2008
INTERIM REPORT

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

Contents

Corporate Information

Board of Directors

Executive Directors
Cai Dongchen *(Chairman)*
YUE Jin
FENG Zhenying
JI Jianming
CHAK Kin Man
PAN Weidong
LI Zhibiao
ZHANG Zheng

Non-executive Director
LEE Ka Sze, Carmelo

Independent Non-executive Directors
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard

Committees

Audit Committee
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Remuneration Committee
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Legal Advisers

Woo, Kwan, Lee & Lo

Auditor

Deloitte Touche Tohmatsu

Company Secretary

LEE Ka Sze, Carmelo

Authorised Representatives

CHAK Kin Man
LI Zhibiao

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Central Plaza
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Wan Chai
Hong Kong

Share Registrar and Transfer Office

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Websites

www.irasia.com/listco/hk/cpg/index.htm
www.cpg.hk

Management Discussion and Analysis

Business Review and Outlook

Results

The Group reported a remarkable interim result with a profit attributable to shareholders of 443,952,000 for the first half of 2008, compared to a profit of HK$123,394,000 for the same period last year. Earnings per share rose 259.9% to HK28.86 cents. Turnover increased by 42.7% to HK$3,295,903,000.

Vitamin C Series

Total sales volume of the major products of this series for the period was 14,586 tonnes, slightly lower than the same period last year. With a tight market supply, product prices continued to rise during the period. For the first and second quarters of the year, the average prices of vitamin C were US$6.77 and US$8.52 per kg respectively. The gross profit margin of the entire series increased from 29.2% in the same period last year to 55.8% in the current period. It is expected that there is room for the product prices to increase further and the performance of this series will remain strong.

Penicillin Series

As a result of the enhancement in production capacity of the Group and the growth in market demand, total sales volume of the major products of this series increased by 29.5% to 6,057 tonnes for the current period. Market supply was tight as the production of certain manufacturers was still affected by the environmental concern, product prices began to rebound in April. The respective average prices of penicillin industrial salt, 6-APA and amoxicillin for the first quarter of the year were US$11.59, US$26.88 and US$30.90 per kg while their respective average prices for the second quarter of the year were US$20.00, US$40.56 and US$44.30 per kg. Market competition may intensify due to the expansion of production capacity of individual manufacturer.

Among the producers in the same business, the Group is currently the only producer that has passed the inspection of the environmental protection authority in China. With the granting of the amoxicillin bulk drug COS from the EDQM of the European Union during the period, the Group has successfully expanded its overseas market coverage and gained access to the high-end market in Europe and America.

Cephalosporin Series

Total sales volume of the major products of this series decreased by 7.1% to 474 tonnes for the current period. The price of 7-ACA had been cut early this year in order to curb further increase in production capacity in the market. The average prices of 7-ACA for the first and second quarters of the year were US$90.61 and US$91.93 per kg respectively. The performance of this series is expected to improve with the steady recovery of the product prices.

Finished Drugs

As a result of the growth in demand for pharmaceutical products in the PRC and the strong business development efforts of the Group, sales revenue of the finished drug business increased significantly by 42.5% to approximately HK$960 million for the current period. Gross profit margin increased from 24.0% in the same period last year to 27.0% in the current period, with the operating profit significantly improved to approximately HK$70 million.

The Group is working on the research and development of over 150 new products. One National Class I New Medicine (patent drug) is expected to obtain approval for launch this year and 15 new products are of National Class III or above. The Group will continue to enhance the performance of this business by introducing new products and strengthening its sales efforts. Benefited from the new medical insurance system and the new rural cooperative medical system implemented in China, the room for growth in sales of the Group has expanded. The Group is also endeavoring to improve product mix and develop the finished drug business. It is believed that the profit contribution from finished drug business to the Group will continue to increase.

Among the finished drugs, the business of patent drug butylphthalide continued to grow during the current period. In addition to strengthening its domestic sales efforts, the Group will continue its expansion into the overseas market.

Financial Review

Liquidity and Financial Position

For the first half of 2008, the Group's operating activities generated a net cash inflow of HK$534,441,000. Capital expenditure in relation to the additions of property, plant and equipment amounted to HK$86,685,000. The current ratio of the Group improved from 1.0 as at the end of 2007 to 1.3 as at June 30, 2008. Debtor turnover period (ratio of the total of trade receivables and bills receivables balance to sales, inclusive of value added tax for sales in the PRC) shortened from 62 days in 2007 to 50 days in the current period. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 98 days in 2007 to 91 days in the current period.

As at June 30, 2008, the Group had total borrowings of HK$1,684,496,000 (comprising bank loans of HK$1,674,409,000 and loans from a related company of HK$10,087,000). The maturity profile spreads over a period of four years with HK$1,009,041,000 repayable within one year and the remaining HK$675,455,000 repayable between two to four years. Net gearing ratio was 25% as at June 30, 2008 (calculated on the basis of the Group's total borrowings net of bank balances and cash of HK$698,638,000 over shareholders' equity at the balance sheet date), compared to 38% as at the end of 2007.

38% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 62% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group will enter into forward contracts to minimize foreign exchange risk when considered appropriate.

Pledge of Assets

As at June 30, 2008, bank deposits of HK$8,786,000 (12.31.2007: HK$751,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the announcement of the Company dated February 22, 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. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

Further information on the antitrust complaints is set out in note 15 to the condensed consolidated financial statements.

Employees

As at June 30, 2008, the Group had about 9,284 employees, the majority of them are employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

Report on Review of Interim Financial Information

Deloitte.
德勤

To the Board of Directors of China Pharmaceutical Group Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 8 to 24, which comprises the condensed consolidated balance sheet of China Pharmaceutical Group Limited as of June 30, 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 11, 2008

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	Notes	For the six months ended June 30, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
Revenue		**3,295,903**	2,309,051
Cost of sales		**(2,214,700)**	(1,681,790)
Gross profit		**1,081,203**	627,261
Other income		**27,204**	13,485
Selling and distribution expenses		**(190,772)**	(187,563)
Administrative expenses		**(243,259)**	(228,290)
Other expenses		**(74,791)**	(32,931)
Operating profit		**599,585**	191,962
Share of results of a jointly controlled entity		**1,108**	(4,593)
Share of results of an associate		**1,362**	—
Change in fair value of a derivative financial instrument		**6,851**	—
Finance costs		**(57,737)**	(55,075)
Profit before tax	*4*	**551,169**	132,294
Income tax expense	*5*	**(105,586)**	(10,505)
Profit for the period		**445,583**	121,789
Attributable to:			
Equity holders of the Company		**443,952**	123,394
Minority interests		**1,631**	(1,605)
		445,583	121,789
Interim dividend	*6*	**—**	—
		HK cents	*HK cents*
Earnings per share — Basic	*7*	**28.86**	8.02

Condensed Consolidated Balance Sheet

AT JUNE 30, 2008

	Notes	**As at June 30, 2008 HK$'000 (Unaudited)**	As at December 31, 2007 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**3,690,017**	3,648,284
Prepaid lease payments		**183,864**	174,544
Intangible assets		**48,602**	58,876
Goodwill		**105,810**	100,718
Interest in a jointly controlled entity		**22,608**	20,146
Interest in an associate		**46,339**	—
Available-for-sale investment		**15,669**	—
Pledged bank deposits	9	**5,292**	751
Deposit paid for investment in an associate		**—**	21,277
		4,118,201	4,024,596
Current assets			
Inventories		**1,102,131**	927,867
Trade and other receivables	10	**755,172**	768,828
Bills receivables	10	**342,463**	281,586
Prepaid lease payments		**5,751**	5,384
Tax recoverable		**7,308**	—
Amount due from a jointly controlled entity	11	**16,704**	14,392
Trade receivables due from an associate	11	**30,791**	—
Pledged bank deposits	9	**3,494**	—
Bank balances and cash		**689,852**	436,092
		2,953,666	2,434,149
Current liabilities			
Trade and other payables	12	**1,144,661**	1,127,786
Bills payables	12	**103,409**	169,537
Trade payables due to a related company	11	**26,326**	25,820
Amounts due to related companies	11	**10,171**	14,978
Tax liabilities		**68,726**	47,103
Unsecured bank loans	13	**998,954**	976,043
Loans from a related company/ an intermediate holding company	11	**10,087**	9,404
Derivative financial instrument		**—**	551
		2,362,334	2,371,222
Net current assets		**591,332**	62,927
Total assets less current liabilities		**4,709,533**	4,087,523
Non-current liabilities			
Unsecured bank loans	13	**675,455**	716,383
Deferred tax liabilities		**7,151**	—
		682,606	716,383
Net assets		**4,026,927**	3,371,140
Capital and reserves			
Share capital		**153,812**	153,812
Reserves		**3,854,276**	3,198,486
Equity attributable to equity holders of the Company		**4,008,088**	3,352,298
Minority interests		**18,839**	18,842
Total equity		**4,026,927**	3,371,140

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	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 (note i)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At January 1, 2007 (Audited)	153,812	1,116,727	1,599	(167,254)	212,028	382,766	941,963	2,641,641	9,193	2,650,834
Profit for the period and total recognised income and expense for the period	–	–	–	–	–	–	123,394	123,394	(1,605)	121,789
Transfer arising on impairment of goodwill in respect of a jointly controlled entity	–	–	–	7,124	–	–	(7,124)	–	–	–
Transfers	–	–	–	–	–	22,143	(22,143)	–	–	–
At June 30, 2007 (Unaudited)	153,812	1,116,727	1,599	(160,130)	212,028	404,909	1,036,090	2,765,035	7,588	2,772,623
Exchange differences arising on translation to presentation currency recognised directly in equity	–	–	–	–	233,269	–	–	233,269	1,128	234,397
Profit for the period	–	–	–	–	–	–	353,994	353,994	996	354,990
Total recognised income and expense for the period	–	–	–	–	233,269	–	353,994	587,263	2,124	589,387
Transfers	–	–	–	–	–	148,701	(148,701)	–	–	–
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	5,000	5,000
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	4,556	4,556
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	(426)	(426)
At December 31, 2007 (Audited)	153,812	1,116,727	1,599	(160,130)	445,297	553,610	1,241,383	3,352,298	18,842	3,371,140
Exchange differences arising on translation to presentation currency recognised directly in equity	–	–	–	–	288,744	–	–	288,744	1,239	289,983
Profit for the period	–	–	–	–	–	–	443,952	443,952	1,631	445,583
Total recognised income and expense for the period	–	–	–	–	288,744	–	443,952	732,696	2,870	735,566
Acquisition of additional interest in a subsidiary *(note ii)*	–	–	–	–	–	–	–	–	(1,130)	(1,130)
Transfers	–	–	–	–	–	34,592	(34,592)	–	–	–
Final dividend for the year ended December 31, 2007	–	–	–	–	–	–	(76,906)	(76,906)	–	(76,906)
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	(1,743)	(1,743)
At June 30, 2008 (Unaudited)	153,812	1,116,727	1,599	(160,130)	734,041	588,202	1,573,837	4,008,088	18,839	4,026,927

Notes:

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

(ii) During the six months period ended June 30, 2008, the Group acquired an additional 16.49% equity interest in Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd. ("Zhongxingyuan"), a non-wholly owned subsidiary of the Company. As at June 30, 2008, Zhongxingyuan is owned by the Group as to approximately 96.91%.

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	For the six months ended June 30,	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	**534,441**	230,770
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(127,256)**	(167,979)
Investment in an associate	**(22,250)**	—
Purchase of available-for-sale investment	**(15,669)**	—
Acquisition of additional interest in a subsidiary	**(3,157)**	—
Purchase of intangible assets	**(1,930)**	(11,539)
Proceeds from disposal of property, plant and equipment	**11,445**	3,136
Other investing cash flows	**(5,725)**	857
	(164,542)	(175,525)
Net cash used in financing activities:		
Repayments of bank loans	**(485,773)**	(436,000)
Dividend paid	**(76,906)**	—
New bank loans raised	**396,818**	398,000
Loan raised from a related company	**—**	126,000
Repayment of loans from ultimate holding company	**—**	(50,000)
Repayment of loan from a related company	**—**	(20,000)
Other financing cash flows	**8,331**	(54,901)
	(157,530)	(36,901)
Net increase in cash and cash equivalents	**212,369**	18,344
Cash and cash equivalents at January 1	**436,092**	387,405
Effect of foreign exchange rate changes	**41,391**	—
Cash and cash equivalents at June 30, represented by bank balances and cash	**689,852**	405,749

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED JUNE 30, 2008

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 (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

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, 2007. In addition, the Group has adopted the following accounting policies during the current interim period:

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these condensed consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the condensed consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate.

2. Principal accounting policies *(continued)*

Financial instruments

Financial assets

Available-for-sale equity financial asset

At each balance sheet date subsequent to initial recognition, available-for-sale equity financial asset is measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on available-for-sale equity financial asset below).

Impairment of available-for-sale equity financial asset

Available-for-sale equity financial asset is assessed for indicators of impairment at each balance sheet date and is impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. A significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Impairment losses on available-for-sale equity investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

In the current interim period, the Group has applied, for the first time, a number of new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on January 1, 2008.

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[4]

[1] Effective for annual periods beginning on or after January 1, 2009
[2] Effective for annual periods beginning on or after July 1, 2009
[3] Effective for annual periods beginning on or after July 1, 2008
[4] Effective for annual periods beginning on or after October 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. Segmental information

Business segments

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

For the six months ended June 30, 2008 (Unaudited)

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	1,068,635	342,079	892,728	959,380	33,081	–	3,295,903
Inter-segment sales	292,835	89,175	777	–	914	(383,701)	–
TOTAL REVENUE	1,361,470	431,254	893,505	959,380	33,995	(383,701)	3,295,903

Inter-segment sales are charged at prevailing market rates.

	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Eliminations	Consolidated
SEGMENT RESULTS	177,144	(2,635)	365,894	69,706	1,950		612,059
Unallocated income							2,310
Unallocated expenses							(14,784)
Operating profit							599,585
Share of results of a jointly controlled entity					1,108		1,108
Share of results of an associate		1,362					1,362
Change in fair value of a derivative financial instrument							6,851
Finance costs							(57,737)
Profit before tax							551,169
Income tax expense							(105,586)
Profit for the period							445,583

3. **Segmental information** *(continued)*

Business segments *(continued)*

For the six months ended June 30, 2007 (Unaudited)

	Bulk Drugs						
	Penicillin series *HK$'000*	Cephalosporin series *HK$'000*	Vitamin C series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	822,884	338,015	470,995	673,179	3,978	–	2,309,051
Inter-segment sales	175,132	15,130	600	–	70	(190,932)	–
TOTAL REVENUE	998,016	353,145	471,595	673,179	4,048	(190,932)	2,309,051

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULTS	187,904	11,139	47,384	(45,291)	(1,946)		199,190
Unallocated income							1,195
Unallocated expenses							(8,423)
Operating profit							191,962
Share of results of a jointly controlled entity					(4,593)		(4,593)
Finance costs							(55,075)
Profit before tax							132,294
Income tax expense							(10,505)
Profit for the period							121,789

Geographical segments

The following is an analysis of the Group's revenue by geographical market based on the geographical location of customers for the period under review:

	For the six months ended June 30,	
	2008 ***HK$'000*** **(Unaudited)**	2007 *HK$'000* (Unaudited)
The People's Republic of China (the "PRC")	**2,138,000**	1,469,740
Asia other than the PRC	**614,142**	560,423
Europe	**292,684**	143,908
America	**205,114**	120,457
Others	**45,963**	14,523
	3,295,903	2,309,051

4. Profit before tax

	For the six months ended June 30, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	**15,656**	11,775
Amortisation of prepaid lease payments	**2,479**	2,280
Contribution to retirement benefits schemes, including those of directors	**28,537**	33,487
Depreciation of property, plant and equipment	**218,097**	174,693
Staff costs, including those of directors	**239,028**	201,509
Loss on disposal of property, plant and equipment	**49,724**	25,145
Net foreign exchange losses	**20,967**	3,386
Research and development expenses	**18,080**	4,031
Interest income	**(2,310)**	(1,195)

For the six months ended June 30, 2007 and 2008, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated income statement.

5. Income tax expense

	For the six months ended June 30, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax		
— Current year	**97,143**	14,619
— Underprovision in prior years	**1,292**	886
— Tax refund	**—**	(5,000)
	98,435	10,505
Deferred taxation	**7,151**	—
	105,586	10,505

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

5. **Income tax expense** *(continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC Enterprise Income Tax starting from their first profit-making years. In addition, pursuant to an approval granted by the relevant tax authority, a subsidiary of the Company was granted tax refund during the six months ended June 30, 2007 on the basis that the subsidiary has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years. The tax charge for the six months ended June 30, 2007 represented income tax provision which has taken into account of the above-mentioned tax incentive.

On March 16, 2007, the PRC promulgated the Law of the PRC (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. In accordance with the New Law and Implementation Regulations, the tax rate of certain subsidiaries has changed to 25% starting from January 1, 2008. Those subsidiaries which are under the tax exemption and relief as mentioned above will continue to be entitled to the exemption and relief from PRC Enterprise Income Tax based on the new tax rate of 25% or the concessionary tax rate in the relevant special zone in the PRC during the concessionary period.

As at June 30, 2008, the Group had unused tax losses of HK$105,487,000 (12.31.2007: HK$141,440,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2013.

Starting from January 1, 2008, the New Law requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred taxation of HK$7,151,000 has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

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

6. **Dividends**

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2008 (1.1.2007 to 6.30.2007: Nil).

On June 10, 2008, a dividend of HK5 cents per share (1.1.2007 to 6.30,2007: Nil) was paid to shareholders as final dividend for the year ended December 31, 2007.

7. **Earnings per share**

The calculation of the basic earnings per share for the six months ended June 30, 2008 is based on the unaudited profit for the period attributable to equity holders of the Company of HK$443,952,000 (1.1.2007 to 6.30.2007: HK$123,394,000) and the 1,538,124,661 shares (1.1.2007 to 6.30.2007: 1,538,124,661 shares) in issue during the period.

No diluted earnings per share has been presented for the six months ended June 30, 2007 and 2008 as there were no potential ordinary shares in issue during both periods.

8. **Movements in property, plant and equipment**

During the period, the Group spent HK$86,685,000 (1.1.2007 to 6.30.2007: HK$244,998,000) on acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of HK$67,951,000 (1.1.2007 to 6.30.2007: HK$30,543,000), resulting in a loss of HK$49,724,000 (1.1.2007 to 6.30.2007: HK$25,145,000).

9. **Pledged bank deposits**

As at June 30, 2008, the Group had bank deposits of HK$5,292,000 (12.31.2007: HK$751,000) pledged to banks for the acquisition of property, plant and equipment and the deposits were classified as non-current assets.

As at June 30, 2008, the Group also had bank deposits of HK$3,494,000 (12.31.2007: Nil) pledged to banks to secure short-term banking facilities granted to the Group and the deposits were classified as current assets.

10. **Trade and other receivables/Bills receivables**

	As at June 30, 2008 *HK$'000* **(Unaudited)**	As at December 31, 2007 *HK$'000* (Audited)
Trade receivables	**669,288**	667,913
Bills receivables	**342,463**	281,586
	1,011,751	949,499
Other receivables	**85,884**	100,915
	1,097,635	1,050,414

10. Trade and other receivables/Bills receivables *(continued)*

The Group allows a general credit period up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) and bills receivables at the balance sheet date:

	As at June 30, 2008 *HK$'000* (Unaudited)	As at December 31, 2007 *HK$'000* (Audited)
0 to 90 days	**983,941**	917,351
91 to 180 days	**27,810**	30,534
181 to 365 days	**–**	1,614
	1,011,751	949,499

11. 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) Related and connected parties

Name of company	**Nature of transactions/balances**	**For the six months ended June 30, 2008 *HK$'000* (Unaudited)**	For the six months ended June 30, 2007 *HK$'000* (Unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") and its subsidiaries, excluding the Group (the "SPG Group") *(note)*	Purchase of raw materials *(note a)*	**107,696**	176,244
	Sale of steam *(note a)*	**–**	5,607
	Rental expenses *(note b)*	**2,805**	2,570
	Interest expenses on loans from SPG	**40**	2,165
		As at June 30, 2008 *HK$'000* (Unaudited)	As at December 31, 2007 *HK$'000* (Audited)
	Balance due to the SPG Group		
	– trade payables *(note c)*	**26,326**	25,820
	– other payables *(note c)*	**10,171**	14,978
	– interest-free short-term loans	**10,087**	9,404

11. Related party disclosures *(continued)*

(i) ***Related and connected parties*** *(continued)*

Note: Prior to June 26, 2007, SPG, a company established in the PRC, was the immediate and ultimate holding company of the Company and owned approximately 50.93% of the issued share capital of the Company. On June 26, 2007, Legend Holdings Limited ("Legend"), an investment holding company established in the PRC, acquired the entire interest of SPG from State-owned Assets Supervision and Administration Committee of Shijiazhuang Municipal People's Government and became the ultimate holding company of the Company with effect on that date.

On December 7, 2007, China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a wholly-owned subsidiary of SPG and a limited company incorporated in Hong Kong, became the immediate holding company of the Company as a result of the transfer of the interest in the Company held by SPG to China Charmaine.

As disclosed in an announcement of the Company dated May 19, 2008, China Charmaine has transferred its entire 50.93% interest in the Company to Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the British Virgin Islands, on the date of announcement (the "Transfer"). Together with the 0.01% direct interest in the Company held by Massive Giant previously, Massive Giant holds in aggregate approximately 50.94% of the issued share capital of the Company, which is ultimately controlled by Legend, immediately following the Transfer. SPG and China Charmaine remained as related and connected companies of the Group on June 30, 2008 while Massive Giant became the immediate holding company of the Group on May 19, 2008.

During the period, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB150,000,000 and RMB360,000,000, respectively. The facility is a general working capital facility for one year from June 17, 2008 and is guaranteed by Legend. At June 30, 2008, the extent of such facility utilised by the Group amounted to RMB130,000,000.

With reference to the announcement of the Company dated April 25, 2007, a facility in the aggregate amount of RMB510,000,000 was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB150,000,000 and RMB360,000,000, respectively. The facility was a general working capital facility for one year from April 25, 2007. The facility has expired during the current period. At December 31, 2007, the extent of such facility utilised by the Group amounted to RMB130,000,000.

As at June 30, 2008, SPG had also given corporate guarantees to banks in the PRC to secure the loan facilities to the extent of HK$431,818,000 (12.31.2007: HK$404,255,000) granted to the Group.

11. Related party disclosures *(continued)*

(ii) Related parties

Name of company	Nature of transactions/balances	For the six months ended June 30, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Purchase of raw materials *(note a)*	**24,638**	19,222
	Sale of raw materials *(note a)*	**–**	2,298
	Provision of utility services by the Group *(note d)*	**4,967**	4,755
Siping City Fine Chemicals Products Company Limited ("Siping"), an associate of the Group	Sale of finished goods *(note a)*	**13,929**	–
		As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
Huarong	Balance due from Huarong		
	– dividend receivables	**6,122**	6,122
	– other receivables *(note c)*	**6,327**	7,758
	– trade receivables *(note c)*	**4,255**	512
		16,704	14,392
Siping	Balance due from Siping		
	– trade receivables *(note c)*	**30,791**	–

(iii) Compensation of key management personnel

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

	For the six months ended June 30, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited)
Short-term benefits	**4,834**	4,406
Post-employment benefits	**320**	234
	5,154	4,640

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

11. Related party disclosures *(continued)*

Notes:

(a) The transactions were carried out with reference to the market prices.

(b) Rental expenses were paid in accordance with the tenancy agreements.

(c) At the balance sheet date, the amounts were aged within one year.

(d) The transactions were carried out based on the actual costs of utilities incurred by the Group.

12 Trade and other payables/Bills payables

	As at June 30, 2008 *HK$'000* **(Unaudited)**	As at December 31, 2007 *HK$'000* (Audited)
Trade payables	**543,830**	479,686
Bills payables	**103,409**	169,537
	647,239	649,223
Other payables	**600,831**	648,100
	1,248,070	1,297,323

The following is an aged analysis of trade and bills payables at the balance sheet date:

	As at June 30, 2008 *HK$'000* **(Unaudited)**	As at December 31, 2007 *HK$'000* (Audited)
0 to 90 days	**554,984**	595,033
91 to 180 days	**48,962**	29,572
181 to 365 days	**32,674**	11,194
More than 365 days	**10,619**	13,424
	647,239	649,223

13. Unsecured bank loans

During the period, the Group obtained new bank loans of HK$396,818,000 (1.1.2007 to 6.30.2007: HK$398,000,000). The loans carry interest at prevailing market rates ranging from 2.38% to 7.56% (12.31.2007: 4.08% to 7.47%) per annum. The proceeds were used to finance the general operations of the Group and the acquisition of property, plant and equipment.

In addition, the Group also repaid bank loans of HK$485,773,000 (1.1.2007 to 6.30.2007: HK$436,000,000) during the period.

14. Capital commitments

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

	As at June 30, 2008 *HK$'000* **(Unaudited)**	As at December 31, 2007 *HK$'000* (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of		
— property, plant and equipment	**156,456**	107,026
— intangible assets	**12,315**	16,757
	168,771	123,783

15. Contingent liabilities

As disclosed in the announcement of the Company dated February 22, 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. These antitrust complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the 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 purported to bring these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust laws. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to the date of this report, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary. The legal adviser of the Group has successfully consolidated all such cases to be heard in the Federal Court of New York.

15. Contingent liabilities *(continued)*

On May 3, 2006, the first court meeting was held before a judge of the U.S. District Court for the Eastern District of New York and legal advisers of the defendants and plaintiffs. In February 2007, the direct purchaser plaintiff amended its claim and requested that only direct purchasers of the vitamin C who had not entered into any agreements containing arbitration clauses could be part of the class of purchasers it sought to represent. On June 5, 2007, the court heard the defendants' motions to dismiss based on the legal principles of act of state, foreign sovereign compulsion and international comity. The court has taken those motions under advisement and it is not known when a ruling will be forthcoming.

Submissions concerning whether the direct purchaser case may proceed as a class action have been made during the year 2007. According to the latest timetable fixed by the court, fact discovery is scheduled to be concluded by September 15, 2008, expert discovery is scheduled to be concluded by March 28, 2009 and a joint pre-trial order is due by May 15, 2009. The action is still in the stage of class discovery.

The directors and management of Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

16. Post balance sheet events

Subsequent to the balance sheet date, the Group further acquired 20% equity interest in its associate, Siping, for a consideration of HK$22,250,000, which then becomes a 60% owned subsidiary of the Group.

Siping, after becoming the 60% owned subsidiary of the Group, has entered into a master agreement on July 29, 2008 with Guangdong Titan Pharmaceutical Co. Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of a substantial shareholder of Siping and thus a connected person of the Company, in relation to the sales of pharmaceutical intermediate products to Guangdong Titan by Siping for a term of three years from July 29, 2008 to July 28, 2011, details of which are set out in an announcement of the Company dated July 29, 2008.

Other Information

Directors' Interest in Shares, Underlying Shares and Debentures

As at June 30, 2008, 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:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share of the Company
Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at June 30, 2008.

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 companies, 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 service 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 Shareholders

As at June 30, 2008, 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 issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant Group Limited ("Massive Giant")	Beneficial owner	783,482,393	50.94%
Legend Holdings Limited ("Legend")	Interest to an agreement	783,482,393 *(note i)*	50.94%
Employees' Shareholding Society of Legend Holdings Limited ("Employees' Society")	Interest held by a controlled corporation	783,482,393 *(note ii)*	50.94%

Notes:

(i) Legend and Massive Giant are parties to an agreement to which Section 317(1)(a) of the SFO applies. Legend is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

(ii) Employees' Society owns 35% interest in Legend. Employees' Society is deemed to be interested in the 783,482,393 shares of the Company held by Massive Giant.

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 throughout the six months ended June 30, 2008 with certain deviation 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. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the 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 of directors, the Company believes that there is adequate balance of power and authority in place.

Review of Interim Results

The interim results have been reviewed by the external auditor and audit committee of the Company.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. 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, 2008.

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, 2008.

Disclosure under Rule 13.18 of the Listing Rules

Pursuant to two bank loan agreements, the default of any of the following undertakings will constitute an event of default:

i. Hony Capital Fund III, L.P. ("Hony Capital") owns (directly or indirectly) at least 35% interest in the Company;

ii. Legend owns (directly or indirectly) at least 34.48% interest in Hony Capital; and

iii. Any replacement or addition (in terms of head counts) of executive directors of the Company will not be more than one third of the existing executive directors.

The aggregate outstanding principal of these two bank loans at June 30, 2008 was HK$400,000,000 and the last instalment repayment is due in June 2012.

Pursuant to another bank loan agreement, the default of any of the above—mentioned undertakings and the following undertakings will constitute an event of default:

i. Legend shall remain as the single largest shareholder of the Company (directly or indirectly);

ii. Hony Capital shall undertake to vest in Legend the ultimate control in relation to all decisions exercisable by Massive Giant or Hony Capital to the extent that they relate to the management of Massive Giant's equity stake in the Company including (i) the exercise of voting rights attached to such equity stake; (ii) all matters relating to Massive Giant's or Hony Capital's equity stake in the Company and any disposal or investment decisions in relation thereof; and (iii) all other matters relating to general management and affairs of the Company; and

iii. Legend shall continue to hold the single largest value of fund in Hony Capital.

The outstanding principal of the bank loan at June 30, 2008 was HK$216,000,000 and the last instalment repayment is due in April 2009.

By order of the Board
Cai Dongchen
Chairman

Hong Kong
September 11, 2008