



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

INTERIM REPORT 2003

INTERIM FINANCIAL REPORT

Condensed Consolidated Income Statement

For the six months ended June 30, 2003

		For the six months ended June 30,	
		2003	2002
		HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)
Turnover		1,360,282	705,193
Cost of sales		(776,210)	(510,690)
Gross profit		584,072	194,503
Other operating income		5,397	8,883
Distribution costs		(44,684)	(12,110)
Administrative expenses		(101,015)	(58,587)
Other operating expenses		(6,249)	(2,070)
Profit from operations	4	437,521	130,619
Finance costs		(14,575)	(12,725)
Share of profit of a jointly controlled entity		3,050	4,081
Profit before taxation		425,996	121,975
Income tax expense	5	(65,356)	(19,789)
Profit before minority interests		360,640	102,186
Minority interests		(1,279)	(1,025)
Profit attributable to shareholders		359,361	101,161
Earnings per share	7		
Basic		23.92 cents	8.12 cents
Diluted		23.43 cents	8.00 cents

Condensed Consolidated Balance Sheet

At June 30, 2003

	Notes	6.30.2003 HK\$'000 (Unaudited)	12.31.2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,523,341	1,545,409
Intangible assets	9	81,294	83,490
Goodwill		58,750	60,296
Investment in a jointly controlled entity		23,119	20,809
Loan receivable		2,245	2,245
		1,688,749	1,712,249
Current assets			
Inventories		302,798	274,936
Trade and other receivables	10	497,858	421,582
Notes receivable		147,357	120,712
Loan receivable		795	795
Trade receivables due from related companies		33,311	91,046
Amount due from a jointly controlled entity		6,472	3,203
Bank balances and cash		372,591	324,274
		1,361,182	1,236,548
Current liabilities			
Trade and other payables	11	471,082	502,033
Notes payable		84,191	–
Taxation payable		30,624	16,095
Bank loans – due within one year	12	342,777	543,338
		928,674	1,061,466
Net current assets		432,508	175,082
Total assets less current liabilities		2,121,257	1,887,331
Minority interests		8,855	9,809
Non-current liabilities			
Bank loans – due after one year	12	50,040	84,385
		2,062,362	1,793,137
Capital and reserves			
Share capital	13	150,221	150,221
Reserves		1,912,141	1,642,916
		2,062,362	1,793,137

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2003

	Share capital HK\$'000 (Note 13)	Share premium HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Non- distributable reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At January 1, 2002	124,045	836,292	(167,254)	2,692	92,936	432,931	1,321,642
Exercise of share options	4,265	23,084	-	-	-	-	27,349
Share issue expenses	-	(71)	-	-	-	-	(71)
Transfers, net of minority interests' share	-	-	-	-	41,534	(41,534)	-
Profit attributable to shareholders	-	-	-	-	-	101,161	101,161
Dividend paid (note 6)	-	-	-	-	-	(44,656)	(44,656)
At June 30, 2002	128,310	859,305	(167,254)	2,692	134,470	447,902	1,405,425
Issue of shares on acquisition of a subsidiary	21,911	238,832	-	-	-	-	260,743
Share issue expenses	-	(12)	-	-	-	-	(12)
Transfers, net of minority interests' share	-	-	-	-	3,205	(3,205)	-
Profit attributable to shareholders	-	-	-	-	-	126,981	126,981
At December 31, 2002	150,221	1,098,125	(167,254)	2,692	137,675	571,678	1,793,137
Transfers, net of minority interests' share	-	-	-	-	29,109	(29,109)	-
Profit attributable to shareholders	-	-	-	-	-	359,361	359,361
Dividend paid (note 6)	-	-	-	-	-	(90,136)	(90,136)
At June 30, 2003	150,221	1,098,125	(167,254)	2,692	166,784	811,794	2,062,362
Attributed to:							
- The Company and subsidiaries	150,221	1,098,125	(160,130)	2,585	163,279	788,233	2,042,313
- Jointly controlled entity	-	-	(7,124)	107	3,505	23,561	20,049
	150,221	1,098,125	(167,254)	2,692	166,784	811,794	2,062,362

Note: The non-distributable reserves represent statutory reserves appropriated from the profit after taxation of the Company's PRC subsidiaries and jointly controlled entity under the PRC laws and regulations.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2003

	For the six months ended June 30,	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	427,921	158,478
Net cash used in investing activities	(54,562)	(91,428)
Net cash (used in) from financing activities	(325,042)	10,323
Net increase in cash and cash equivalents	48,317	77,373
Cash and cash equivalents brought forward	324,274	179,778
Cash and cash equivalents carried forward Bank balances and cash	372,591	257,151

Notes to the Condensed Financial Statements

For the six months ended June 30, 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2002 except as described below.

Income taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statements liability method, i.e. a liability was recognised in respect of timing differences arising, except where those

timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. Segment information

Business segments

The Group reports its primary segment information by products which are bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

For the six months ended June 30, 2003

	Bulk Drugs					Eliminations HK\$'000	Consolidated HK\$'000
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000		
TURNOVER							
External sales	306,319	261,884	424,688	366,198	1,193	-	1,360,282
Inter-segment sales	102,657	52,074	-	-	-	(154,731)	-
TOTAL TURNOVER	<u>408,976</u>	<u>313,958</u>	<u>424,688</u>	<u>366,198</u>	<u>1,193</u>	<u>(154,731)</u>	<u>1,360,282</u>
SEGMENT RESULT	<u>86,821</u>	<u>53,650</u>	<u>244,959</u>	<u>57,743</u>	<u>79</u>		<u>443,252</u>
Unallocated corporate expenses							(5,731)
Profit from operations							437,521
Finance costs							(14,575)
Share of profit of a jointly controlled entity							3,050
Profit before taxation							425,996
Income tax expense							(65,356)
Profit before minority interests							360,640
Minority interests							(1,279)
Profit attributable to shareholders							<u>359,361</u>

Inter-segment sales are charged at prevailing market rates.

For the six months ended June 30, 2002

	Bulk Drugs					Eliminations HK\$'000	Consolidated HK\$'000
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000		
TURNOVER							
External sales	273,713	268,996	159,040	-	3,444	-	705,193
Inter-segment sales	-	-	-	-	-	-	-
TOTAL TURNOVER	273,713	268,996	159,040	-	3,444	-	705,193
SEGMENT RESULT	60,594	62,307	14,322	-	(219)		137,004
Unallocated corporate expenses							(6,385)
Profit from operations							130,619
Finance costs							(12,725)
Share of profit of a jointly controlled entity							4,081
Profit before taxation							121,975
Income tax expense							(19,789)
Profit before minority interests							102,186
Minority interests							(1,025)
Profit attributable to shareholders							101,161

Inter-segment sales are charged at prevailing market rates.

Geographical segments

Segment information about the Group's operations by geographical market is presented below:

	For the six months ended June 30,	
	2003 HK\$'000	2002 HK\$'000
The People's Republic of China (the "PRC")	974,236	543,060
Asia other than the PRC	146,873	54,792
Europe	96,655	52,577
America	91,108	44,546
Others	51,410	10,218
	1,360,282	705,193

Contribution to profit by geographical market has not been presented as the contributions to profit from each market is in line with the overall Group ratio of profit to turnover.

Analysis of carrying amounts of segment assets and capital expenditure are not presented as over 90% of the amounts involved are in PRC.

4. Profit from operations

	For the six months ended June 30,	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Allowance for bad and doubtful debts	-	5,450
Amortisation of intangible assets included in administrative expenses	6,873	7,566
Amortisation of goodwill included in administrative expenses	1,546	-
Depreciation and amortisation	63,111	47,359
Research and development expenses	586	-
Bank interest income	(774)	(480)
	<u><u> </u></u>	<u><u> </u></u>

5. Income tax expense

	For the six months ended June 30,	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
PRC income tax	64,616	19,265
Share of taxation of a jointly controlled entity	740	524
	<u><u> </u></u>	<u><u> </u></u>
	65,356	19,789

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the period.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The taxation charge for the period represents provision for PRC taxation which has taken into account of these tax incentives.

The jointly controlled entity, which was established in the PRC, is also entitled to similar PRC tax relief as the above subsidiaries.

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

6. Dividend

At a meeting on August 12, 2003, the Directors of the Company declared an interim dividend of HK7.0 cents per share for the six months ended June 30, 2003 (2002 interim dividend: Nil). The interim dividend will be payable on September 26, 2003 to shareholders whose names appear on the register of members of the Company on September 5, 2003.

During the current period, a dividend of HK6.0 cents per share (January 1, 2002 to June 30, 2002: HK3.6 cents per share), amounting to a total of HK\$90,136,000 (January 1, 2002 to June 30, 2002: HK\$44,656,000) was paid to shareholders as the final dividend for the year ended December 31, 2002.

7. Earnings per share

The calculation of the basic and diluted earnings per share for the period is based on the following data:

	For the six months ended June 30,	
	2003	2002
Profit attributable to shareholders	<u>HK\$359,361,000</u>	<u>HK\$101,161,000</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,502,212,661	1,245,580,163
Effect of dilutive potential ordinary shares in respect of share options	<u>31,350,946</u>	<u>19,661,140</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,533,563,607</u>	<u>1,265,241,303</u>

8. Additions to property, plant and equipment

During the current period, the Group spent approximately HK\$36,163,000 (December 31, 2002: HK\$303,015,000) on acquisition of property, plant and equipment.

9. Additions to intangible assets

During the current period, the Group spent approximately HK\$4,677,000 (December 31, 2002: HK\$9,269,000) on acquisition of intangible assets.

10. Trade and other receivables

The Group has a policy of allowing a credit period from 60 days to 90 days to its trade customers. An aged analysis of trade receivables is as follows:

	6.30.2003	12.31.2002
	HK\$'000	HK\$'000
0 to 90 days	340,895	279,985
91 to 180 days	20,746	26,938
181 to 365 days	—	608
	<hr/>	<hr/>
	361,641	307,531
Other receivables	136,217	114,051
	<hr/>	<hr/>
	497,858	421,582
	<hr/> <hr/>	<hr/> <hr/>

11. Trade and other payables

An aged analysis of trade payables is as follows:

	6.30.2003	12.31.2002
	HK\$'000	HK\$'000
0 to 90 days	248,841	297,548
91 to 180 days	32,208	34,167
181 to 365 days	24,614	27,263
More than 365 days	2,061	29,409
	<hr/>	<hr/>
	307,724	388,387
Other payables	163,358	113,646
	<hr/>	<hr/>
	471,082	502,033
	<hr/> <hr/>	<hr/> <hr/>

12. Bank loans

During the current period, the Group obtained new bank loans in the amount of approximately HK\$144,060,000 (December 31, 2002: HK\$515,843,000). The loans bear interest at market rates and were used to finance the general operations of the Group.

13. Share capital

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At January 1, 2002	1,500,000,000	150,000
Increase in authorised share capital (note a)	1,500,000,000	150,000
	<u>3,000,000,000</u>	<u>300,000</u>
At June 30, 2002, December 31, 2002 and June 30, 2003		
Issued and fully paid:		
– balance at January 1, 2002	1,240,447,279	124,045
– exercise of share options (note b)	42,654,000	4,265
	<u>1,283,101,279</u>	<u>128,310</u>
At June 30, 2002	1,283,101,279	128,310
– issue of shares in consideration for the acquisition of a subsidiary (note c)	219,111,382	21,911
	<u>1,502,212,661</u>	<u>150,221</u>
At December 31, 2002 and June 30, 2003	<u>1,502,212,661</u>	<u>150,221</u>

During the period, the following changes in the authorized and issued share capital of the Company took place:

- (a) Pursuant to an ordinary resolution passed at an extraordinary general meeting held on May 27, 2002, the authorised share capital of the Company was increased from HK\$150,000,000 to HK\$300,000,000 by the creation of an additional 1,500,000,000 ordinary shares of HK\$0.10 each in the Company. These shares rank pari passu with the then existing ordinary shares in all respects.
- (b) During the period ended June 30, 2002, 22,174,000 and 20,480,000 shares options were exercised at a subscription price of HK\$0.67 and HK\$0.61 per share, respectively, resulting in the issue of 42,654,000 ordinary shares of HK\$0.10 each in the Company.
- (c) In April 2002, the Company entered into an agreement with SPG and one of its subsidiaries for the acquisition by the Company of the entire issued share capital of Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd. ("Zhongnuo"). The consideration was satisfied by the issue and allotment of 219,111,382 shares of HK\$0.10 each in the Company to SPG (the "Consideration Shares"). The investment cost in Zhongnuo as stated in the financial statements amounted to approximately HK\$260.7 million as the Consideration Shares was accounted for by using the market price of HK\$1.19 per share on the completion date of the acquisition.

All the ordinary shares issued during the period ranked pari passu with the then existing ordinary shares in all respects.

14. Acquisition of a subsidiary

On February 19, 2003, the Group acquired entire issued share capital of Shijiazhuang Pharmaceutical Group Pharmaceutical Technology Development Company Limited for a consideration of approximately HK\$17,250,000 which was satisfied by the Group's internal resources.

HK\$'000

Net assets acquired:

Property, plant and equipment	12,290
Other receivables	6,001
Inventories	6,179
Bank balances and cash	1,858
Other payables	(9,078)
	<u>17,250</u>

Satisfied by:

Cash paid on acquisition	<u>17,250</u>
Bank balances and cash acquired	1,858
Cash paid on acquisition	<u>(17,250)</u>
Net outflow of cash and cash equivalents in connection with the acquisition of a subsidiary	<u>(15,392)</u>

The subsidiary acquired during the period ended June 30, 2003 did not have a material contribution to the net cash flows and results of the Group.

15. Capital commitments

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

	6.30.2003	12.31.2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>128,884</u>	<u>62,309</u>

16. Pledge of assets

At the balance sheet date, the Group had pledged all its equity interests in one of its wholly-owned subsidiary, Weisheng Pharmaceutical (Shijiazhuang) Co., Limited, to a bank to secure bank loan granted to the Company.

17. Post balance sheet event

On July 7, 2003, the Group entered into an agreement with Shijiazhuang Municipal Second Pharmaceutical Factory, an associate of SPG, for the acquisition of production facilities including, among others, machinery and equipment for the purpose of manufacture of pharmaceutical preparation products and bulk pharmaceutical products for a consideration of RMB16,292,850 (equivalent to approximately HK\$15,400,000). Details of this connected transaction was disclosed in a press announcement dated July 7, 2003.

18. Connected and related party transactions and balances

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 Rules Governing the Listing of Securities on the Stock Exchange. 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,	
		2003 HK\$'000	2002 HK\$'000
SPG Group	Sale of finished goods (note a)	4,844	78,149
	Purchase of raw materials (note a)	19,663	10,274
	Service charges payable relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	2,174	2,326
	Interest expenses on loan from SPG (note c)	-	1,696
	Processing service charges (note d)	21,515	-
	Acquisition of a subsidiary (note e)	17,250	-
	Guarantee given by SPG (note f)	150,000	150,000
		6.30.2003 HK\$'000	12.31.2002 HK\$'000
	Trade receivables due from the SPG Group	33,311	91,046

(II) Related parties, other than connected parties

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2003 HK\$'000	2002 HK\$'000
Huarong, a jointly controlled entity of the Group	Purchase of raw materials (note g)	18,973	18,647
	Provision of utility services by the Group (note h)	305	-
		6.30.2003 HK\$'000	12.31.2002 HK\$'000
	Balance due from (to) Huarong		
	- trade payables	(4,679)	(2,804)
	- non-trade receivables (note i)	11,151	6,007

Notes:

- (a) The transactions were carried out with reference to the market prices.
- (b) Pursuant to the service agreements entered into between the Group and the SPG Group, the service fees paid by the Group to the SPG Group for all composite services, other than the provision of utilities, were based on the nature and actual costs incurred by the SPG Group. For the provision of utilities, the service fees paid were based on the actual costs of the utilities incurred by the Group plus 2% as the handling charge.
- (c) SPG made a long-term loan advance to a subsidiary of the Group during the year ended December 31, 2001 and which was fully repaid during the year of 2002. The loan carried interest at bank borrowing rate as quoted by the People's Bank of China.
- (d) Pursuant to the processing service agreement entered into by the Group and the SPG Group, the Group paid processing service fee to the SPG Group based on the actual costs incurred on the services provided by the SPG Group.
- (e) On February 19, 2003, the Company entered into an agreement with SPG and one of its subsidiaries for the acquisition by the Company of the entire issued share capital of Shijiazhuang Pharmaceutical Group Pharmaceutical Technology Development Company Limited for a consideration of approximately HK\$17,250,000 which was satisfied by the Group's internal resources. The acquisition was completed in June 2003. Details of this connected transactions were disclosed in a press announcement dated February 19, 2003.
- (f) The guarantee was given by SPG to a bank to secure a bank loan granted to the Company.
- (g) The transactions were carried out with reference to the market.
- (h) The service fee paid in relation to the provision of utilities were based on the actual costs of the utilities incurred by Huarong.
- (i) The amounts are unsecured, interest-free and repayable on demand.

BUSINESS REVIEW AND PROSPECTS

Results

For the first half of the year, the Group reported a turnover of HK\$1,360,282,000 and a profit attributable to shareholders of HK\$359,361,000, representing increases of 93% and 255% from those of the same period last year respectively.

For the period under review, vitamin C series was the largest contributor to the growth in profit of the Group. With the acquisition of the production lines for finished drugs last year, the Group's product range has been expanded to include end user products. The finished drug business accounted for more than 25% of the Group's turnover for the period, marking the initial success of our strategy to transform from a bulk pharmaceutical enterprise to one that encompasses both bulk and finished drug businesses.

Penicillin Series

The output of penicillin reached 2,542 tonnes for the period, representing an increase of 41%. In view of the upsurge in the market demand for downstream products of penicillin, the Group increased the output of amoxicillin by 102% to 510 tonnes during the period to cater to market needs. The turnover of the series, after deducting those used in the manufacturing of the Group's finished drugs, increased by 12%, accounting for 23% of the Group's turnover. As a result of further cost reduction, the gross profit margin for the period increased by 6.8 percentage points from that of the same period last year.

7-ACA and Cephalosporin Series

The output of 7-ACA for the period reached 314 tonnes, representing an increase of 52%. After deducting those used in the manufacturing of the Group's finished drugs, the turnover of the series decreased by 3%, accounting for 19% of the Group's turnover.

With the rising medication standard of the people in the PRC, the domestic market of cephalosporin products is achieving rapid growth. Owing to the intensified competition brought by increased output of the Group and other competitors, the gross profit margin of the series was lowered by 1.3 percentage points when compared with that of the same period last year. However, the Group has enlarged its market share.

Vitamin C Series

The output of vitamin C for the period amounted to 7,227 tonnes, representing an increase of 11%. Leveraging a significant price rebound, the turnover of the series increased by 167%, accounting for 31% of the Group's turnover. The gross profit margin of the series increased by 47.2 percentage points from that of the same period last year, making the series the largest contributor to the rapid growth of the Group's results.

Finished Drug Series

Our finished drug business reported a turnover of HK\$366,198,000, accounting for 27% of the Group's turnover. Meanwhile, by adjusting the product mix and taking advantage of the lower costs of bulk drugs, the Group achieved a gross profit margin of 28.9% in this business segment for the period, which represented an increase of 2.2 percentage points from that of last year.

Acquisition of Assets

During the period, the Group completed the acquisition of a research and development company from the parent company with a view to enhancing the capability of the Group in developing new drugs. The Group has also been actively seeking opportunities to acquire other pharmaceutical entities with potential in the PRC in order to strengthen the Group's competitive power.

Capital Investment

During the period, the Group initiated the construction of a new vitamin C production line with a capacity of 15,000 tonnes per annum. It is expected that operation of the line will commence in the second quarter of next year. The construction of a production line for butylphthalide has also commenced.

Outlook

1. It is expected that there will be some downward adjustment of the price of vitamin C products in the second half of the year. The Group has, since the beginning of the year, started to adjust its sales strategy. In a bid to maintain a steady revenue stream, the Group has directed its focus to the development of overseas end-user markets and has made efforts to secure long-term contracts with major customers. The Group will also continue to apply new technology to lower its production cost. The Group believes that it will be able to capture a larger market share in the new round of adjustment to the vitamin C market.
2. The Group has been working on quality improvement of its products. While maintaining and enhancing product quality, the Group will actively apply for certain necessary accreditation for its products, with a view to establishing a presence in overseas markets for high-end products and enhancing the gross profit margin of its current products.

FINANCIAL REVIEW

At the interim period end date, the Group's total bank borrowings was HK\$393 million, a decrease of HK\$235 million as compared to HK\$628 million at the last year end date, and the maturity profile spread over a period of two years with HK\$343 million repayable within one year and HK\$50 million within the second year.

Gearing ratio was 1%, which was calculated on the basis of the Group's net bank borrowings (after deducting bank balances and cash of HK\$373 million) over shareholders' funds at the interim period end date.

The majority of the Group's bank borrowings, approximately 75% at the interim period end date, was in Renminbi with the remaining balance in Hong Kong dollars. As the Group derives its revenue mainly in Renminbi, its exposure to foreign exchange rate fluctuations is not significant.

EMPLOYEES

At the interim period end date, the Group has approximately 6,958 employees, the majority of them are employed in the PRC. They are remunerated at market level with benefits such as medical, retirement benefit and share option scheme.

DIRECTORS' INTERESTS IN SECURITIES

- (i) As at June 30, 2003, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company (other than the share options mentioned below) as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO").
- (ii) A summary of the movements of share options during the period (including the options held by directors) is as follows:

Name	Date of grant	Exercisable period	Exercise price	Number of share options outstanding at 1.1.2003	Lapsed during the period	Number of share options outstanding at 6.30.2003
Cai Dong Chen	3.27.2000	9.28.2000 to 9.27.2003	HK\$0.62	10,000,000	-	10,000,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	5,000,000	-	5,000,000
Ding Er Gang	3.27.2000	9.28.2000 to 9.27.2003	HK\$0.62	5,000,000	-	5,000,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000	-	3,000,000
Qu Ji Guang	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,304,000	-	1,304,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000	-	3,000,000
Wei Fu Min	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	4,304,000	-	4,304,000
Yue Jin	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,304,000	-	1,304,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000	-	3,000,000

Name	Date of grant	Exercisable period	Exercise price	Number of share options outstanding at 1.1.2003	Lapsed during the period	Number of share options outstanding at 6.30.2003
Liu Yi (<i>Note 1</i>)	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	1,306,000	-	1,306,000
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000	-	3,000,000
Wang Xian Jun (<i>Note 2</i>)	3.27.2000	9.8.2000 to 9.27.2003	HK\$0.62	5,000,000	5,000,000	-
	8.15.2001	2.16.2002 to 5.26.2004	HK\$0.61	3,000,000	3,000,000	-
Aggregate total of employees	2.19.2000	8.20.2000 to 8.19.2003	HK\$0.67	3,912,000	-	3,912,000
				<u>52,130,000</u>	<u>8,000,000</u>	<u>44,130,000</u>

Notes:

1. Mr. Liu Yi resigned as a director of the Company on June 11, 2003 and the options granted to him previously lapsed on July 11, 2003.
2. Mr. Wang Xian Jun resigned as a director of the Company on December 23, 2002 and the options granted to him previously lapsed on January 23, 2003.
3. No option was granted, exercised or cancelled during the period.

Other than as disclosed above, as at June 30, 2003, none of the directors, the chief executives or their associates had any interests or short position in the securities, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO and none of the directors or their spouses, or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDER

As at June 30, 2003, the following company had interests in the share capital of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Name of shareholder	Number of shares held	Percentage of shareholding as at 6.30.2003
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	870,166,161 (<i>Note</i>)	57.93%

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company as at June 30, 2003.

Note: In respect of the 870,166,161 shares, 828,436,399 shares are held by SPG, 25,000,000 shares are held by Mr. Ding Er Gang, an executive director of the Company, as trustee for SPG and 16,729,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

Pursuant to a term loan agreement, it will be an event of default under the loan agreement if SPG ceases to own more than 40% of the issued share capital of the Company. The outstanding principal of the term loan at June 30, 2003 was HK\$100,010,000 and the last instalment repayment is due on May 21, 2005.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Practice Note 19 to the Listing Rules.

CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not during the six months ended June 30, 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The audit committee of the Company had reviewed with the management and external auditors of the Company the unaudited interim financial report for the six months ended June 30, 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
CAI DONG CHEN
Chairman

Hong Kong, August 12, 2003