中國製藥集團有限公司

China Pharmaceutical Group Limited

INTERIM REPORT 2005

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STOCK EXCHANGE
The Stock Exchange of Hong Kong Limited

STOCK CODE
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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Results

For the first half of 2005, the Group's turnover and profit attributable to the equity holders of the Company amounted to HK$1,442,643,000 and HK$85,571,000, representing an increase of 26% and a decrease of 41% over the same period of last year respectively.

Vitamin C Series

The output of vitamin C for the period amounted to 14,694 tonnes, an increase of 98% over the same period of 2004. However, the price of vitamin C continued to decline during the period. For the first and second quarters of the year, the average prices of vitamin C were US$3.60 and US$3.26 per kg respectively. The gross profit margin of the entire series decreased from 52.1% in the first half of 2004 to 31.3% in the current period.

In the second half of the year, the Group would produce more downstream vitamin C products in order to improve the product mix and profit margin.

Penicillin Series

The output of penicillin for the period amounted to 2,483 tonnes, a decrease of 5% over the same period of 2004. Prices remained weak in the current period. For the first half of the year, the average prices of penicillin industrial salt and amoxicillin were US$9.07 and US$23.39 per kg respectively. The gross profit margin of the entire series decreased from 18.8% in the first half of 2004 to 9.4% in the current period.

Market consolidation is likely to continue while prices will remain low in the second half of the year. However, the Group expects the production costs could be reduced in the second half of the year following the operation of the new production line in Inner Mongolia.

Cephalosporin Series

The output of 7-ACA for the period reached 571 tonnes, an increase of 59% over the same period of 2004. Market demand for the product was strong in the current period. The average prices of 7-ACA in the first and second quarters of the year were US$86.80 and US$94.95 per kg respectively. The gross profit margin of the entire series increased from 16.2% in the first half of 2004 to 24.4% in the current period.

Finished Drugs

Though market competition remained fierce, our finished drug business was able to maintain its growing momentum. Revenue increased from HK$450.5 million in the first half of 2004 to HK$533.8 million in the current period. Gross profit margin slightly increased from 24.4% to 24.7%. However, market competition is expected to remain fierce in the second half of the year.

Financial Review

At June 30, 2005, the Group's current ratio was 1.20 as compared to 0.95 at December 31, 2004. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in PRC) slightly increased to 61 days as compared to 59 days at December 31, 2004. Inventory turnover period (ratio of inventories balance to cost of goods sold) increased from 91 days at December 31, 2004 to 101 days at June 30, 2005. In order to reduce the turnover period, the Group would strengthen its inventory control in the second half of the year. For the first half of 2005, the capital expenditure of the Group was HK$388.2 million.

At June 30, 2005, the Group had total borrowings of HK$1,453.1 million (comprising bank loans of HK$1,398.3 million and loans from ultimate holding company of HK$54.8 million). The maturity profile of the total borrowings spreads over a period of four years with HK$94.2 million repayable within one year and HK$1,358.9 million between one to four years. Net gearing ratio was 45%, which was calculated on the basis of the Group's total borrowings net of bank deposits, bank balances and cash of HK$405.3 million over equity at the balance sheet date.

44% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 56% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. The Group is of the view that our exposure to foreign exchange rate risk is limited.

Employees

At the balance sheet date, the Group has about 9,842 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.

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA PHARMACEUTICAL GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 19.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 ''Interim Financial Reporting'' issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'') and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 ''Engagements to Review Interim Financial Reports'' issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended June 30, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 7, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	NOTES	For the six months ended June 30, 2005 HK$'000 (Unaudited)	2004 HK$'000 (Unaudited and restated)
Turnover		**1,442,643**	1,145,337
Cost of sales		**(1,102,790)**	(796,639)
Gross profit		**339,853**	348,698
Other operating income		**5,982**	4,250
Distribution costs		**(71,106)**	(64,328)
Administrative expenses		**(141,406)**	(103,199)
Other operating expenses		**(14,078)**	(5,487)
Profit from operations		**119,245**	179,934
Share of (loss) profit of a jointly controlled entity		**(438)**	1,801
Finance costs		**(25,575)**	(10,434)
Profit before taxation	4	**93,232**	171,301
Income tax expenses	5	**(7,665)**	(25,477)
Profit for the period		**85,567**	145,824
Attributable to:			
Equity holders of the Company		**85,571**	145,535
Minority interests		**(4)**	289
		85,567	145,824
Basic earnings per share	6	**HK5.56 cents**	HK9.46 cents
Dividend	7	**–**	107,669

CONDENSED CONSOLIDATED BALANCE SHEET
AT JUNE 30, 2005

	NOTES	**6.30.2005 HK$'000 (Unaudited)**	12.31.2004 HK$'000 (Audited and restated)
Non-current assets			
Property, plant and equipment	8	**3,156,128**	2,908,319
Prepaid lease payments	9	**116,968**	101,448
Intangible assets	10	**64,058**	69,950
Goodwill		**55,764**	55,764
Interest in a jointly controlled entity		**24,216**	24,654
Loan receivable		**655**	655
Pledged bank deposits	15	**3,761**	9,416
Deposits paid for acquisition of property, plant and equipment		**–**	47,305
		3,421,550	3,217,511
Current assets			
Prepaid lease payments	9	**3,612**	2,837
Inventories		**613,515**	452,855
Trade and other receivables	11	**566,311**	413,629
Bills receivable		**175,760**	90,331
Loan receivable		**795**	795
Trade receivables due from related companies		**17,287**	3,854
Amount due from a jointly controlled entity		**17,274**	16,806
Pledged bank deposits	15	**666**	7,282
Bank balances and cash		**400,851**	501,346
		1,796,071	1,489,735
Current liabilities			
Trade and other payables	12	**1,043,106**	861,340
Bills payable		**299,117**	388,040
Amount due to related companies		**58,028**	58,423
Trade payable due to a jointly controlled entity		**4,128**	4,414
Taxation payable		**4,081**	3,892
Bank loans – due within one year	13	**94,177**	249,813
		1,502,637	1,565,922
Net current assets (liabilities)		**293,434**	(76,187)
Total assets less current liabilities		**3,714,984**	3,141,324
Non-current liabilities			
Loans from ultimate holding company		**54,818**	54,818
Bank loans – due after one year	13	**1,304,172**	817,409
		1,358,990	872,227
		2,355,994	2,269,097
Capital and reserves			
Share capital		**153,812**	153,812
Reserves		**2,190,798**	2,105,227
Equity attributable to equity holders of the Company		**2,344,610**	2,259,039
Minority interests		**11,384**	10,058
		2,355,994	2,269,097

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005

	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*	Equity attributable to equity holders of the Company *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At January 1, 2004	153,812	1,116,727	(167,254)	2,692	194,110	821,610	2,121,697	8,272	2,129,969
Profit for the period	–	–	–	–	–	145,535	145,535	289	145,824
Dividend paid (note 7)	–	–	–	–	–	(107,669)	(107,669)	–	(107,669)
At June 30, 2004	153,812	1,116,727	(167,254)	2,692	194,110	859,476	2,159,563	8,561	2,168,124
Capital contributions by minority shareholders of a subsidiary	–	–	–	–	–	–	–	1,966	1,966
Share of non-distributable reserves of a jointly controlled entity	–	–	–	–	865	(865)	–	–	–
Transfers	–	–	–	–	81,359	(81,359)	–	–	–
Profit for the period	–	–	–	–	–	99,476	99,476	92	99,568
Dividends paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	(561)	(561)
At December 31, 2004	153,812	1,116,727	(167,254)	2,692	276,334	876,728	2,259,039	10,058	2,269,097
Capital contributions by minority shareholders of a subsidiary	–	–	–	–	–	–	–	1,330	1,330
Profit for the period	–	–	–	–	–	85,571	85,571	(4)	85,567
At June 30, 2005	153,812	1,116,727	(167,254)	2,692	276,334	962,299	2,344,610	11,384	2,355,994
Attributed to:									
– The Company and subsidiaries	153,812	1,116,727	(160,130)	2,585	268,976	941,494	2,323,464	11,384	2,334,848
– Jointly controlled entity	–	–	(7,124)	107	7,358	20,805	21,146	–	21,146
	153,812	1,116,727	(167,254)	2,692	276,334	962,299	2,344,610	11,384	2,355,994

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, 2005

	For the six months ended June 30,	
	2005	2004
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	**(81,584)**	360,099
Net cash used in investing activities:		
Proceeds from disposal of property, plant and equipment	**2,978**	2,014
Acquisition of property, plant and equipment	**(322,863)**	(413,623)
Acquisition of intangible assets	**(1,526)**	(15,622)
Acquisition of leasehold land	**(18,043)**	(2,806)
Other investing cash flows	**14,991**	(33,223)
	(324,463)	(463,260)
Net cash from financing activities:		
New bank loans raised	**896,147**	298,709
Repayments of bank borrowings	**(565,020)**	(98,906)
Other financing cash flows	**(25,575)**	(79,639)
	305,552	120,164
Net (decrease) increase in cash and cash equivalents	**(100,495)**	17,003
Cash and cash equivalents brought forward	**501,346**	473,199
Cash and cash equivalents carried forward		
Bank balances and cash	**400,851**	490,202

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2005

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 Hong Kong Accounting Standard (''HKAS'') 34 ''Interim Financial Reporting'' issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA'').

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2004, excepted as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as ''new HKFRSs'') issued by the HKICPA that are effective for accounting periods beginning on or after January 1, 2005.

The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. In particular, the presentation of minority interests and share of tax of a jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Goodwill

In the current period, the Group has applied HKFRS 3, ''Business Combinations'' and the principal effects are summarised below:

In previous periods, goodwill arising on acquisitions prior to January 1, 2001 was held in reserves, and goodwill arising on acquisitions after January 1, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from January 1, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after January 1, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for

2004 have not been restated. The Group estimates that the adoption of HKFRS 3 in the six months beginning on January 1, 2005 in relation to discontinued goodwill amortisation would result in an increase in the net profit for period of HK$1,591,000.

Business Combinations

In the current period, the Group has also applied HKAS 21 ''The Effects of Changes in Foreign Exchange Rates'' which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to January 1, 2005 is treated as a non-monetary foreign currency item of the Company. Therefore, no prior period adjustment has been made.

Financial Instruments

In the current period, the Group has applied HKAS 39 ''Financial Instruments: Recognition and Measurement'' HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis.

From January 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as ''financial assets at fair value through profit or loss'', ''available-for-sale financial assets'', ''loans and receivables'' or ''held-to-maturity financial assets''. Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss'' or ''financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)''. ''Other financial liabilities'' are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current period, the Group has applied HKAS 17 ''Leases''. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The effects of the changes in HKAS 17 are as follows:

On balance sheet items

	As at 31.12.2004 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 1.1.2005 (restated) *HK$'000*
Property, plant and equipment	3,012,604	(104,285)	2,908,319
Prepaid lease payments	–	104,285	104,285
Net effects on assets and liabilities	3,012,604	–	3,012,604

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds

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, 2005

	Bulk Drugs Vitamin C series HK$'000	Bulk Drugs Penicillin series HK$'000	Bulk Drugs Cephalosporin series HK$'000	Finished Drugs HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER							
External sales	370,174	158,960	376,431	533,768	3,310	–	1,442,643
Inter-segment sales	–	115,811	72,916	–	–	(188,727)	–
TOTAL	370,174	274,771	449,347	533,768	3,310	(188,727)	1,442,643
SEGMENT RESULT	71,902	(12,227)	33,900	44,887	(8,395)		130,067
Unallocated corporate expenses							(10,822)
Share of loss of a jointly controlled entity					(438)		(438)
Finance costs							(25,575)
Profit before taxation							93,232
Income tax expenses							(7,665)
Profit for the period							85,567

Inter-segment sales are charged at prevailing market rates.

For the six months ended June 30, 2004

	Bulk Drugs Vitamin C series HK$'000	Bulk Drugs Penicillin series HK$'000	Bulk Drugs Cephalosporin series HK$'000	Finished Drugs HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER							
External sales	291,023	171,227	230,857	450,549	1,681	–	1,145,337
Inter-segment sales	–	100,785	31,193	–	–	(131,978)	–
TOTAL	291,023	272,012	262,050	450,549	1,681	(131,978)	1,145,337
SEGMENT RESULT	121,310	9,473	28,222	34,205	(4,209)		189,001
Unallocated corporate expenses							(9,067)
Share of profit of a jointly controlled entity					1,801		1,801
Finance costs							(10,434)
Profit before taxation							171,301
Income tax expenses							(25,477)
Profit for the period							145,824

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,	
	2005	2004
	HK$'000	HK$'000
TURNOVER		
The People's Republic of China (the ''PRC'')	**1,001,769**	848,345
Asia other than the PRC	**214,842**	136,529
Europe	**128,002**	69,379
America	**84,772**	82,195
Others	**13,258**	8,889
	1,442,643	1,145,337

4. PROFIT BEFORE TAXATION

	For the six months ended June 30,	
	2005	2004
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets included in administrative expenses	**7,418**	6,128
Amortisation of goodwill included in administrative expenses	–	1,591
Amortisation of prepaid lease payments	**1,748**	1,418
Depreciation of property, plant and equipment	**106,762**	69,118
Research and development expenses	**5,039**	1,075
Bank interest income	**(1,390)**	(943)
Share of PRC Enterprise Income tax of a jointly controlled entity (included in share of (loss) profit of a jointly controlled entity)	**22**	325

5. INCOME TAX EXPENSES

The charge comprises of PRC Enterprise Income Tax for both periods.

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they had no assessable profit for the periods. Taxation arising in other jurisdictions is calculated at the prevailing rate in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax starting from their initial profit- making years. The taxation charge for the period represents provision for taxation which has taken into account of these tax incentives.

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

6. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company for the six months ended June 30, 2005 is based on the following data:

	For the six months ended June 30,	
	2005	2004
Profit for the period attributable to equity holders of the Company	**HK$85,571,000**	HK$145,535,000
Number of ordinary shares for the purposes of basic earnings per share	**1,538,124,661**	1,538,124,661

No diluted earnings per share was presented for the six months ended June 30, 2005 and 2004 as there was no potential ordinary shares in issue during the periods.

7. DIVIDEND

During the period, no dividend was paid to shareholders as the final dividend for the year ended December 31, 2004 (January 1, 2004 to June 30, 2004: HK7.0 cents per share).

The directors resolved not to declare an interim dividend for the period ended June 30, 2005 (January 1, 2004 to June 30, 2004: Nil).

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK$322,863,000 on acquisition of property, plant and equipment.

In addition, the Group disposed certain property, plant and equipment with a carrying amount of HK$15,598,000, resulting in a loss on disposal of HK$12,620,000.

9. MOVEMENTS IN PREPAID LEASE PAYMENTS

During the period, the Group spent HK$18,043,000 on acquisition of leasehold land.

10. MOVEMENTS IN INTANGIBLE ASSETS

During the period, the Group spent HK$1,526,000 on acquisition of intangible assets.

11. 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:

	6.30.2005	12.31.2004
	HK$'000	HK$'000
0 to 90 days	**332,105**	334,482
91 to 180 days	**33,597**	20,719
181 to 365 days	**1,110**	1,952
	366,812	357,153
Other receivables	**199,499**	56,476
	566,311	413,629

12. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	6.30.2005	12.31.2004
	HK$'000	HK$'000
0 to 90 days	**415,681**	313,984
91 to 180 days	**40,118**	42,197
181 to 365 days	**33,612**	18,727
More than 365 days	**18,722**	18,358
	508,133	393,266
Other payables	**534,973**	468,074
	1,043,106	861,340

13. BANK LOANS

During the period, the Group obtained new bank loans amounted to approximately HK$896,147,000. 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 borrowings of approximately HK$565,020,000 during the period.

14. CAPITAL COMMITMENTS

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

	6.30.2005	12.31.2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**140,847**	339,758

15. PLEDGED BANK DEPOSITS

Included in pledged bank deposits were deposits pledged for acquisition of property, plant and equipment of HK$3,761,000, which were classified in the balance sheet as non-current. The remaining balance of HK$666,000 represents deposits pledged by the Group to banks to secure short-term banking facilities granted to the Group and was classified as current assets.

16. CONTINGENT LIABILITIES

The Company is aware that the Company and one of its wholly-owned subsidiary are named as, among others, defendants in a number of antitrust complaints filed in the United States (the ''Antitrust Complaints''). As at June 30, 2005, two of the Antitrust Complaints have been served on the Company and the wholly-owned subsidiary. The details of the Antitrust Complaints have been previously announced and set out in the 2004 Annual Report of the Company.

The directors of the Company are of the view that the allegations in the Antitrust Complaints are without merit and the directors of the Company intend to contest the claims set out in the Antitrust Complaints vigorously. The Group has appointed legal advisors to advise them in the legal proceedings and the outcome of the Antitrust Complaints cannot be estimated with certainty at this stage.

17. 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, 2005 HK$'000	2004 HK$'000
Shijiazhuang Pharmaceutical Group Company Limited ("SPG", the ultimate holding company of the Company) and its subsidiaries excluding the Group (the "SPG Group")	Sale of finished goods (note a)	**–**	1,932
	Purchase of raw materials (note a)	**39,811**	21,939
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	**–**	1,492
	Rental expenses (note c)	**519**	687
	Processing service charges (note d)	**–**	9,662
	Interest expenses on loans from ultimate holding company (note e)	**820**	1,523
	Income from provision of technology consultancy services (note f)	**–**	978
	Guarantee given by SPG (note g)	**–**	150,000

		6.30.2005 HK$'000	12.31.2004 HK$'000
	Balance due from (to) the SPG Group	**17,287**	3,854
	– trade receivables	**(3,887)**	(4,282)
	– trade payables	**(54,141)**	(54,141)
	– dividend payable	**(54,818)**	(54,818)
	– long-term loans (note e)		

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	For the six months ended June 30, 2005 HK$'000	2004 HK$'000
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Purchase of raw materials (note a)	**18,502**	**14,182**
	Provision of utility services by the Group (note h)	**3,554**	**737**

		6.30.2005 HK$'000	12.31.2004 HK$'000
	Balance due from (to) Huarong		
	– dividend receivable	**6,122**	6,122
	– non-trade receivables (note i)	**11,152**	10,684
	– trade payables	**(4,128)**	(4,414)

		For the six months ended June 30, 2005 HK$'000	2004 HK$'000
Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), an associate of SPG (note j)	Sale of finished goods (note a)	**1,248**	–
	Purchase of raw materials (note a)	**6,319**	–
	Rental income (note f)	**150**	–
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	**131**	–
	Income from provision of technology consultancy services (note f)	**388**	–

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 natures 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 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 services agreement entered into by the Group and the SPG Group, the Group paid processing services fee 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$46,773,000 which is interest bearing at prevailing market rate, the remaining balance is interest-free.

(f) The transactions were based on terms agreed by both parties.

(g) The guarantee was given by SPG to a bank to secure a bank loan granted to the Company, the loan has been fully repaid during the period.

(h) The transactions were based on the actual costs incurred by the Group.

(i) The amounts are unsecured, interest-free and repayable on demand.

(j) Ouyi was a former subsidiary of SPG and became an associate company of SPG in July 2004. The Group's transactions with Ouyi prior to July 1, 2004 were included in the Group's transactions with the SPG Group as disclosed above as transactions with connected parties whereas the Group's transactions with Ouyi from July 1, 2004 to December 31, 2004 were disclosed as transactions with related parties.

18. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to June 30, 2005:

(a) In July 2005, one more of the Antitrust Complaints has been served on the Company.

(b) In July 2005 and September, 2005, certain members of the Group entered into agreements in relation to certain continuing connected transactions with the SPG Group. The details of the continuing connected transactions and their proposed annual caps were disclosed in the Company's announcement dated July 5, 2005 and September 5, 2005.

OTHER INFORMATION

Directors' Interests in Shares, Underlying Shares and Debentrues

As at June 30, 2005, 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 of Hong Kong Limited (the ''Stock Exchange'') pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the ''Model Code'') contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules''), are as follows:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share of the Company
Mr. Cai Dong Chen	Beneficial owner	2,000,000	0.13%

Other than as disclosed above, as at June 30, 2005, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

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

Share Option Scheme

The Company's share option scheme was adopted on July 6, 2004 and is for the purpose of providing incentives to directors and employees of each member of the Group, eligible business consultants, professionals and other advisers who have rendered services or will render service to the Group as determined by the board of directors.

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

Substantial Shareholder

As at June 30, 2005, 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 ordinary shares of the Company held	Percentage of issued share capital
Shijiazhuang Pharmaceutical Group Company Limited (''SPG'')	Beneficial owner and controlled corporation	783,316,161 *(Note)*	50.93%
Templeton Investment Counsel, LLC	Investment Manager	77,078,246	5.01%

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, 2005 or any other interests representing 5% or more of the issued share capital of the Company as at June 30, 2005.

Corporate Governance

On January 1, 2005, the Code of Best Practice has been replaced by the Code on Corporate Governance Practices (the ''Code'') contained in Appendix 14 of the Listing Rules. The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

During the period under review, the Company has met the code provisions (those which became effective for accounting period beginning on January 1, 2005) as set out in the Code and there has been no material deviation from the code provisions of the Code.

The interim results have been reviewed by the Company's external auditors in accordance with the Statement of Auditing Standards SAS 700 ''Engagements to Review Interim Financial Reports'' and by the audit committee of the Company.

Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period under review.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended June 30, 2005.

Disclosure Under Rule 13.18 of the Listing Rules

Pursuant to two bank loan agreements, it will be an event of default under each of these loan agreements if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of these bank loans at June 30, 2005 was HK$640,000,000 and the last instalment repayment is due in April 2009.

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.

By order of the Board
Cai Dong Chen
Chairman

Hong Kong, September 7, 2005