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

Stock Code: 1093

Interim Report 2010

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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

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Share Registrar and Transfer Office

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Hong Kong

Websites

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

Management Discussion and Analysis

Business Review and Outlook

Results

For the first half of 2010, the Group recorded revenue and profit attributable to shareholders of HK$3,941 million and HK$426 million respectively, representing an increase of 12.5% and a decrease of 20.0% as compared with the same period last year.

Intermediates and Bulk Drugs Business

Vitamin C Series

Under the impact of the continued expansion of production capacity in the PRC, the selling prices of vitamin C products recorded a downward trend during the period. Amid the intensifying market competition, the Group increased production scale to enhance economies of scale, with the aim of reducing production cost and expanding market share. Despite a decline of approximately 20% in the product prices during the period, this business managed to record revenue of HK$1,144 million, representing a decrease of 7.0% as compared with the same period last year. During the second half of this financial year, the decline in product prices will accelerate under a more severe market condition. It is expected that the performance of this business will be greatly impacted.

Antibiotic Series

During the period, the penicillin market remained weak with selling prices staying at low level. On the other hand, the cephalosporin business recorded a significant increase in revenue, mainly driven by the launch of new products (including intermediate GCLE and various downstream bulk drugs) and rise in selling price of intermediate 7-ACA. Revenue of the entire antibiotic business amounted to HK$1,562 million for the first half of the year, representing an increase of 33.8% as compared with the same period last year. Operating environment in the second half of the year is expected to remain stable and the Group will strive to improve production technologies to reduce production cost.

Finished Drugs Business

The finished drugs business continued to maintain a stable growth during the period with revenue increasing by 5.7% to HK$1,132 million as compared with the same period last year. During the period under review, the intensified market competition and pressure on product prices had impacted the growth in revenue and gross profit margin of this business. The Group will continue to expand its sales network, strengthen its business ties with distributors and end users, and drive new product development in order to achieve the goal of sustainable rapid growth.

Financial Review

Liquidity and Financial Position

For the first half of 2010, the Group's operating activities generated a net cash inflow of HK$614,191,000. Capital expenditure in relation to the additions of production facilities amounted to HK$265,730,000. As at 30 June 2010, the current ratio of the Group improved to 1.8 as compared with 1.5 as at the end of 2009. 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) shortened from 73 days in 2009 to 71 days in the current period. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 75 days to 77 days in the current period.

The financial position of the Group remained strong. As at 30 June 2010, total bank balances and cash amounted to HK$1,355,198,000 and total loans amounted to HK$1,598,327,000. Out of the total loans, HK$434,873,000 will be repayable within one year and the remaining HK$1,163,454,000 repayable between two to five years. Net gearing ratio (calculated on the basis of the Group's total loans net of bank balances and cash over shareholders' equity at the end of the reporting period) increased to 5% as at 30 June 2010 as compared with 2% at the end of 2009.

44% of the Group's loans are denominated in Hong Kong dollars or US dollars and the remaining 56% in Renminbi. The Group's revenues are 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 2010, bank deposits of HK$41,801,000 (31.12.2009: HK$50,637,000) were pledged to banks to secure banking facilities.

Contingent Liabilities

As disclosed in the press 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 note 16 to the condensed consolidated financial statements.

Employees

As at 30 June 2010, the Group had about 10,941 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 32, which comprises the condensed consolidated statement of financial position of China Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 34 "Interim Financial Reporting" ("HKAS 34") 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
30 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		For the six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**3,941,018**	3,502,908
Cost of sales		**(2,710,806)**	(2,330,866)
Gross profit		**1,230,212**	1,172,042
Other income		**21,087**	16,553
Selling and distribution expenses		**(245,959)**	(299,903)
Administrative expenses		**(313,601)**	(216,246)
Other expenses		**(122,783)**	(27,855)
Operating profit		**568,956**	644,591
Share of results of a jointly controlled entity		**3,628**	322
Finance costs		**(34,624)**	(35,596)
Profit before tax	*4*	**537,960**	609,317
Income tax expense	*5*	**(100,106)**	(72,049)
Profit for the period		**437,854**	537,268
Profit for the period attributable to:			
Owners of the Company		**426,223**	532,710
Non-controlling interests		**11,631**	4,558
		437,854	537,268
		HK cents	*HK cents*
Earnings per share — Basic	*7*	**27.77**	34.71

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**437,854**	537,268
Other comprehensive income:		
Gain on fair value change of available-for-sale investment	**590**	7,582
Total comprehensive income for the period	**438,444**	544,850
Total comprehensive income for the period attributable to:		
Owners of the Company	**426,813**	540,292
Non-controlling interests	**11,631**	4,558
	438,444	544,850

Condensed Consolidated Statement of Financial Position

AT 30 JUNE 2010

	Notes	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**4,011,953**	4,044,989
Prepaid lease payments		**255,011**	257,499
Intangible assets		**152,323**	154,528
Goodwill		**150,843**	150,843
Interest in a jointly controlled entity		**23,059**	23,976
Available-for-sale investment		**8,360**	7,770
		4,601,549	4,639,605
Current assets			
Inventories		**1,153,294**	978,525
Trade and other receivables	*9*	**1,182,157**	1,065,967
Bills receivables	*9*	**794,743**	725,750
Prepaid lease payments		**7,625**	7,605
Tax recoverable		**—**	60
Trade receivables due from a related company	*10*	**279**	—
Trade receivables due from a connected company	*10*	**29,198**	28,283
Amount due from a jointly controlled entity	*10*	**21,910**	17,939
Pledged bank deposits	*11*	**41,801**	50,637
Bank balances and cash		**1,313,397**	1,443,163
		4,544,404	4,317,929
Current liabilities			
Trade and other payables	*12*	**1,872,260**	1,497,610
Bills payables	*12*	**172,380**	357,045
Trade payables due to a related company	*10*	**—**	829
Amounts due to related companies	*10*	**1,149**	7,057
Amounts due to connected companies	*10*	**20,347**	37,449
Tax liabilities		**69,954**	96,540
Unsecured bank loans	*13*	**434,873**	880,782
		2,570,963	2,877,312
Net current assets		**1,973,441**	1,440,617
Total assets less current liabilities		**6,574,990**	6,080,222

	Notes	As at 30 June 2010 HK$'000 (Unaudited)	As at 31 December 2009 HK$'000 (Audited)
Non-current liabilities			
Unsecured bank loans	*13*	**1,163,454**	687,027
Loan from a jointly controlled entity	*14*	**—**	28,409
Deferred tax liabilities		**38,141**	35,323
		1,201,595	750,759
Net assets		**5,373,395**	5,329,463
Capital and reserves			
Share capital		**153,496**	153,496
Reserves		**5,062,298**	5,006,788
Equity attributable to owners of the Company		**5,215,794**	5,160,284
Non-controlling interests		**157,601**	169,179
Total equity		**5,373,395**	5,329,463

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	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$'000*	Non-distributable reserves *HK$'000* *(note i)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2009 (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 ii)*	–	–	–	–	–	–	–	–	–	–	(6,067)	(6,067)
Final dividend recognised for the year ended 31 December 2008 *(note 6)*	–	–	–	–	–	–	–	–	(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
Profit for the period	–	–	–	–	–	–	–	–	438,029	438,029	7,737	445,766
Loss on fair value change of available-for-sale investment	–	–	–	–	–	(6,824)	–	–	–	(6,824)	–	(6,824)
Released on disposal of a subsidiary	–	–	–	(1,599)	–	–	–	–	–	(1,599)	–	(1,599)
Total comprehensive income for the period	–	–	–	(1,599)	–	(6,824)	–	–	438,029	429,606	7,737	437,343
Released on disposal of a subsidiary	–	–	–	–	–	–	(17,229)	–	17,229	–	–	–
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	34,092	34,092
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	43,042	43,042
At 31 December 2009 (Audited)	153,496	1,116,727	316	–	(160,130)	758	715,916	588,202	2,744,999	5,160,284	169,179	5,329,463
Profit for the period	–	–	–	–	–	–	–	–	426,223	426,223	11,631	437,854
Gain on fair value change of available-for-sale investment	–	–	–	–	–	590	–	–	–	590	–	590
Total comprehensive income for the period	–	–	–	–	–	590	–	–	426,223	426,813	11,631	438,444
Final dividend recognised for the year ended 31 December 2009 *(note 6)*	–	–	–	–	–	–	–	–	(368,391)	(368,391)	–	(368,391)
Capital contribution by the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	8,133	8,133
Deemed acquisition of additional interest in a subsidiary *(note iii)*	–	–	–	–	(2,912)	–	–	–	–	(2,912)	(31,179)	(34,091)
Dividends paid to the minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(163)	(163)
At 30 June 2010 (Unaudited)	153,496	1,116,727	316	–	(163,042)	1,348	715,916	588,202	2,802,831	5,215,794	157,601	5,373,395

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 period ended 30 June 2009, 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.

(iii) During the period ended 30 June 2010, the shareholding of the Group in a non wholly-owned subsidiary, Shijiazhuang Pharma Group Yinhu Pharmaceutical Co., Ltd., has increased from 70% to 80%.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	**614,191**	777,240
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(306,601)**	(216,232)
Purchase of intangible assets	**(8,131)**	(1,386)
Proceeds on disposal of property, plant and equipment	**2,824**	2,066
Deposit paid for acquisition of a business	**—**	(79,545)
Acquisition of additional interest in a subsidiary	**—**	(10,227)
Other investing cash flows	**(13,878)**	(31,518)
	(325,786)	(336,842)
Net cash (used in) from financing activities:		
New bank loans raised	**686,817**	864,009
Repayment of bank loans	**(656,299)**	(533,463)
Dividend paid	**(368,391)**	(150,296)
Repayment of loan from a related company	**—**	(113,636)
Other financing cash flows	**(80,298)**	(35,596)
	(418,171)	31,018
Net (decrease) increase in cash and cash equivalents	**(129,766)**	471,416
Cash and cash equivalents at 1 January	**1,443,163**	1,121,062
Cash and cash equivalents at 30 June	**1,313,397**	1,592,478
Represented by bank balances and cash classified as:		
Current assets	**1,313,397**	1,578,490
Assets classified as held for sale	**—**	13,988
	1,313,397	1,592,478

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2009, except as described below.

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.

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

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

2. **Principal accounting policies** *(continued)*

As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. The application of HKAS 27 had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and present them as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions in the amendment to HKAS 17 Leases, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases. The application of the amendment to HKAS 17 has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The adoption of the other 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)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendment)	Classification of Rights Issues[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 January 2011

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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. Segment information

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 2010 (Unaudited)

	Intermediates and Bulk Drugs						
	Vitamin C series	Antibiotics series	Finished Drugs	Others	Segment Total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	1,144,258	1,562,199	1,131,542	103,019	3,941,018	–	3,941,018
Inter-segment sales	1,163	459,758	–	138,925	599,846	(599,846)	–
TOTAL REVENUE	1,145,421	2,021,957	1,131,542	241,944	4,540,864	(599,846)	3,941,018

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	489,411	58,841	99,493	(2,346)			645,399
Interest income							4,268
Unallocated central costs							(80,711)
Operating profit							568,956
Share of results of a jointly controlled entity							3,628
Finance costs							(34,624)
Profit before tax							537,960

3. Segment information *(continued)*

For the six months ended 30 June 2009 (Unaudited)

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	1,230,307	1,167,518	1,070,149	34,934	3,502,908	—	3,502,908
Inter-segment sales	2,839	349,717	—	273	352,829	(352,829)	—
TOTAL REVENUE	1,233,146	1,517,235	1,070,149	35,207	3,855,737	(352,829)	3,502,908

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	668,035	(18,928)	62,485	1,455			713,047
Interest 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

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

4. Profit before tax

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting) the following items:		
Amortisation of intangible assets (included in cost of sales)	**10,336**	9,726
Amortisation of prepaid lease payments	**3,810**	2,924
Depreciation of property, plant and equipment	**252,412**	231,391
Contribution to retirement benefits schemes, including those of directors	**38,936**	34,873
Staff costs, including those of directors	**324,593**	257,991
Loss on disposal of property, plant and equipment (included in other expenses)	**43,127**	3,589
Net foreign exchange losses	**2,792**	4,001
Research and development expenses (included in other expenses)	**64,063**	23,847
Interest income	**(4,268)**	(4,359)

For the six months ended 30 June 2009 and 2010, 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	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax		
— Current year (including PRC withholding tax of HK$5,682,000 (2009: Nil))	**97,288**	107,493
— Overprovision in prior years	**—**	(4,136)
— Tax credits	**—**	(39,698)
	97,288	63,659
Deferred taxation	**2,818**	8,390
	100,106	72,049

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.

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.

The tax charge for both periods represents income tax provisions which have taken into account 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.

In addition, 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 up to 2010 or 2011. The applicable tax rate for these enterprises is 15% during those years.

5. Income tax expense *(continued)*

As at 30 June 2010, the Group had unused tax losses of HK$91,991,000 (31.12.2009: HK$101,241,000) 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, deferred taxation of HK$2,818,000 (2009: HK$8,390,000), net of HK$5,682,000 withholding tax (2009: Nil) paid, 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 2010 (2009: Nil).

During the period, a dividend of HK24 cents per share was paid to shareholders as final dividend for the year ended 31 December 2009 (2009: HK20 cents for the year ended 31 December 2008).

7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2010 is based on the unaudited profit for the period attributable to owners of the Company of HK$426,223,000 (2009: HK$532,710,000) and 1,534,960,661 (2009: 1,534,960,661) shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2009 and 2010 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$265,730,000 (2009: HK$233,982,000) 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$46,354,000 (2009: HK$8,267,000), resulting in a loss of HK$43,127,000 (2009: HK$3,589,000).

9. Trade and other receivables/Bills receivables

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**901,573**	839,525
Bills receivables	**794,743**	725,750
	1,696,316	1,565,275
Other receivables	**280,584**	226,442
	1,976,900	1,791,717

The Group allows a general credit period of up to 90 days to its trade customers. The following is an analysis of trade and bills receivables (net of allowance for doubtful debts) by age, presented based on invoice date.

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,648,005**	1,525,668
91 to 180 days	**48,311**	37,102
181 to 365 days	**—**	2,505
	1,696,316	1,565,275

10. 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 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 **2010** *HK$'000* (Unaudited)	2009 *HK$'000* (Unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG") (a fellow subsidiary of the Company wholly-owned by Massive Giant Group Limited ("Massive Giant"), the controlling shareholder of the Company) and its subsidiaries (the "SPG Group")	Purchase of raw materials *(note a)*	**—**	89,237
	Sales of vitamin C and related products *(note b)*	**3,290**	—
	Product processing services *(note c)*	**818**	—
	Sales of antibiotic products	**—**	—
	Rental expenses *(note d)*	**3,853**	3,808
	Interest expenses on a loan from SPG *(note e)*	**—**	1,662

	As at 30 June 2010 *HK$'000* **(Unaudited)**	As at 31 December 2009 *HK$'000* (Audited)
Balance due from (to) the SPG Group		
— trade receivables *(note f)*	**279**	—
— trade payables *(note f)*	**—**	(829)
— other payables *(note f)*	**(1,149)**	(7,057)

As at 30 June 2010, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of RMB600,000,000 (31.12.2009: RMB630,000,000) granted to the Group. At 30 June 2010, the extent of utilisation by the Group amounted to RMB600,000,000 (31.12.2009: RMB630,000,000).

10. Related party disclosures *(continued)*

(ii) Other related parties

Name of company	Nature of transactions/balances	For the six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong"), a jointly controlled entity of the Group	Purchase of raw materials *(note g)*	**7,703**	37,839
	Provision of utility services by the Group *(note h)*	**5,934**	5,162
	Interest expenses on loan from Huarong *(note i)*	**315**	—

Name of company	Nature of transactions/balances	As at 30 June 2010 HK$'000 (Unaudited)	As at 31 December 2009 HK$'000 (Audited)
	Balance due from Huarong		
	— dividend receivables	**10,667**	6,122
	— other receivables *(note f)*	**6,007**	6,007
	— trade receivables *(note f)*	**5,236**	5,810
		21,910	17,939

10. Related party disclosures *(continued)*

(iii) Connected parties

Name of company	Nature of transactions/balances	For the six months ended 30 June 2010 HK$'000 (Unaudited)	For the six months ended 30 June 2009 HK$'000 (Unaudited)
Guangdong Titan Pharmaceutical Co., Ltd. ("Guangdong Titan"), a wholly-owned subsidiary of the minority shareholder of a subsidiary	Sale of finished goods *(note j)*	**47,268**	42,844

Name of company	Nature of transactions/balances	As at 30 June 2010 HK$'000 (Unaudited)	As at 31 December 2009 HK$'000 (Audited)
Guangdong Titan	Balance due from Guangdong Titan — trade receivables *(note f)*	**29,198**	28,283
Shanxi Yinhu Pharmaceutical Co. Ltd. ("Shanxi Yinhu"), the minority shareholder of a subsidiary	Balance due to Shanxi Yinhu — other payables *(note f)*	**(5,928)**	(5,022)
Cenway Pharmaceutical Co., Ltd ("Cenway"), the minority shareholder of a subsidiary	Balance due to Cenway — other payables *(note f)*	**(14,419)**	(32,427)

10. Related party disclosures *(continued)*

(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	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**4,477**	4,175
Post-employment benefits	**326**	312
	4,803	4,487

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

Notes:

(a) During the period ended 30 June 2009, the Group purchased chemical products from Hebei Hong Yuan Chemical Co., Ltd. ("Hong Yuan"), a then subsidiary of SPG, 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 benefited from having a reliable source of supply of raw materials from Hong Yuan.

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

In July 2009, the Group acquired 100% equity interest in Hong Yuan from the SPG Group.

10. **Related party disclosures** *(continued)*

Notes: (continued)

(b) On 13 May 2009, Shijiazhuang Pharma Group Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng"), a wholly-owned subsidiary of the Company, entered into an agreement with Shijiazhuang Pharma Group Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), a wholly-owned subsidiary of SPG, in relation to the sale of vitamin C and related products, which constitute connected transactions, for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Ouyi.

In the opinion of the directors, the selling prices of such products have been reached after arm's length negotiation by reference to market price under normal commercial terms and are on terms no less favourable than for independent third parties.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

(c) On 13 May 2009, Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo"), a wholly-owned subsidiary of the Company, entered into an agreement with Ouyi and pursuant to which Ouyi provides product processing services to Zhongnuo for various cephalosporin powder injection products, which constitute connected transactions, for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group is able to obtain reliable processing services for the Group's products.

In the opinion of the directors, the service fees for the product processing services have been reached after arm's length negotiation by reference to market price under normal commercial terms and are on terms no less favorable than for independent third parties. In the absence of reference fees for similar services offered to independent third parties, the terms and conditions shall be fair and reasonable. The amount of service fees are calculated according to the fee scale as set out in the announcement of the Company dated 13 May 2009.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

10. Related party disclosures *(continued)*

Notes: (continued)

(d) On 5 July 2005, Zhongnuo, entered into a lease agreement with SPG whereby Zhongnuo leased two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, in 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 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 remaining unchanged.

On 5 March 2009, Zhongnuo and SPG renewed the agreement for another term of three years commencing on 5 March 2009, with a revised monthly rental of RMB427,108.

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.

(e) The amount represented the interest on a loan from SPG which had been fully repaid during the period ended 30 June 2009.

(f) At the end of the reporting period, these amounts were aged within one year.

(g) 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.

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

(i) Details of the loan are set out in note 14.

10. Related party disclosures *(continued)*

Notes: (continued)

(j) On 29 July 2008, Siping City Fine Chemicals Products Company Limited ("Siping"), a non wholly-owned subsidiary of the Company and Guangdong Titan entered into an agreement in relation to the sales of pharmaceutical intermediate products, which constitute connected transactions, for a term of three years from 29 July 2008 to 28 July 2011. By entering into the agreement, the Group is able to maintain the business relationship with Guangdong Titan.

In the opinion of the directors, the selling prices of such products have been reached after arm's length negotiation by reference to market price under normal commercial terms and are on terms no less favourable than for independent third parties.

The extent of these connected sales did not exceed the limit as set out in the announcement of the Company dated 29 July 2008.

11. Pledged bank deposits

As at 30 June 2010, the Group had pledged bank deposits of HK$41,801,000 (31.12.2009: HK$50,637,000) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

12. Trade and other payables/Bills payables

	As at 30 June 2010 *HK$'000* **(Unaudited)**	As at 31 December 2009 *HK$'000* (Audited)
Trade payables	**953,727**	663,594
Bills payables	**172,380**	357,045
	1,126,107	1,020,639
Other payables	**918,533**	834,016
	2,044,640	1,854,655

12. 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.

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**786,188**	863,773
91 to 180 days	**161,950**	63,293
181 to 365 days	**152,611**	52,140
More than 365 days	**25,358**	41,433
	1,126,107	1,020,639

13. Unsecured bank loans

During the period, the Group obtained new bank loans of HK$686,817,000 (2009: HK$864,009,000). The loans carry interest at prevailing market rates ranging from 0.67% to 5.31% (31.12.2009: 0.64% to 7.56%) 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$656,299,000 (2009: HK$533,463,000) during the period.

14. Loan from a jointly controlled entity

The loan due to Huarong was unsecured, interest bearing at the rate of 5.4% (2009: 5.4%) per annum and was fully repaid during the current period.

15. Capital commitments

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

	As at 30 June 2010 *HK$'000* **(Unaudited)**	As at 31 December 2009 *HK$'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	**300,817**	279,693
— intangible assets	**29,420**	29,420
	330,237	309,113

16. Contingent liabilities

(i) 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.

16. Contingent liabilities *(continued)*

(i) *(continued)*

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 were made during the year 2007 and fact discovery was concluded in October 2008. On 15 January 2009, plaintiffs and defendants agreed to a new case schedule, which bifurcates liability and damages issues and allows certain liability issues to be determined by the court first. The dates in the schedule were subsequently extended pursuant to the court's order on 27 March 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.

(ii) On 31 December 2009, a corporate guarantee of RMB25,000,000 was given by certain subsidiaries of the Group to a bank in the PRC in respect of banking facilities granted to Huarong. An amount of RMB25,000,000 was utilised by Huarong as at 31 December 2009. During the period, the loan was repaid and the corporate guarantee was released.

17. Event after the end of the interim period

Subsequent to the end of the interim period, Zhongnuo and Hebei Aipu Pharmaceutical Co., Ltd. ("Aipu") entered into a sale and purchase agreement in which Zhongnuo has agreed to sell and Aipu has agreed to purchase certain pharmaceutical products for a term of three years commencing on 23 August 2010 and expiring on 22 August 2013. Aipu is a non-wholly owned subsidiary of Shijiazhuang Pharma Group Zhongchen Pharmaceutical Co., Ltd., which in turn is an indirect wholly-owned subsidiary of Massive Giant. Accordingly, Aipu is an associate of Massive Giant and a connected person of the Company. Thus, the transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details are set out in the announcement of the Company dated 23 August 2010.

Other Information

Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2010, 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	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 2010.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of the Company, at no time during the period was the Company, its holding company, 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 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 is 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 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the share capital of the Company.

Name of substantial shareholder	**Capacity**	**Number of ordinary shares 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 Holdings Limited ("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 2010.

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 2010 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 auditors 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. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

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 2010.

Disclosure under Rule 13.17 of the Listing Rules

Pursuant to a bank loan agreement dated 14 December 2009 entered into between a bank and SPG, a facility in the aggregate amount of RMB510,000,000 was made available by the bank to SPG and certain subsidiaries of the Company. The facility is a general working facility for three years from 14 December 2009. Out of the aggregate facility amount of RMB510,000,000, RMB210,000,000 was made available to certain subsidiaries of the Company. As a condition under the loan agreement, Massive Giant has pledged 480,000,000 ordinary shares of the Company in favour of the bank as security. At 30 June 2010, the Group did not utilise the facility.

Other than as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.17 of the Listing Rules.

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 2010 amounted to HK$255,400,000 and the last instalment repayment is due in December 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.