



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

INTERIM REPORT
2006

CONTENTS

	PAGE
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
INDEPENDENT REVIEW REPORT	6
CONDENSED CONSOLIDATED INCOME STATEMENT	7
CONDENSED CONSOLIDATED BALANCE SHEET	8
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	10
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	11
OTHER INFORMATION	20

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JI Jian Ming

FENG Zhen Ying

CHAK Kin Man

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Independent Non-executive:

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QI Mou Jia

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STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Results

For the first half of 2006, the Group's turnover and profit attributable to shareholders of the Company amounted to HK\$1,749,634,000 and HK\$16,642,000, representing an increase of 21% and a decrease of 81% over the same period of last year respectively.

Vitamin C Series

The total output of this series for the period amounted to 11,807 tonnes, a decrease of 20% over the same period of last year. Product prices continued to decline during the period. For the first and second quarters of the year, the average prices of vitamin C were US\$2.91 and US\$2.79 per kg respectively. The gross profit margin of the entire series decreased from 31.3% in the same period of last year to 15.9% in the current period. Under the current relatively low price level, the output of the manufacturers has decreased accordingly. It is expected that product prices would become stable.

Penicillin Series

The total output of this series for the period amounted to 4,388 tonnes, an increase of 71% over the same period of last year. Product prices were relatively stable during the current period. For the first half of the year, the average prices of penicillin industrial salt, amoxicillin and 6-APA were US\$9.15, US\$20.93 and US\$20.04 per kg respectively. Production costs were decreased due to the increasing utilization rate of the production lines in Inner Mongolia. The gross profit margin of the entire series increased from 9.4% in the same period of last year to 12.4% in the current period. It is expected that market condition will improve gradually and product prices would be able to rebound.

Cephalosporin Series

The total output of this series for the period amounted to 634 tonnes, approximately the same level of the corresponding period of last year. Being affected by the significant increase in market supply, product prices dropped sharply during the period. The average prices of 7-ACA in the first and second quarters of the year were US\$84.01 and US\$74.37 per kg respectively. With the reduction of production costs, the gross profit margin of the entire series only decreased from 20.5% in the same period of last year to 20.0% in the current period. It is expected that product prices would continue to be under pressure.

Finished Drugs

Though market competition remained fierce, the revenue of this business managed to grow by 19% as compared with the same period of last year. Gross profit margin decreased from 24.7% in the same period of last year to 22.6% in the current period. However, the significant increase in distribution costs has brought down the operating profit as compared with the same period of last year. Market competition is expected to remain fierce and the profitability of this business may further decline.

Patent Drug

The patent drug, butylphthalide, which was launched to the market last year, achieved a desirable growth in sales during the period. However, as market build-up work was still in its early stage, this business recorded a loss in the current period.

In order to speed up the development of butylphthalide in overseas markets, the Group entered into a license agreement with an overseas pharmaceutical company during the period. Pursuant to the agreement, the overseas pharmaceutical company is responsible for applying overseas accreditation for the patent drug and developing markets in America and Europe. The Group will receive milestone payments and royalties according to the progress of the overseas accreditation application and future sales.

FINANCIAL REVIEW

Liquidity and Financial Position

Certain long-term bank loans will be due for repayment starting from current year, so parts of the loans were classified as current liabilities at the balance sheet date. As a result, the Group's current ratio fell to 0.94 at June 30, 2006. The Group will seek to improve its liquidity position by arranging new banking facilities. 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) increased to 61 days as compared to 51 days in 2005. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 110 days in 2005 to 83 days in current period. For the first half of 2006, the capital expenditure of the Group was HK\$66,489,000.

At June 30, 2006, the Group had total borrowings of HK\$1,505,531,000 (comprising bank loans of HK\$1,449,904,000 and loans from ultimate holding company of HK\$55,627,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$767,024,000 repayable within one year. 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\$379,261,000 over equity at the balance sheet date.

45% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 55% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group is of the view that its exposure to foreign exchange rate risk is limited.

Pledge of Assets

At June 30, 2006, bank deposits of HK\$9,264,000 (December 31, 2005: bank deposits of HK\$2,428,000 and bills receivable of HK\$3,828,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

- (i) The Company and one of its subsidiary are named as, among others, defendants in a number of antitrust complaints filed in The United States of America. The details of the antitrust complaints have been set out in the financial statements of the Company for the year ended December 31, 2005. As at June 30, 2006, three of the antitrust complaints have been served on the Company and the subsidiary.

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.

- (ii) At the beginning of 2006, an anti-dumping investigation of Penicillin-G was initiated by the Department of Commerce, Government of India. Two subsidiaries of the Company were invited to provide information for the investigation so as to determine the existence, degree and effect of alleged dumping of the above-mentioned product. On April 28, 2006, the investigation was withdrawn by the Department of Commerce, Government of India. In the opinion of the directors, there is no contingent liability on this investigation as at June 30, 2006.

Employees

At the balance sheet date, the Group has about 12,338 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 7 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, 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
September 7, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2006

	NOTES	For the six months ended June 30,	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Revenue	3	1,749,634	1,442,643
Cost of sales		(1,427,681)	(1,102,790)
		<hr/>	<hr/>
Gross profit		321,953	339,853
Other income		17,336	5,982
Distribution costs		(111,253)	(71,106)
Administrative expenses		(156,279)	(141,406)
Other expenses		(4,757)	(14,078)
Share of results of a jointly controlled entity		783	(438)
Finance costs		(48,115)	(25,575)
		<hr/>	<hr/>
Profit before tax	4	19,668	93,232
Income tax expense	5	(3,068)	(7,665)
		<hr/>	<hr/>
Profit for the period		16,600	85,567
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		16,642	85,571
Minority interests		(42)	(4)
		<hr/>	<hr/>
		16,600	85,567
		<hr/>	<hr/>
Earnings per share – Basic	7	HK1.08 cents	HK5.56 cents
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2006

	NOTES	June 30, 2006 HK\$'000 (Unaudited)	December 31, 2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	3,084,132	3,176,949
Prepaid lease payments		137,871	154,612
Intangible assets		55,580	61,233
Goodwill		55,764	55,764
Interest in a jointly controlled entity		24,869	24,086
Pledged bank deposits	9	3,746	2,428
		<u>3,361,962</u>	<u>3,475,072</u>
Current assets			
Inventories		656,253	756,053
Trade and other receivables	10	705,415	512,987
Bills receivable	10	145,421	118,281
Prepaid lease payments		4,174	4,474
Loan receivable		670	670
Tax recoverable		176	8,096
Trade receivables due from related companies	11	62	14,393
Amount due from a jointly controlled entity	11	17,817	17,047
Pledged bank deposits	9	5,518	–
Bank balances and cash		369,997	472,706
		<u>1,905,503</u>	<u>1,904,707</u>
Current liabilities			
Trade and other payables	12	892,860	974,756
Bills payable	12	333,805	403,876
Amounts due to related companies	11	8,128	4,146
Trade payable due to a jointly controlled entity	11	–	3,107
Tax liabilities		16,607	7,328
Bank loans – due within one year	13	767,024	344,804
		<u>2,018,424</u>	<u>1,738,017</u>
Net current (liabilities) assets		<u>(112,921)</u>	<u>166,690</u>
Total assets less current liabilities		<u>3,249,041</u>	<u>3,641,762</u>
Non-current liabilities			
Loans from ultimate holding company	11	55,627	55,488
Bank loans – due after one year	13	682,880	1,090,746
		<u>738,507</u>	<u>1,146,234</u>
		<u>2,510,534</u>	<u>2,495,528</u>
Capital and reserves			
Share capital		153,812	153,812
Reserves		2,347,662	2,331,020
Equity attributable to equity holders of the Company		<u>2,501,474</u>	<u>2,484,832</u>
Minority interests		9,060	10,696
		<u>2,510,534</u>	<u>2,495,528</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2006

Equity attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital contribution HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Non- distributable reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At January 1, 2005	153,812	1,116,727	1,362	(167,254)	2,692	276,334	876,213	2,259,886	10,058	2,269,944
Profit for the period	-	-	-	-	-	-	85,571	85,571	(4)	85,567
Capital contributions by minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	1,330	1,330
At June 30, 2005	153,812	1,116,727	1,362	(167,254)	2,692	276,334	961,784	2,345,457	11,384	2,356,841
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	68,428	-	-	68,428	218	68,646
Profit for the period	-	-	-	-	-	-	70,947	70,947	(221)	70,726
Total recognised income and expense for the period	-	-	-	-	68,428	-	70,947	139,375	(3)	139,372
Transfers	-	-	-	-	-	79,190	(79,190)	-	-	-
Capital contributions by minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	1	1
Dividends paid to minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	(686)	(686)
At December 31, 2005	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Profit for the period	-	-	-	-	-	-	16,642	16,642	(42)	16,600
Transfers	-	-	-	-	-	9,353	(9,353)	-	-	-
Release upon dissolution of subsidiaries	-	-	-	-	-	-	-	-	(1,594)	(1,594)
At June 30, 2006	153,812	1,116,727	1,362	(167,254)	71,120	364,877	960,830	2,501,474	9,060	2,510,534
Attributed to:										
The Company and its subsidiaries	153,812	1,116,727	1,362	(160,130)	70,481	358,384	955,955	2,496,591	9,060	2,505,651
Jointly controlled entity	-	-	-	(7,124)	639	6,493	4,875	4,883	-	4,883
	153,812	1,116,727	1,362	(167,254)	71,120	364,877	960,830	2,501,474	9,060	2,510,534

Note: The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and a jointly controlled entity in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2006

	For the six months ended June 30,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	68,830	(81,584)
Net cash used in investing activities:		
Proceeds from disposal of property, plant and equipment	6	2,978
Acquisition of property, plant and equipment	(126,304)	(322,863)
Acquisition of leasehold land	–	(18,043)
Other investing cash flows	(11,480)	13,465
	(137,778)	(324,463)
Net cash (used in) from financing activities:		
New bank loans raised	272,727	896,147
Repayments of bank loans	(258,373)	(565,020)
Other financing cash flows	(48,115)	(25,575)
	(33,761)	305,552
Net decrease in cash and cash equivalents	(102,709)	(100,495)
Cash and cash equivalents brought forward	472,706	501,346
Cash and cash equivalents carried forward, represented by bank balances and cash	369,997	400,851

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2006

1. BASIS OF PREPARATION

The condensed consolidated 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 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments to Hong Kong Accounting Standards (“HKAS (Amendment(s))”) and Interpretations (“HK(IFRIC) – INT(s)”) (hereinafter collectively referred to as the “new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 “Share-based Payments” ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after January 1, 2007.

² Effective for annual periods beginning on or after March 1, 2006.

³ Effective for annual periods beginning on or after May 1, 2006.

⁴ Effective for annual periods beginning on or after June 1, 2006.

3. REVENUE AND SEGMENT INFORMATION

Business segments

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

For the six months ended June 30, 2006

	Bulk Drugs			Finished Drugs HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000				
REVENUE							
External sales	442,370	361,006	303,111	636,057	7,090	–	1,749,634
Inter-segment sales	104,552	57,217	319	–	–	(162,088)	–
TOTAL REVENUE	546,922	418,223	303,430	636,057	7,090	(162,088)	1,749,634
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	24,196	33,570	2,581	26,972	(12,176)		75,143
Unallocated corporate expenses							(8,143)
Share of results of a jointly controlled entity					783		783
Finance costs							(48,115)
Profit before tax							19,668
Income tax expenses							(3,068)
Profit for the period							16,600

For the six months ended June 30, 2005

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

Geographical segments

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

	For the six months ended June 30,	
	2006 HK\$'000	2005 HK\$'000
REVENUE		
The People's Republic of China (the "PRC")	1,226,593	1,001,769
Asia other than the PRC	284,474	214,842
Europe	125,573	128,002
America	103,136	84,772
Others	9,858	13,258
	<u>1,749,634</u>	<u>1,442,643</u>

4. PROFIT BEFORE TAX

	For the six months ended June 30,	
	2006 HK\$'000	2005 HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets	10,297	7,418
Amortisation of prepaid lease payments	2,087	1,748
Depreciation of property, plant and equipment	153,297	106,762
Total depreciation and amortisation	<u>165,681</u>	<u>115,928</u>
Loss on disposal of property, plant and equipment	29	12,620
Research and development expenses	3,626	5,039
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	187	22
Interest income	<u>(1,517)</u>	<u>(1,390)</u>

5. INCOME TAX EXPENSE

The charge comprises PRC Enterprise Income Tax for both periods.

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years. The income tax expense for both periods represent income tax provision which has taken into account of the tax incentive.

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

6. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the six months ended June 30, 2006 is based on the following data:

	For the six months ended June 30,	
	2006	2005
Profit for the period attributable to equity holders of the Company	<u>HK\$16,642,000</u>	<u>HK\$85,571,000</u>
Number of ordinary shares for the purposes of basic earnings per share	<u>1,538,124,661</u>	<u>1,538,124,661</u>

No diluted earnings per share has been presented for the six months ended June 30, 2006 and 2005 as there was no potential ordinary shares in issue during both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$61,845,000 (January 1, 2005 to June 30, 2005: HK\$322,863,000) on acquisition of property, plant and equipment.

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$1,364,000 (January 1, 2005 to June 30, 2005: HK\$15,598,000), resulting in a loss on disposal of HK\$29,000 (January 1, 2005 to June 30, 2005: HK\$12,620,000).

9. PLEDGED BANK DEPOSITS

Included in pledged bank deposits were deposits pledged to banks to secure banking facilities granted to the Group for acquisition of property, plant and equipment of HK\$3,746,000 (December 31, 2005: HK\$2,428,000), which were classified in the balance sheet as non-current. The remaining balance of HK\$5,518,000 (December 31, 2005: Nil) represented deposits pledged to banks to secure short-term banking facilities granted to the Group and was classified as current asset.

10. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLE

The Group allows a credit period from 30 days to 90 days to its trade customers. An aged analysis of trade receivables net of allowances is as follows:

	June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
0 to 90 days	457,059	353,927
91 to 180 days	51,074	24,436
181 to 365 days	6,968	829
	515,101	379,192
Other receivables	190,314	133,795
	705,415	512,987

At balance sheet date, the amount of the Group's bills receivable was aged within one year.

11. CONNECTED AND RELATED PARTY DISCLOSURES

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the period, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	For the six months ended June 30,	
		2006 HK\$'000	2005 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 steam	633	–
	Purchase of raw materials	132,391	39,811
	Rental expense	2,877	519
	Interest expense on loans from ultimate holding company (note a)	904	820
	Bank guarantee to the Group	57,416	–
		June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
Balance due from (to) the SPG Group			
– trade receivables (note b)		62	14,393
– trade payable (note b)		(3,893)	–
– other payables (note b)		(4,235)	(4,146)
		(8,128)	(4,146)
– long-term loans (note a)		(55,627)	(55,488)

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	For the six months ended June 30,	
	2006	2005
	HK\$'000	HK\$'000
Short-term benefits	3,803	3,781
Post-employment benefits	283	283
	<u>4,086</u>	<u>4,064</u>

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes:

- (a) Included in loans from ultimate holding company is an amount of HK\$47,847,000 which is interest bearing at prevailing market rates, the remaining balance is interest-free.
- (b) At the balance sheet date, the amount was aged within one year.
- (c) The transactions were based on the actual costs incurred.
- (d) Ouyi was a former associate company of SPG and the relationship ceased on July 31, 2005. Only the transactions with Ouyi prior to July 31, 2005 were considered as related party transactions.

12. TRADE AND OTHER PAYABLES/BILLS PAYABLE

An aged analysis of trade payables is as follows:

	June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
0 to 90 days	344,798	383,495
91 to 180 days	89,646	69,611
181 to 365 days	28,637	26,432
More than 365 days	19,201	19,395
	<hr/>	<hr/>
	482,282	498,933
Other payables	410,578	475,823
	<hr/>	<hr/>
	892,860	974,756
	<hr/> <hr/>	<hr/> <hr/>

At balance sheet date, the amount of the Group's bills payable was aged within one year.

13. BANK LOANS

During the period, the Group obtained new bank loans amounted to approximately HK\$272,727,000. The loans bear interest at prevailing market rates and were used to finance the general operations of the Group. In addition, the Group repaid bank loans of approximately HK\$258,373,000 during the period.

14. CAPITAL COMMITMENTS

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

	June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of		
– property, plant and equipment	21,260	7,867
– intangible assets	4,978	3,568
	<hr/>	<hr/>
	26,238	11,435
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	23,598	40,450
	<hr/> <hr/>	<hr/> <hr/>

15. CONTINGENT LIABILITIES

- (i) As disclosed in the financial statements of the Company for the year ended December 31, 2005, the Company and one of its subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in The United States of America (the “United States”). These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

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.

- (ii) At the beginning of 2006, an anti-dumping investigation of Penicillin-G was initiated by the Department of Commerce, Government of India. Two subsidiaries of the Company were informed to provide information for the investigation so as to determine the existence, degree and effect of alleged dumping of the above-mentioned product. On April 28, 2006, the investigation was withdrawn by the Department of Commerce, Government of India. In the opinion of directors, there is no contingent liabilities on this investigation as at June 30, 2006.

OTHER INFORMATION

Directors' Interests in Shares, Underlying Shares and Debentures

As at June 30, 2006, 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 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 issued ordinary shares held	Percentage of the issued share of the Company
Cai Dong Chen	Beneficial owner	2,000,000	0.13%
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, as at June 30, 2006, 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, its holding company, or any of its fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Scheme

The Company's share option scheme was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group, eligible business consultants, professionals and other advisers who have rendered services or will render service to the Group as determined by the board of directors.

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

Substantial Shareholders

As at June 30, 2006, 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 <i>(Note)</i>	50.93%
Templeton Investment Counsel, LLC	Investment Manager	77,078,246	5.01%

Note: In respect of the 783,316,161 shares, 773,436,399 shares are held by 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 issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at June 30, 2006.

Corporate Governance

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended June 30, 2006 with certain deviations as set out below.

Code provision A.2.1 stipulates that the roles of the chairman and managing director should be separate and should not be performed by the same individual. As disclosed in the 2005 annual report of the Company, Mr. Cai Dong Chen has assumed both roles as the chairman and managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Directors’ Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Have made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the six months ended June 30, 2006.

Purchase, Sale or Redemption of the Company’s Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities during the six months ended June 30, 2006.

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 the loan agreement if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of these bank loans at June 30, 2006 was HK\$670,000,000 and the last instalment repayment is due in April 2009.

By order of the Board
CAI DONG CHEN
Chairman

Hong Kong, September 7, 2006