of the Company, entered into an agreement with Ouyi and pursuant to which Ouyi provides product processing services to Zhongnuo for various cephalosporin powder injection products, for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to obtain reliable processing services for the Group's products.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

- (c) On 13 May 2009, CSPC Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun")(note k), a non wholly-owned subsidiary of the Company, entered into an agreement with Ouyi in relation to the sale of antibiotics products for a term of 3 years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

- (d) On 30 June 2011, Gaoke(note k) entered into an agreement with Ouyi in relation to the sales of antibiotic products for a term of three years from 1 July 2011 to 30 June 2014. By entering into this agreement, the Group should be able to maintain and expand the business relationship with Ouyi.

The extent of these transactions did not exceed the limit as set out in the announcement of the company dated 30 June 2011.

## 10. RELATED PARTY DISCLOSURES (Continued)

Notes: (Continued)

- (e) On 5 March 2009, Zhongnuo entered into a lease agreement with SPG to lease two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 March 2009 with the monthly rental of RMB427,108. The agreement was not renewed after the expiration of the agreement, Zhongnuo did not enter a renewal agreement with SPG and SPG provides these two factory buildings to the Group free of charge thereafter.

On 20 July 2002, Zhongnuo entered into another agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised to RMB138,033 on 1 August 2009 for a term of three years.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

- (f) On 23 August 2010, Zhongnuo entered into an agreement with Hebei Aipu Pharmaceutical Co., Ltd. ("Aipu"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drugs products for a term of 3 years from 23 August 2010 to 22 August 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Aipu.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 23 August 2010.

- (g) On 10 January 2011, Zhongnuo and CSPC Yinhu Pharmaceutical Co, Ltd ("Yinhu"), a non wholly-owned subsidiary of the Company, entered into an agreement with CSPC Hebei Zhongchen Pharmaceutical Co., Ltd. ("Zhongchen"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drug products for a term of 3 years from 1 January 2011 to 31 December 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Zhongchen.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 10 January 2011.

- (h) At the end of the reporting period, these amounts were aged within one year, unsecured, interest-free and repayable on demand.
- (i) The transactions were carried out based on the actual costs of utilities incurred by the Group.

## 10. RELATED PARTY DISCLOSURES (Continued)

Notes: (Continued)

- (j) On 29 July 2008, Siping City Fine Chemicals Products Company Limited ("Siping"), a non wholly-owned subsidiary of the Company, entered into an agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group was able to maintain the business relationship with Guangdong Titan.

On 3 May 2012, Siping, entered into another agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years from 3 May 2012 to 30 April 2015. By entering into the agreement, the Group will be able to maintain the business relationship with Guangdong Titan.

The extent of these connected sales did not exceed the limit as set out in the announcement of the Company dated 29 July 2008 and 3 May 2012 respectively.

- (k) During the period, Zhongnuo, Gaoke and Hebei Hong Yuan Chemical Co., Ltd merged into Zhongrun to become one single company and Zhongrun was renamed as CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.

## 11. RESTRICTED BANK DEPOSITS

As at 30 June 2012, the Group had restricted bank deposits of HK\$28,697,000 (31 December 2011: HK\$32,113,000) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

## 12. TRADE AND OTHER PAYABLES/BILLS PAYABLES

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

## 12. TRADE AND OTHER PAYABLES/BILLS PAYABLES (Continued)

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

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

## 13. UNSECURED BANK LOANS

During the period, the Group obtained various new bank loans of HK\$459,484,000 (31 December 2011: HK\$543,852,000) with maturity dates ranging from 9 January 2013 to 16 January 2015. The loans of the Group carry interest at prevailing market rates ranging from 1.87% to 7.21% (31 December 2011: 0.71% to 6.06%) per annum.

In addition, the Group repaid bank loans of HK\$543,852,000 (31 December 2011: HK\$145,714,000) during the period.

## 14. SHARE CAPITAL

Ordinary shares of HK\$0.10 each

	<b>Number of shares '000</b>	<b>Share capital HK\$'000</b>
Authorised:		
As at 1 January 2011, 30 June 2011, 1 January 2012 and 30 June 2012	<b>3,000,000</b>	<b>300,000</b>
Issued and fully paid:		
As at 1 January 2011	1,534,961	153,496
Shares repurchased and cancelled	(5,194)	(519)
As at 30 June 2011, 1 January 2012 and 30 June 2012	<b>1,529,767</b>	<b>152,977</b>

## 15. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	<b>As at 30 June 2012 HK\$'000 (Unaudited)</b>	As at 31 December 2011 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of		
— property, plant and equipment	<b>153,372</b>	255,689
— intangible assets	<b>111,293</b>	128,099
	<b>264,665</b>	383,788

## 16. MAJOR NON-CASH TRANSACTIONS

During the period, Unigene Laboratories Inc. ("Unigene Lab"), an independent non-controlling interest, withdrew its capital investment of approximately HK\$17,520,000 in a subsidiary of the Company, Unigene Biotechnology Co., Ltd. This withdrawal is settled by transferring out the Group's intangible assets with fair value of approximately HK\$15,405,000. The capital investment withdrawn by Unigene Lab represented 30% of the registered capital of this subsidiary. Upon the withdrawal, the Group's shareholding in this subsidiary increased from approximately 55% to approximately 78.57%.

## 17. CONTINGENT LIABILITIES

- (i) 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 report, 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.

## 17. CONTINGENT LIABILITIES *(Continued)*

### (i) *(Continued)*

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.



## 18. EVENTS AFTER THE END OF THE INTERIM PERIOD

- (a) On 17 June 2012, the Company entered into the sale and purchase Agreement with Joyful Horizon Limited (“Joyful”) and Massive Top Limited (“Massive Top”), pursuant to which the Company conditionally agreed to acquire, and Joyful conditionally agreed to sell the entire issued share capital of the Robust Sun Holdings Limited (“Robust Sun”) for a total consideration of HK\$8,980,000,000 (the “Consideration”). The Consideration, subject to adjustment, is expected to consist of (i) HK\$2,271,744,570.30 by way of allotment and issue of the Company’s shares (the “Consideration Shares”), and (ii) HK\$6,708,255,429.70 by way of issue of convertible bonds, on the date of completion. The Consideration Shares represent (i) approximately 78.16% of the existing issued share capital of the Company as at 26 June 2012; and (ii) approximately 20.45% of the issued share capital of the Company as increased by the allotment and issue of the Consideration Shares and 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 shares underlying the convertible bonds will represent up to (i) approximately 203.96% of the existing share capital of the Company as at 26 June 2012; 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.) Upon Completion, the Robust Sun will become a wholly-owned subsidiary of the Company. Up to the date of approval for issuance of this interim financial report, this transaction has not been completed.
- (b) On 26 June 2012, the Company proposed to increase its authorised share capital 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 authorised capital increase is conditional upon the approval of an ordinary resolution of the shareholders at an extraordinary general meeting.

## OTHER INFORMATION

### Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2012, 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 ("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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

#### Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	4,438,000	0.29%
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 as at 30 June 2012.

### 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, fellow subsidiaries or 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 6 July 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. The scheme is valid and effective for a period of 10 years since its adoption. No option had been granted or agreed to be granted under the scheme since its adoption.

## Substantial Shareholders

As at 30 June 2012, 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 share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued Ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant Group Limited ("MGGL")	Beneficial owner	783,482,393	51.22%
March Rise Limited ("MRL")	Interest of controlled corporation	5,154,292,234 (Note i)	336.93%
Massive Top Limited ("MTL")	Interest of controlled corporation	5,154,292,234 (Note i)	336.93%
Joyful Horizon Limited ("JHL")	Beneficial owner	4,315,773,841	282.12%
Legend Holdings Limited ("Legend")	Interest to an agreement	5,154,292,234 (Note ii)	336.93%

### Notes:

- (i) These 5,154,292,234 shares represents: (i) 1,195,655,037 consideration shares to be issued (subject to certain conditions) to JHL under the sale and purchase agreement dated 17 June 2012 (details of which are set out in an announcement dated 26 June 2012); (ii) 3,120,118,804 shares to be issued (subject to certain conditions) to JHL upon the conversion of the convertible bonds in an aggregate amount of HK\$6,708,255,429.70 at a conversion price of HK\$2.15 per share under the sale and purchase agreement dated 17 June 2012 (details of which are set out in an announcement dated 26 June 2012); (iii) 783,482,393 shares held by MGGL; and (iv) 55,036,000 shares held by China Charmaine Pharmaceutical Company Limited ("CCP"). JHL, MGGL and CCP are owned as to 100% by MTL. MTL is owned as to 75% by MRL. Accordingly, MRL and MTL are deemed to be interested in the 5,154,292,234 shares of the Company under the SFO.
- (ii) Legend is deemed to be interested in the 5,154,292,234 shares of the Company pursuant to an agreement to which Section 317(1)(a) applies under the SFO.

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 30 June 2012.



## 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.

## Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

## 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.

## Disclosure under Rule 13.17 of the Listing Rules

Pursuant to a bank loan agreement dated 14 December 2009 entered into between a bank and SPG, a facility in the aggregate amount of RMB510,000,000 was made available by the bank to SPG and certain subsidiaries of the Company. The facility is a general working facility for three years from 14 December 2009. Out of the aggregate facility amount of RMB510,000,000, RMB210,000,000 was made available to the certain subsidiaries of the Company. As a condition under the loan agreement, Massive Giant has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. As at 30 June 2012, the Group did not utilise the facility.

Other than as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.17 of the Listing Rules.

## Update on Director's Information Under Rule 13.51b(1) of the Listing Rules

Mr. LEE Ka Sze, Carmelo, a non-executive director of the Company, was appointed as the chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited with effect from 4 May 2012. In addition, Mr. LEE was appointed as a member of the SFC (HKEC Listing) Committee with effect from 1 April 2012.