



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

**INTERIM REPORT 2004**

## INTERIM FINANCIAL REPORT

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2004

		For the six months ended June 30,	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
	NOTES		
Turnover		<b>1,145,337</b>	1,360,282
Cost of sales		<b>(796,639)</b>	(776,210)
Gross profit		<b>348,698</b>	584,072
Other operating income		<b>4,250</b>	5,397
Distribution costs		<b>(64,328)</b>	(44,684)
Administrative expenses		<b>(103,199)</b>	(101,015)
Other operating expenses		<b>(5,487)</b>	(6,249)
Profit from operations	4	<b>179,934</b>	437,521
Finance costs		<b>(10,434)</b>	(14,575)
Share of profit of a jointly controlled entity		<b>2,126</b>	3,050
Profit before taxation		<b>171,626</b>	425,996
Taxation	5	<b>(25,802)</b>	(65,356)
Profit before minority interests		<b>145,824</b>	360,640
Minority interests		<b>(289)</b>	(1,279)
Profit attributable to shareholders		<b>145,535</b>	359,361
Earnings per share	7		
Basic		<b>HK9.46 cents</b>	HK23.92 cents
Diluted		<b>N/A</b>	HK23.43 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2004

	NOTES	6.30.2004 HK\$'000 (Unaudited)	12.31.2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	<b>2,079,742</b>	1,739,164
Intangible assets	9	<b>69,925</b>	60,431
Goodwill		<b>57,356</b>	58,947
Interest in a jointly controlled entity		<b>23,036</b>	21,235
Loan receivable		<b>1,450</b>	1,450
Pledged bank deposits	14	<b>29,961</b>	48,494
Deposits paid for acquisition of property, plant and equipment		<b>147,491</b>	91,570
		<b>2,408,961</b>	2,021,291
Current assets			
Inventories		<b>393,053</b>	291,854
Trade and other receivables	10	<b>444,119</b>	438,572
Bills receivable		<b>75,373</b>	91,477
Loan receivable		<b>795</b>	795
Trade receivables due from related companies		<b>878</b>	2,529
Amount due from a jointly controlled entity		<b>12,805</b>	11,969
Pledged bank deposits	14	<b>25,773</b>	29,938
Bank balances and cash		<b>490,202</b>	473,199
		<b>1,442,998</b>	1,340,333
Current liabilities			
Trade and other payables	11	<b>561,908</b>	481,091
Bills payable		<b>432,601</b>	299,345
Amount due to ultimate holding company		<b>54,141</b>	26,111
Taxation payable		<b>27,443</b>	17,169
Bank loans – due within one year	12	<b>170,152</b>	161,299
		<b>1,246,245</b>	985,015
Net current assets			
		<b>196,753</b>	355,318
Total assets less current liabilities			
		<b>2,605,714</b>	2,376,609
Minority interests			
		<b>8,561</b>	8,272
Non-current liabilities			
Loans from ultimate holding company		<b>101,590</b>	101,590
Bank loans – due after one year	12	<b>336,000</b>	145,050
		<b>437,590</b>	246,640
		<b>2,159,563</b>	2,121,697
Capital and reserves			
Share capital		<b>153,812</b>	153,812
Reserves		<b>2,005,751</b>	1,967,885
		<b>2,159,563</b>	2,121,697

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 FOR THE SIX MONTHS ENDED JUNE 30, 2004

	Share capital HK\$'000	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, 2003	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
Exercise of share options	3,591	18,622	-	-	-	-	22,213
Share issue expenses	-	(20)	-	-	-	-	(20)
Share of non-distributable reserves of a jointly controlled entity	-	-	-	-	2,988	(2,988)	-
Transfers, net of minority interests' share	-	-	-	-	24,338	(24,338)	-
Profit attributable to shareholders	-	-	-	-	-	144,808	144,808
Dividend paid (note 6)	-	-	-	-	-	(107,666)	(107,666)
At December 31, 2003	153,812	1,116,727	(167,254)	2,692	194,110	821,610	2,121,697
Profit attributable to shareholders	-	-	-	-	-	145,535	145,535
Dividend paid (note 6)	-	-	-	-	-	(107,669)	(107,669)
At June 30, 2004	<u>153,812</u>	<u>1,116,727</u>	<u>(167,254)</u>	<u>2,692</u>	<u>194,110</u>	<u>859,476</u>	<u>2,159,563</u>
Attributed to:							
- The Company and subsidiaries	153,812	1,116,727	(160,130)	2,585	187,617	838,986	2,139,597
- Jointly controlled entity	-	-	(7,124)	107	6,493	20,490	19,966
	<u>153,812</u>	<u>1,116,727</u>	<u>(167,254)</u>	<u>2,692</u>	<u>194,110</u>	<u>859,476</u>	<u>2,159,563</u>

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, 2004*

	<b>For the six months ended June 30,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>360,099</b>	427,921
Net cash used in investing activities	<b>(463,260)</b>	(54,562)
Net cash from (used in) financing activities	<b>120,164</b>	(325,042)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>17,003</b>	48,317
Cash and cash equivalents brought forward	<b>473,199</b>	324,274
	<hr/>	<hr/>
Cash and cash equivalents carried forward		
Bank balances and cash	<b>490,202</b>	372,591
	<hr/> <hr/>	<hr/> <hr/>

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*FOR THE SIX MONTHS ENDED JUNE 30, 2004*

#### **1. BASIS OF PREPARATION**

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

#### **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, 2003.

### 3. SEGMENT INFORMATION

#### Business segments

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

For the six months ended June 30, 2004

	Bulk Drugs					Eliminations HK\$'000	Consolidated HK\$'000
	Vitamin C series HK\$'000	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000		
<b>TURNOVER</b>							
External sales	291,023	171,227	230,857	450,549	1,681	-	1,145,337
Inter-segment sales	-	100,785	31,193	-	-	(131,978)	-
<b>TOTAL</b>	<u>291,023</u>	<u>272,012</u>	<u>262,050</u>	<u>450,549</u>	<u>1,681</u>	<u>(131,978)</u>	<u>1,145,337</u>
<b>SEGMENT RESULT</b>	<u>121,310</u>	<u>9,473</u>	<u>28,222</u>	<u>34,205</u>	<u>(4,209)</u>		189,001
Unallocated corporate expenses							(9,067)
Profit from operations							179,934
Finance costs							(10,434)
Share of profit of a jointly controlled entity					2,126		2,126
Profit before taxation							171,626
Taxation							(25,802)
Profit before minority interests							145,824
Minority interests							(289)
Profit attributable to shareholders							<u>145,535</u>

Inter-segment sales are charged at prevailing market rates.

For the six months ended June 30, 2003

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

### Geographical segments

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

	For the six months ended June 30,	
	2004 HK\$'000	2003 HK\$'000
The People's Republic of China (the "PRC")	<b>848,345</b>	974,236
Asia other than the PRC	<b>136,529</b>	146,873
Europe	<b>69,379</b>	96,655
America	<b>82,195</b>	91,108
Others	<b>8,889</b>	51,410
	<u><b>1,145,337</b></u>	<u>1,360,282</u>

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

#### 4. PROFIT FROM OPERATIONS

	<b>For the six months ended June 30,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Amortisation of intangible assets included in administrative expenses	<b>6,128</b>	6,873
Amortisation of goodwill included in administrative expenses	<b>1,591</b>	1,546
Depreciation and amortisation	<b>70,536</b>	63,111
Research and development expenses	<b>1,075</b>	586
Bank interest income	<b>(943)</b>	(774)
	<b><u>          </u></b>	<b><u>          </u></b>

#### 5. TAXATION

	<b>For the six months ended June 30,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
PRC income tax	<b>25,477</b>	64,616
Share of taxation of a jointly controlled entity	<b>325</b>	740
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>25,802</u></b>	<b><u>65,356</u></b>

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption and tax relief from PRC income tax in the initial profit-making years. The taxation charge for the period represents provision for 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 deferred taxation for the period or at the balance sheet date.

## 6. DIVIDEND

During the period, a dividend of HK7.0 cents per share (January 1, 2003 to June 30, 2003: HK6.0 cents per share) was paid to shareholders as the final dividend for the year ended December 31, 2003.

The directors do not recommend the payment of an interim dividend for the period ended June 30, 2004 (January 1, 2003 to June 30, 2003: HK7.0 cents per share).

## 7. EARNINGS PER SHARE

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

	<b>For the six months ended June 30,</b>	
	<b>2004</b>	2003
Profit attributable to shareholders	<b><u>HK\$145,535,000</u></b>	<u>HK\$359,361,000</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b><u>1,538,124,661</u></b>	1,502,212,661
Effect of dilutive potential ordinary shares in respect of share options		<u>31,350,946</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share		<u>1,533,563,607</u>

No diluted earnings per share was presented for the six months ended June 30, 2004 as there was no potential ordinary shares in issue during the period.

## 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$416,429,000 on acquisition of property, plant and equipment.

## 9. ADDITIONS TO INTANGIBLE ASSETS

During the period, the Group spent HK\$15,622,000 on acquisition of intangible assets including utility rights and technical knowhow.

## 10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 days to 90 days to its trade customers. An aged analysis of trade receivables is as follows:

	<b>6.30.2004</b> <b>HK\$'000</b>	12.31.2003 HK\$'000
0 to 90 days	<b>315,652</b>	325,490
91 to 180 days	<b>22,242</b>	24,222
181 to 365 days	<b>2,138</b>	629
	<hr/>	<hr/>
Other receivables	<b>104,087</b>	88,231
	<hr/>	<hr/>
	<b>444,119</b>	438,572
	<hr/> <hr/>	<hr/> <hr/>

## 11. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	<b>6.30.2004</b> <b>HK\$'000</b>	12.31.2003 HK\$'000
0 to 90 days	<b>254,199</b>	260,909
91 to 180 days	<b>32,221</b>	27,572
181 to 365 days	<b>26,782</b>	18,075
More than 365 days	<b>28,713</b>	8,216
	<hr/>	<hr/>
Other payables	<b>341,915</b>	314,772
	<b>219,993</b>	166,319
	<hr/>	<hr/>
	<b>561,908</b>	481,091
	<hr/> <hr/>	<hr/> <hr/>

## 12. BANK LOANS

During the period, the Group obtained new bank loans amounting to HK\$298,709,000. The loans bear interest at prevailing market rates and were used to finance the general operations of the Group. In addition, the Group also repaid bank loans of HK\$98,906,000 during the period.

## 13. CAPITAL COMMITMENTS

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

	<b>6.30.2004</b> <b>HK\$'000</b>	12.31.2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>512,732</b>	233,474
	<hr/> <hr/>	<hr/> <hr/>

## 14. PLEDGE OF ASSETS

Included in pledged bank deposits were pledged deposits for acquisition of property, plant and equipment of HK\$29,961,000, which were classified in the balance sheet as non-current. The remaining balance represents deposits pledged by the Group to banks to secure short-term banking facilities granted to the Group and were classified as current assets.

At the balance sheet date, the Company 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.

## 15. CONNECTED TRANSACTIONS, 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 Listing Rules. The significant transactions with these companies during the period, and balances with them at the balance sheet date, are as follows:

### (I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2004 HK\$'000	2003 HK\$'000
Shijiazhuang Pharmaceutical Group Company Limited ("SPG", the ultimate holding company of the Company) and its subsidiaries (collectively the "SPG Group")	Sale of finished goods (note a)	1,932	4,844
	Purchase of raw materials (note a)	21,939	19,663
	Composite service fees (note b)	1,492	1,487
	Rental expenses (note c)	687	687
	Processing service charges (note d)	9,662	21,515
	Interest expenses on loans from ultimate holding company (note e)	1,523	-
	Income from provision of technology consultancy services (note f)	978	-
	Acquisition of a subsidiary (note g)	-	17,250
	Guarantee given by SPG (note h)	150,000	150,000
		<b>6.30.2004</b> <b>HK\$'000</b>	<b>12.31.2003</b> <b>HK\$'000</b>
Balance due from (to) the SPG Group			
- trade receivables	878	2,529	
- dividend payable	(54,141)	(26,111)	
- long-term loans (note e)	(101,590)	(101,590)	

## (II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2004 HK\$'000	2003 HK\$'000
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong", a jointly controlled entity of the Group)	Purchase of raw materials (note a)	14,182	18,973
	Provision of utility services by the Group (note i)	737	305
		<b>6.30.2004</b> <b>HK\$'000</b>	12.31.2003 HK\$'000
	Balance due from (to) Huarong		
	- dividend receivable	6,122	6,122
	- trade payables	(4,001)	(160)
	- non-trade receivables (note j)	10,684	6,007

### Notes:

- (a) The transactions were carried out with reference to the market prices.
- (b) Pursuant to the service agreement entered into between the Group and the SPG Group, the service fees paid by the Group for all composite services, other than the provision of utilities, were based on the actual costs incurred by the SPG Group. For utilities service, the fees paid were based on the actual costs incurred by the SPG Group plus 2% as handling charge.
- (c) Rental expenses were paid in accordance with the tenancy agreements entered into by the Group and the SPG Group.
- (d) Pursuant to the service agreement entered into by the Group and the SPG Group, the Group paid processing service fees to the SPG Group based on the actual costs incurred on the services provided by the SPG Group.
- (e) Included in loans from ultimate holding company is an amount of HK\$93,545,000 which is interest bearing at prevailing market rates, the remaining balance is interest-free.
- (f) Pursuant to the service agreements entered into by the Group and the SPG Group, the SPG Group paid technology consultancy service fees to the Group according to the progress of specific projects and agreed contract sum which is based on estimated cost plus percentage mark up.
- (g) 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 Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd. for a consideration of HK\$17,250,000. The acquisition was completed in June 2003.
- (h) The guarantee was given by SPG to a bank to secure a bank loan granted to the Company.
- (i) The utilities service fees paid by Huarong to the Group were based on the actual costs incurred by the Group.
- (j) The amounts are unsecured, interest-free and repayable on demand.

## **BUSINESS REVIEW AND OUTLOOK**

### **Results**

For the first half of 2004, the Group's turnover and net profit amounted to HK\$1,145.3 million and HK\$145.5 million, representing decreases of 16% and 60% over the same period of last year respectively.

### **Vitamin C Series**

The output of vitamin C for the period amounted to 7,429 tonnes, an increase of 3% over the same period of 2003. Following the completion of the capacity expansion of some PRC manufacturers, prices of vitamin C declined correspondingly. For the first and second quarters of the year, the average prices of vitamin C were US\$5.91 and US\$4.43 per kg respectively. The gross profit margin of the entire series decreased from 69.0% in the first half of 2003 to 52.1% in the period under review. The price pressure is expected to last in the second half of the year.

With the completion of the Group's new production line in June, our total production capacity has reached 30,000 tonnes per annum. We are now devoting all our efforts to expand market share and develop more downstream products.

### **Penicillin Series**

The output of penicillin for the period amounted to 2,620 tonnes, an increase of 3% over the same period of 2003. Owing to the intensive market competition, prices remained low. For the first half of the year, the average prices of penicillin industrial salt and amoxicillin were US\$9.26 and US\$20.85 per kg respectively. The gross profit margin of the entire series decreased from 36.9% in the first half of 2003 to 18.8% in the period under review.

Looking ahead, market consolidation is likely to continue while prices will remain low in the second half of the year. The Group's new production line in Inner Mongolia is under construction. Once the new production line is put into operation, our production cost can be substantially reduced and we will be in a stronger position to expand our market share and improve the profit margin.

### **Cephalosporin Series**

The output of 7-ACA for the period reached 360 tonnes, an increase of 15% over the same period of 2003. Having gone through the downward adjustment of prices for more than one year, the supply of 7-ACA in the market has gradually reduced and prices have started to rebound since March. The average prices of 7-ACA in the first and second quarters of the year were US\$74.67 and US\$92.13 per kg respectively. The gross profit margin of the entire series decreased from 27.4% in the first half of 2003 to 23.5% in the period under review. In order to avoid resurgence in market supply, we may lower the prices slightly in the second half of the year.

## **Finished Drugs**

Owing to the intensive market competition, various finished drug products witnessed a decrease in prices during the first half of the year, thereby bringing down the gross profit margin of this line of business from 28.9% in the first half of 2003 to 24.4% in the period under review. As the PRC Government has tightened the regulation on the use of antibiotic drugs, the worsening market condition is likely to continue in the second half of the year.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Position**

For the first half of 2004, the Group's operating activities generated a net cash inflow of HK\$360.1 million. As there were some expansion projects under construction during the period, capital expenditure reached HK\$416.4 million. At June 30, 2004, the Group's current ratio was 1.16 to 1. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) slightly increased to 59 days. As some finished drug production lines will be closed temporarily in the third quarter for carrying out upgrading works, the Group has piled up inventories to ensure uninterrupted sales during the closure period. As a result, inventory turnover period (ratio of inventories balance to cost of goods sold) increased to 90 days.

At June 30, 2004, the Group had total borrowings of HK\$607.7 million (comprising bank loans of HK\$506.1 million and loan from ultimate holding company of HK\$101.6 million). The maturity profile of the total borrowings spreads over a period of four years with HK\$170.1 million repayable within one year and HK\$437.6 million between one to four years. Net gearing ratio was 3%, which was calculated on the basis of the Group's total borrowings net of bank deposits, balances and cash of HK\$545.9 million over equity at the balance sheet date.

74% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 26% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. Our exposure to foreign exchange rate fluctuations is limited as the exchange rates between these currencies are relatively stable.

### **Capital Commitment and Pledge of Assets**

At June 30, 2004, the Group had capital commitment of HK\$512.7 million in respect of capital expenditure for the acquisition of property, plant and equipment.

At June 30, 2004, the Group had pledged all the equity interests of a wholly-owned subsidiary and bank deposits of HK\$55.7 million for securing certain banking facilities granted to the Group.

## EMPLOYEES

At the balance sheet date, the Group has about 8,284 employees, the majority of them are employed in the PRC. The Group continues to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2004, 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 Futures 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Capacity	Number of shares held	Percentage of issued share capital
Cai Dong Chen	Beneficial owner	2,000,000	0.13%
Ding Er Gang	Trustee	25,000,000 ( <i>Note</i> )	1.63%
	Beneficial owner	1,000,000	0.07%
Wei Fu Min	Beneficial owner	500,000	0.03%
Yue Jin	Beneficial owner	500,000	0.03%

*Note:* The shares are held in trust for SPG, the Company's substantial shareholder.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at June 30, 2004, as required to be 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections headed "Directors' interests in shares, underlying shares and debentures" and "Share Option Scheme", at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The old share option scheme (the "Old Share Option Scheme") was adopted by the shareholders of the Company on May 27, 1994 and has expired on May 26, 2004. During the period, no share options have been granted, cancelled or lapsed under the Old Share Option Scheme.

On July 6, 2004, the shareholders of the Company approved the adoption of a new share option scheme (the "New Share Option Scheme") which complies with the new requirements of the Listing Rules.

No share options have been granted under the New Share Option Scheme.

## SUBSTANTIAL SHAREHOLDER

As at June 30, 2004, the register of substantial shareholders maintained by the Company pursuant Section 336 of the SFO shows that the following shareholder had notified the Company of relevant interests in the share capital of the Company.

<b>Name of substantial shareholder</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital</b>
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	783,316,161 ( <i>Note</i> )	50.93%

*Note:* In respect of the 783,316,161 shares, 748,436,399 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 9,879,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at June 30, 2004 or any other interests representing 5% or more the of the issued share capital of the Company as at June 30, 2004.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended June 30, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to 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, 2004.



## **DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES**

Pursuant to two term loan agreements, it will be an event of default under the loan agreements if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of the term loans at June 30, 2004 was HK\$450,025,000 and the last instalment repayment is due in October 2007.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under rule 13.18 of the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2004.

By order of the Board  
**CAI DONG CHEN**  
*Chairman*

Hong Kong, August 26, 2004