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

Stock Code : 1093

INTERIM REPORT | 2009

Contents

Corporate Information

Board of Directors

Executive Directors

Cai Dongchen *(Chairman)*
YUE Jin
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong

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
PAN Weidong

Registered Office

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Share Registrar and Transfer Office

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

Websites

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

Management Discussion and Analysis

Business Review and Outlook

Results

The Group again reported encouraging results for the first half of 2009. Revenue and profit attributable to shareholders reached approximately HK$3,503 million and HK$533 million, representing increases of 6.3% and 20.0% respectively as compared with the same period last year.

Vitamin C Series

The performance of vitamin C business remained strong in the first half of 2009 with the average selling price of vitamin C increasing to US$10.66 per kg as compared with US$7.62 per kg of the same period last year. Revenue for the first half of the year amounted to HK$1,230 million, representing an increase of 37.8% over the same period last year. Gross profit margin also increased from 55.8% in the same period last year to 63.5% in the current period. At present, supply and demand remains stable while product prices continue to stay at high level.

Penicillin Series

The selling prices of penicillin products have declined sharply since the second half of last year due to excessive production capacity. During the current period, product prices remained at low level. For the first half of the year, this business reported a revenue of HK$801 million, representing a decrease of 25.0% over the same period last year. Gross profit margin decreased from 26.7% in the same period last year to 4.8% in the current period. Despite intense market competition, the sales volume of this product series managed to increase in the current period, maintaining the leading market position of the Group. Owing to excessive production capacity, product prices are expected to remain under pressure.

Cephalosporin Series

During the current period, market conditions remained stable. However, product prices remained at low level due to excessive production capacity. With the introduction of new product "cefuroxime acid" and reduction in production costs, the performance of this business was able to improve during the current period. Revenue for the first half of the year amounted to HK$366 million, representing an increase of 7.1% over the same period last year. Gross profit margin also increased from 9.6% in the same period last year to 11.5% in the current period. Product prices are expected to remain under pressure but the Group will continue to develop new products in order to enhance the performance of this business.

Finished Drugs

During the current period, the finished drugs business maintained its growth momentum with revenue increasing by 11.5% to HK$1,070 million as compared with the same period last year. Gross profit margin also increased from 27.0% in the same period last year to 28.7% in the current period. The revenue generated from major products, namely amoxicillin capsules, penicillin G sodium injections, ceftriaxone sodium injections, cefazolin sodium injections and vitamin C supplement tablets "Guo Wei Kang" amounted to HK$527 million, representing a 10.8% increase over the same period last year. Moreover, the Group launched seven new products during the current period, adding new growth drivers to this business.

The PRC government's vast investment in improving the medical and healthcare services and expanding the medical insurance coverage provides the pharmaceutical market with good prospects. The PRC government has recently issued the "State Essential Drugs List", and 65 existing products of the Group are included on the list. The Group believes that these products will have a greater market potential. On the other hand, the Group will continue to expand its sales network and step up its effort to develop new products, especially specialty drugs and high-end antibiotics, with the aim of developing finished drugs as one of the Group's major profit contributors.

Acquisitions

In order to enhance its product portfolio and market competitiveness, the Group entered into the following acquisitions during the year:

1. In April, the Group acquired 70% equity interest in an enterprise in Shanxi for a consideration of RMB70 million. The enterprise is mainly engaged in the manufacture of traditional Chinese medicines and intravenous infusion solution products;

2. In May, the Group acquired 100% equity interest in an enterprise in Shijiazhuang by way of asset swap. The enterprise is mainly engaged in the manufacture of chemical products used for the production of antibiotics; and

3. In August, the Group acquired 90% equity interest in an enterprise in Tianjin for a consideration of RMB148.5 million. The enterprise is mainly engaged in the manufacture of chemical intermediate — GCLE (the raw material used for the production of bulk cephalosporins).

FINANCIAL REVIEW

Liquidity and Financial Position

For the first half of 2009, the Group's operating activities generated a net cash inflow of HK$777,240,000. Capital expenditure in relation to the additions of production facilities amounted to HK$233,982,000. As at 30 June 2009, the current ratio of the Group was 1.5, same as at the end of 2008. Debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 49 days in 2008 to 63 days in the current period. Inventory turnover period (ratio of inventories balance to cost of goods sold) shortened from 106 days in 2008 to 86 days in the current period.

As at 30 June 2009, the Group had bank balances and cash of HK$1,630,403,000 and total borrowings of HK$1,712,555,000 (comprising bank loans of HK$1,704,173,000 and loans from a related company of HK$8,382,000). The maturity profile of the borrowings spreads over a period of three years with HK$930,591,000 repayable within one year and the remaining HK$781,964,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over shareholders' equity) decreased from 8% as at the end of 2008 to 2% as at 30 June 2009.

42% of the Group's borrowings are denominated in Hong Kong dollars or US dollars and the remaining 58% in Renminbi. The Group's revenue is mainly either in Renminbi or in US dollars. The Group believes that its exposure to foreign currency risks is not significant but will monitor closely the currency movement.

Pledge of Assets

As at 30 June 2009, the Group had pledged bank deposits of HK$891,000 (31.12.2008: HK$2,048,000) to banks for the acquisition of property, plant and equipment and the deposits were classified as non-current assets.

As at 30 June 2009, the Group had also pledged bank deposits of HK$37,034,000 (31.12.2008: Nil) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

Contingent Liabilities

As disclosed in the announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries were 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 the note 16 to the condensed consolidated financial statements.

Employees

As at 30 June 2009, the Group had about 10,147 employees, the majority of them were 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 30, which comprises the condensed consolidated statement of financial position of China Pharmaceutical Group Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing 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 of the Company 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 this 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 inquiries, 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
8 September 2009

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Notes	For the six months ended 30 June **2009** ***HK$'000*** **(Unaudited)**	 2008 *HK$'000* (Unaudited)
Revenue	*3*	**3,502,908**	3,295,903
Cost of sales		**(2,330,866)**	(2,214,700)
Gross profit		**1,172,042**	1,081,203
Other income		**16,553**	27,204
Selling and distribution expenses		**(299,903)**	(190,772)
Administrative expenses		**(216,246)**	(243,259)
Other expenses		**(27,855)**	(74,791)
Operating profit		**644,591**	599,585
Share of results of a jointly controlled entity		**322**	1,108
Share of results of an associate		**—**	1,362
Gain on termination of a derivative financial instrument		**—**	6,851
Finance costs		**(35,596)**	(57,737)
Profit before tax	*4*	**609,317**	551,169
Income tax expense	*5*	**(72,049)**	(105,586)
Profit for the period		**537,268**	445,583
Profit for the period attributable to:			
Owners of the Company		**532,710**	443,952
Minority interests		**4,558**	1,631
		537,268	445,583
		HK cents	*HK cents*
Earnings per share — Basic	*7*	**34.71**	28.86

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	For the six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**537,268**	445,583
Other comprehensive income:		
Exchange differences arising on translation to presentation currency	**–**	289,983
Gain on fair value change of available-for-sale investment	**7,582**	–
Other comprehensive income for the period	**7,582**	289,983
Total comprehensive income for the period	**544,850**	735,566
Total comprehensive income for the period attributable to:		
Owners of the Company	**540,292**	732,696
Minority interests	**4,558**	2,870
	544,850	735,566

Condensed Consolidated Statement of Financial Position

AT 30 JUNE 2009

	Notes	**As at 30 June 2009 HK$'000 (Unaudited)**	As at 31 December 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	**3,633,929**	3,781,309
Prepaid lease payments		**184,387**	198,524
Intangible assets		**71,192**	89,333
Goodwill		**110,914**	106,753
Interest in a jointly controlled entity		**23,263**	22,941
Available-for-sale investment		**12,889**	5,307
Pledged bank deposits	9	**584**	2,048
Deposit paid for acquisition of a business		**79,545**	—
		4,116,703	4,206,215
Current assets			
Inventories		**1,101,961**	1,324,711
Trade and other receivables	10	**1,100,604**	908,094
Bills receivables	10	**444,917**	297,382
Prepaid lease payments		**5,262**	6,149
Tax recoverable		**7,080**	3,246
Trade receivables due from a connected company	11	**36,792**	23,063
Amount due from a jointly controlled entity	11	**12,201**	13,484
Pledged bank deposits	9	**37,034**	—
Bank balances and cash		**1,578,490**	1,121,062
		4,324,341	3,697,191
Assets classified as held for sale	12	**215,680**	—
		4,540,021	3,697,191

Condensed Consolidated Statement of Financial Position *(continued)*

AT 30 JUNE 2009

	Notes	**As at 30 June 2009 *HK$'000* (Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
Current liabilities			
Trade and other payables	*13*	**1,369,259**	1,403,365
Bills payables	*13*	**451,136**	253,409
Trade payables due to a related company	*11*	**3,967**	17,711
Amount due to immediate holding company	*11*	**156,696**	—
Amounts due to related companies	*11*	**17,315**	14,375
Tax liabilities		**87,461**	120,216
Unsecured bank loans	*14*	**922,209**	568,636
Loans from a related company	*11*	**—**	8,382
		3,008,043	2,386,094
Liabilities associated with assets classified as held for sale	*12*	**27,851**	—
		3,035,894	2,386,094
Net current assets		**1,504,127**	1,311,097
Total assets less current liabilities		**5,620,830**	5,517,312
Non-current liabilities			
Unsecured bank loans	*14*	**781,964**	804,991
Loan from a related company	*11*	**—**	113,636
Deferred tax liabilities		**23,880**	15,490
		805,844	934,117
Net assets		**4,814,986**	4,583,195
Capital and reserves			
Share capital		**153,496**	153,496
Reserves		**4,577,182**	4,343,882
Equity attributable to owners of the Company		**4,730,678**	4,497,378
Minority interests		**84,308**	85,817
Total equity		**4,814,986**	4,583,195

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Equity attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Capital contribution *HK$'000*	Goodwill reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000* *(note i)*	Non-distributable reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2008 (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
Profit for the period	–	–	–	–	–	–	–	–	443,952	443,952	1,631	445,583
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	288,744	–	–	288,744	1,239	289,983
Total comprehensive income 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 recognised for the year ended 31 December 2007	–	–	–	–	–	–	–	–	(76,906)	(76,906)	–	(76,906)
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,743)	(1,743)
At 30 June 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
Profit for the period	–	–	–	–	–	–	–	–	496,608	496,608	4,839	501,447
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	(896)	–	–	(896)	–	(896)
Total comprehensive income for the period	–	–	–	–	–	–	(896)	–	496,608	495,712	4,839	500,551
Acquisition of additional interest in a subsidiary *(note ii)*	–	–	–	–	–	–	–	–	–	–	(314)	(314)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–
Shares repurchased	(316)	–	316	–	–	–	–	–	(6,422)	(6,422)	–	(6,422)
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	17,375	17,375
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	45,310	45,310
Dividend paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(232)	(232)
At 31 December 2008 (Audited)	153,496	1,116,727	316	1,599	(160,130)	–	733,145	588,202	2,064,023	4,497,378	85,817	4,583,195
Profit for the period	–	–	–	–	–	–	–	–	532,710	532,710	4,558	537,268
Gain on fair value change of available-for-sale investment	–	–	–	–	–	7,582	–	–	–	7,582	–	7,582
Total comprehensive income for the period	–	–	–	–	–	7,582	–	–	532,710	540,292	4,558	544,850
Acquisition of additional interest in a subsidiary *(note iii)*	–	–	–	–	–	–	–	–	–	–	(6,067)	(6,067)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–
Final dividend recognised for the year ended 31 December 2008	–	–	–	–	–	–	–	–	(306,992)	(306,992)	–	(306,992)
At 30 June 2009 (Unaudited)	153,496	1,116,727	316	1,599	(160,130)	7,582	733,145	588,202	2,289,741	4,730,678	84,308	4,814,986

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 year ended 31 December 2008, the Group additionally acquired an aggregate of 19.58% equity interest by two acquisitions in a non wholly-owned subsidiary, Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd., which then became the Group's wholly-owned subsidiary.

(iii) During the current period, the Group acquired the remaining 49% equity interest in a non wholly-owned subsidiary, Shijiazhuang Pharma Group (Inner Mongolia) Zhongxing Huanbao Co., Ltd., which then became a wholly-owned subsidiary of the Group.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	For the six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	**777,240**	534,441
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(216,232)**	(127,256)
Deposit paid for acquisition of a business	**(79,545)**	—
Acquisition of additional interest in a subsidiary	**(10,227)**	(3,157)
Purchase of intangible assets	**(1,386)**	(1,930)
Proceeds on disposal of property, plant and equipment	**2,066**	11,445
Investment in an associate	**—**	(22,250)
Purchase of available-for-sale investment	**—**	(15,669)
Other investing cash flows	**(31,518)**	(5,725)
	(336,842)	(164,542)
Net cash from (used in) financing activities:		
Repayment of bank loans	**(533,463)**	(485,773)
Dividend paid	**(150,296)**	(76,906)
Repayment of loan from a related company	**(113,636)**	—
New bank loans raised	**864,009**	396,818
Other financing cash flows	**(35,596)**	8,331
	31,018	(157,530)
Net increase in cash and cash equivalents	**471,416**	212,369
Cash and cash equivalents at 1 January	**1,121,062**	436,092
Effect of foreign exchange rate changes	**—**	41,391
Cash and cash equivalents at 30 June	**1,592,478**	689,852
Represented by bank balances and cash classified as:		
Current assets	**1,578,490**	689,852
Assets classified as held for sale	**13,988**	—
	1,592,478	689,852

Notes to the Condensed Consolidated Financial Statements
FOR THE SIX MONTHS ENDED 30 JUNE 2009

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 (the "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 31 December 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007) "Presentation of Financial Statements" has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, an introduction of condensed consolidated statement of comprehensive income, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 "Operating Segments" is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the reportable segments determined in accordance with HKAS 14 (see note 3).

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

2. Principal accounting policies *(continued)*

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segmental information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard, HKAS 14 required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss. The Group's reportable segments include the manufacture and sale of (i) intermediates and bulk drugs (including vitamin C series, penicillin series and cephalosporin series), (ii) finished drugs, and (iii) other pharmaceutical related business.

3. Segmental information *(continued)*

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

For the six months ended 30 June 2009 (Unaudited)

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Penicillin series *HK$'000*	Cephalosporin series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	1,230,307	801,180	366,338	1,070,149	34,934	–	3,502,908
Inter-segment sales	2,839	200,217	149,500	–	273	(352,829)	–
TOTAL REVENUE	1,233,146	1,001,397	515,838	1,070,149	35,207	(352,829)	3,502,908

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	668,035	(27,708)	8,780	62,485	1,455		713,047
Unallocated income							4,359
Unallocated central costs							(72,815)
Operating profit							644,591
Share of results of a jointly controlled entity							322
Finance costs							(35,596)
Profit before tax							609,317
Income tax expense							(72,049)
Profit for the period							537,268

3. Segmental information *(continued)*

For the six months ended 30 June 2008 (Unaudited)

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

Inter-segment sales are charged at prevailing market rates.

	Vitamin C series *HK$'000*	Penicillin series *HK$'000*	Cephalosporin series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT PROFIT (LOSS)	365,894	177,144	(2,635)	69,706	1,950		612,059
Unallocated income							2,310
Unallocated central costs							(14,784)
Operating profit							599,585
Share of results of a jointly controlled entity							1,108
Share of results of an associate							1,362
Gain on termination 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

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, central advertising costs, share of results of a jointly controlled entity and an associate, derivative transactions and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

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

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 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The People's Republic of China (the "PRC")	**2,162,267**	2,138,000
Asia other than the PRC	**601,618**	614,142
Europe	**286,873**	292,684
Americas	**403,953**	205,114
Others	**48,197**	45,963
	3,502,908	3,295,903

The following is an analysis of the Group's assets by operating segment:

	As at 30 June 2009	As at 31 December 2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Intermediates and Bulk Drugs:		
Vitamin C series	**1,482,693**	1,386,648
Penicillin series	**2,598,996**	2,733,880
Cephalosporin series	**1,291,826**	1,252,745
Finished Drugs	**1,329,183**	1,186,362
Others	**320,772**	187,728
Total segment assets	**7,023,470**	6,747,363

4. Profit before tax

	For the six months ended 30 June 2009 HK$'000 (Unaudited)	2008 HK$'000 (Unaudited)
Profit before tax has been arrived at after charging (crediting) the following items:		
Amortisation of intangible assets (included in cost of sales)	**9,726**	15,656
Amortisation of prepaid lease payments	**2,924**	2,479
Depreciation of property, plant and equipment	**231,391**	218,097
Contribution to retirement benefits scheme, including those of directors	**34,873**	28,537
Staff costs, including those of directors	**257,991**	239,028
Loss on disposal of property, plant and equipment (included in other expenses)	**3,589**	49,724
Net foreign exchange losses	**4,001**	20,967
Research and development expenses (included in other expenses)	**23,847**	18,080
Interest income	**(4,359)**	(2,310)

For the six months ended 30 June 2008 and 2009, 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 30 June 2009 HK$'000 (Unaudited)	2008 HK$'000 (Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax		
— Current year	**107,493**	97,143
— (Over) underprovision in prior years	**(4,136)**	1,292
— Tax credits	**(39,698)**	—
	63,659	98,435
Deferred taxation	**8,390**	7,151
	72,049	105,586

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 from PRC Enterprise Income Tax starting from their first profit-making years, followed by a 50% reduction in tax rate for the next three years. In addition, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits during the period, which were mainly derived from the following activities:

a. Tax credit of HK$896,000 was granted on the basis that a subsidiary of the Company established in the PRC has, instead of making distributions to its foreign shareholder, re-invested certain distributable reserves as capital contribution to a PRC subsidiary of the Company.

b. Tax credits of HK$38,802,000 resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company established in the PRC. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits were used to offset against current period's tax charges of the relevant subsidiaries.

The tax charge for both periods represents income tax provision which has taken into account of the above-mentioned tax incentives. The basic tax rate of the Group's PRC subsidiaries is 25%, except those which are enjoying the concessionary tax rate of 15% in the relevant special zone in the PRC during the concessionary period ending in 2010.

Pursuant to the approvals by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises in Hebei Province, the PRC for a period of 3 years from 2008 to 2010. The applicable tax rate for these enterprises is 15% during those years.

As at 30 June 2009, the Group had unused tax losses of HK$198,699,000 (31.12.2008: HK$107,890,000) 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 2014.

In respect of the withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders, a deferred taxation of HK$8,390,000 (2008: 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 end of the reporting period.

6. Dividends

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

During the period, a dividend of HK20 cents per share was paid to shareholders as final dividend for the year ended 31 December 2008 (2008: HK5 cents for the year ended 31 December 2007).

7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2009 is based on the unaudited profit for the period attributable to owners of the Company of HK$532,710,000 (2008: HK$443,952,000) and 1,534,960,661 (2008: 1,538,124,661) shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2008 and 2009 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$233,982,000 (2008: HK$86,685,000) 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$8,267,000 (2008: HK$67,951,000), resulting in a loss of HK$3,589,000 (2008: HK$49,724,000).

9. Pledged bank deposits

As at 30 June 2009, the Group had pledged bank deposits of HK$891,000 (31.12.2008: HK$2,048,000) to banks for the acquisition of property, plant and equipment and the deposits were classified as non-current assets.

As at 30 June 2009, the Group had also pledged bank deposits of HK$37,034,000 (31.12.2008: Nil) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

10. Trade and other receivables/Bills receivables

	As at 30 June 2009 *HK$'000* **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
Trade receivables	**901,500**	710,355
Bills receivables	**444,917**	297,382
	1,346,417	1,007,737
Other receivables	**228,038**	197,739
	1,574,455	1,205,476

The Group allows a general credit period up to 90 days to its trade customers. Trade and other receivables of HK$28,934,000 (31.12.2008: Nil) have been classified as part of a disposal group held for sale (see note 12).

The following is an analysis of trade and bills receivables by age, presented based on invoice date. The analysis below includes those classified as part of a disposal group held for sale, net of allowance of doubtful debts.

	As at 30 June 2009 *HK$'000* **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
0 to 90 days	**1,259,611**	963,307
91 to 180 days	**81,658**	41,837
181 to 365 days	**5,148**	2,593
	1,346,417	1,007,737

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 end of the reporting period, are as follows:

(i) Related and connected parties

Name of company	Nature of transactions/ balances	For the six months ended 30 June 2009 HK$'000 (Unaudited)	2008 HK$'000 (Unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") and its subsidiaries, (the "SPG Group"), a fellow subsidiary of the Company under common control by Legend Holdings Limited, the controlling shareholder of the Company	Purchase of raw materials *(note a)*	**89,237**	107,696
	Sale of raw materials *(note b)*	**55**	–
	Rental expenses *(note c)*	**3,808**	2,805
	Interest expenses on loans from SPG *(note d)*	**1,662**	40
		As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (Audited)
	Balance due to the SPG Group		
	– trade payables *(note e)*	**(3,967)**	(17,711)
	– other payables *(note e)*	**(17,315)**	(14,375)
	– short-term loans *(note d)*	**(8,382)**	(8,382)
	– long-term loan *(note d)*	**–**	(113,636)
Massive Giant Group Limited ("Massive Giant"), the immediate holding company of the Company	Balance due to Massive Giant – dividend payable	**(156,696)**	–

11. Related party disclosures *(continued)*

(i) Related and connected parties (continued)

As at 30 June 2009, a facility in the aggregate amount of RMB510,000,000 (31.12.2008: RMB510,000,000) was made available by a bank in the PRC to SPG and certain subsidiaries of the Company for RMB250,000,000 and RMB260,000,000, respectively. The facility is a general working capital facility available up to December 2009. As a condition under the facility, Massive Giant, the immediate holding company, has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 30 June 2009, the extent of such facility utilised by the Group amounted to RMB50,000,000 (31.12.2008: RMB50,000,000).

As at 30 June 2009, SPG had also given corporate guarantees to banks in the PRC to secure the loan facilities to the extent of RMB490,000,000 (31.12.2008: RMB362,400,000) granted to the Group. At 30 June 2009, the extent of utilisation by the Group amounted to RMB440,000,000 (31.12.2008: RMB362,400,000).

(ii) Other related parties

Name of company	Nature of transactions/ balances	For the six months ended 30 June 2009 HK$'000 (Unaudited)	2008 HK$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Purchase of raw materials *(note b)*	**37,839**	24,638
	Provision of utility services by the Group *(note f)*	**5,162**	4,967
Siping City Fine Chemicals Product Company Limited ("Siping"), a former associate of the Group	Sale of finished goods *(note b)*	**–**	13,929

		As at 30 June 2009 HK$'000 (Unaudited)	As at 31 December 2008 HK$'000 (Audited)
Huarong	Balance due from Huarong		
	– dividend receivables	**6,122**	6,122
	– other receivables *(note e)*	**6,079**	6,815
	– trade receivables *(note e)*	**–**	547
		12,201	13,484

11. Related party disclosures *(continued)*

(iii) Connected party

Name of company	Nature of transactions/ balances	For the six months ended 30 June **2009** ***HK$'000*** **(Unaudited)**	2008 *HK$'000* (Unaudited)
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the minority shareholder of Siping	Sale of finished goods *(note g)*	**42,844**	–
		As at 30 June 2009 ***HK$'000*** **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
Guangdong Titan	Balance due from Guangdong Titan – trade receivables *(note e)*	**36,792**	23,063

(iv) Compensation of key management personnel

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

	For the six months ended 30 June **2009** ***HK$'000*** **(Unaudited)**	2008 *HK$'000* (Unaudited)
Short-term benefits	**4,175**	4,834
Post-employment benefits	**312**	320
	4,487	5,154

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) During the period, the Group purchased chemical products from Hebei Hong Yuan Chemical Co., Ltd. ("Hong Yuan"), a subsidiary of the SPG Group, as raw materials for production pursuant to an agreement dated 29 November 2007 for a term of three years from 1 January 2008 to 31 December 2010. By entering into the above connected transactions, the Group would be benefited from having a reliable source of supply of raw materials from Hong Yuan.

In the opinion of the directors, the purchase price of such products have been reached after arm's length negotiation between the Group and Hong Yuan by reference to market price either on normal commercial terms, or if there is no available comparison, on terms no less favorable than those which may be obtained by the Group from independent third parties.

(b) The directors consider that the transactions were carried out with reference to the market prices and in the normal course of business of the Group.

(c) On 5 July 2005, Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), a wholly-owned subsidiary of the Group, entered into a lease agreement with SPG whereby Zhongnuo leased two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 July 2005 with the monthly rental of RMB408,595. Upon the expiry of the lease agreement on 4 July 2008, Zhongnuo has continued to rent the premises from SPG for an eight months period to 4 March 2009 by entering into a supplementary agreement with SPG, with the monthly rental remained unchanged.

On 5 March 2009, Zhongnuo and SPG renewed the agreement for another term of three years commencing on 5 March 2009, with the revised monthly rental of RMB427,108. Details of these are set out in the announcement of the Company dated 5 March 2009.

On 20 July 2002, Zhongnuo entered into an agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised on 1 August 2008 for a term of three years with the monthly rental revising from RMB92,500 to RMB138,033.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

11. Related party disclosures *(continued)*

Notes: (continued)

(d) Short-term loans represent interest-free loans obtained from SPG which are repayable on demand.

Long-term loan as at 31 December 2008 represented a loan from SPG which bore interest at the rate of 7.5% per annum. The loan was fully repaid during the current period.

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

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

(g) Following the additional acquisition of 20% equity interest in its associate, Siping on 29 July 2008, Siping became a 60% owned subsidiary of the Group. At the same date, Siping and Guangdong Titan entered into an agreement in relation to the sales of pharmaceutical intermediate products, which constitute connected transactions, for a term commencing from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group would be able to maintain business relationship with its existing customer, Guangdong Titan, for sales of its products.

The directors consider that the transactions have been transacted on normal commercial terms, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

12. Disposal group classified as held for sale

On 22 May 2009, the Company entered into an asset swap agreement (the "Asset Swap Agreement") with China Charmaine Pharmaceutical Company Limited ("China Charmaine"), a company wholly-owned by SPG. Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in its subsidiary, Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd. ("NBP"), to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hong Yuan to the Company at a consideration of HK$125,000,000. NBP is principally engaged in the manufacture and sale of pharmaceutical products, mainly butylphthalide soft capsule, a medicine for treating ischemic stroke. Hong Yuan is principally engaged in the manufacture and sale of chemical products which are raw materials for the Group's production. Further details are set out in the announcement of the Company dated 22 May 2009.

The group of assets and liabilities of NBP constituted a disposal group which is classified as held for sale and are separately presented in the condensed consolidated statement of financial position as at 30 June 2009. NBP ceased to be a subsidiary of the Group upon the completion of the asset swap in July 2009.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on NBP.

12. Disposal group classified as held for sale *(continued)*

Major classes of assets and liabilities of NBP as at 30 June 2009 are as follows:

	As at 30 June 2009 ***HK$'000*** **(Unaudited)**
Property, plant and equipment	**141,704**
Prepaid lease payments (non-current)	**11,736**
Intangible Assets	**9,801**
Pledged bank deposits (non-current)	**307**
Inventories	**8,846**
Trade and other receivables	**28,934**
Prepaid lease payments (current)	**364**
Bank balances and cash	**13,988**
Assets classified as held for sale	**215,680**
Trade and other payables	**18,456**
Amounts due to related companies	**1,013**
Loans from a related company	**8,382**
Liabilities associated with assets classified as held for sale	**27,851**
Amounts due to fellow subsidiaries eliminated on consolidation	**74,952**

13. Trade and other payables/Bills payables

	As at 30 June 2009 ***HK$'000*** **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
Trade payables	**628,412**	638,593
Bills payables	**451,136**	253,409
	1,079,548	892,002
Other payables	**759,303**	764,772
	1,838,851	1,656,774

13. Trade and other payables/Bills payables *(continued)*

The following is an analysis of trade and bills payables by age, presented based on the invoice date. The analysis below includes those classified as part of a disposal group held for sale (see note 12).

	As at 30 June 2009 ***HK$'000*** **(Unaudited)**	As at 31 December 2008 *HK$'000* (Audited)
0 to 90 days	**943,973**	745,560
91 to 180 days	**64,779**	46,094
181 to 365 days	**24,706**	37,208
More than 365 days	**46,090**	63,140
	1,079,548	892,002

14. Unsecured bank loans

During the period, the Group obtained new bank loans of HK$864,009,000 (2008: HK$396,818,000). The loans carry interest at prevailing market rates ranging from 0.67% to 8.22% (31.12.2008: 0.69% to 8.22%) 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 repaid bank loans of HK$533,463,000 (2008: HK$485,773,000) during the period.

15. Capital commitments

At end of the reporting period, the Group had the following capital commitments:

	As at 30 June 2009 ***HK$'000*** **(Unaudited)**	As at 31 December 2008 *HK$'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	**189,282**	170,422
— intangible assets	**28,072**	25,339
	217,354	195,761

16. Contingent liabilities

As disclosed in the announcement of the Company dated 22 February 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.

On 3 May 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.

Submissions concerning whether the direct purchaser case may proceed as a class action have been made during the year 2007 and fact discovery has concluded in October 2008. In accordance with the latest case schedule, the depositions of defendants' liability experts were completed by 1 May 2009 and plaintiffs' rebuttal expert was deposed on 28 July 2009. Defendants have also filed a motion for summary judgement on liability on 31 August 2009.

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.

17. Events after the end of the interim period

Subsequent to the end of the interim period, the following events have taken place:

(i) The asset swap transaction as disclosed in note 12 was completed in July 2009.

(ii) On 16 August 2009, Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd ("Zhongrun"), a subsidiary of the Group, has entered into an agreement with an independent third party, Cenway Pharmaceuticals Co., Ltd ("Cenway") pursuant to which Zhongrun has agreed to purchase and Cenway has agreed to sell 90% equity interest in Shijiazhuang Pharma Group Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Tianjin Cenway") for a consideration of RMB148,500,000. Tianjin Cenway is mainly engaged in the manufacture and sale of chemical intermediate — GCLE (the raw material used for the production of bulk cephalosporins).

Other Information

Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2009, 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 30 June 2009.

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 (the "Scheme") was adopted on 6 July 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. The Scheme shall be valid and effective for a period of 10 years since its adoption. No option had been granted or agreed to be granted under the Scheme since its adoption.

Substantial Shareholders

As at 30 June 2009, 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 issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Massive Giant Group Limited ("Massive Giant")	Beneficial owner	783,482,393	51.04%
Legend Holdings Limited ("Legend")	Interest to an agreement	783,482,393 *(note i)*	51.04%
Employees' Shareholding Society of Legend ("Employees' Society")	Interest held by a controlled corporation	783,482,393 *(note ii)*	51.04%

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.

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 30 June 2009.

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 30 June 2009 with certain deviation as set out below.

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, also assumes the role as the chief executive officer 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.

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 30 June 2009.

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 30 June 2009.

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 agreements if (i) Hony Capital Fund III, L.P. ("Hony Capital") ceases to own (directly or indirectly) at least 35% interest in the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital; or (iii) any replacement or addition (in terms of head count) of executive directors of the Company exceeds one third of the existing executive directors. The outstanding principal of these two bank loans at 30 June 2009 amounted to HK$395,400,000 and the last instalment repayment is due in December 2011.

Pursuant to another bank loan agreement, it will be an event of default if (i) Hony Capital ceases to own (directly or indirectly) at least 35% interest in the Company or ceases to be (directly or indirectly) the single largest shareholder of the Company; (ii) Legend ceases to own (directly or indirectly) at least 34.48% interest in Hony Capital or ceases to hold the single largest value of fund in Hony Capital; or (iii) Hony Capital fails to vest in Legend the ultimate control in relation to all decisions execisable (directly or indirectly) by Massive Giant or Hony Capital to the extent they relate to (a) the management of Massive Giant's or Hony Capital's direct or indirect equity stake in the Company; (b) Massive Giant's or Hony Capital's direct or indirect equity stake in the Company and any disposal of investment decisions in relation thereto; and (c) all other matters relating to the general management and affairs of the Company. The outstanding principal of the bank loan at 30 June 2009 amounted to HK$331,500,000 and the last instalment repayment is due in November 2011.

Other than 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.

Disclosure of Information regarding Director

Pursuant to Rule 13.51B(1) of the Listing Rules, the change and the updated information regarding director of the Company is as follow:

Mr. Lee Ka Sze, Carmelo, a non-executive director of the Company, was appointed as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. (Stock Code: 2318) on 9 June 2009.