



中國製藥集團有限公司

China Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1093)

2006 RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the "Company") submits the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2006.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	2	3,538,754	3,192,065
Cost of sales		(2,925,429)	(2,498,501)
Gross profit		613,325	693,564
Other income		34,814	21,157
Distribution costs		(232,511)	(182,723)
Administrative expenses		(308,094)	(293,231)
Other expenses		(6,808)	(20,537)
Share of loss of a jointly controlled entity		(3,350)	(1,099)
Finance costs		(95,776)	(68,139)
Profit before tax		1,600	148,992
Income tax	3	13,763	7,301
Profit for the year	4	15,363	156,293
Attributable to:			
Equity holders of the Company		15,664	156,518
Minority interests		(301)	(225)
		15,363	156,293
Dividend	5	–	–
Earnings per share – basic	6	HK1.02 cents	HK10.18 cents

CONSOLIDATED BALANCE SHEET

At December 31, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment		3,233,026	3,176,949
Prepaid lease payments		145,923	154,612
Intangible assets		48,275	61,233
Goodwill		55,764	55,764
Interest in a jointly controlled entity		21,646	24,086
Pledged bank deposits		1,312	2,428
		3,505,946	3,475,072
Current assets			
Inventories		682,935	756,053
Trade and other receivables	7	574,488	512,987
Bills receivable	7	98,501	118,281
Prepaid lease payments		4,361	4,474
Loan receivable		–	670
Tax recoverable		1,165	8,096
Trade receivables due from related companies		2,660	14,393
Amount due from a jointly controlled entity		13,155	17,047
Pledged bank deposits		2,792	–
Bank balances and cash		387,405	472,706
		1,767,462	1,904,707
Current liabilities			
Trade and other payables	8	754,147	974,756
Bills payable	8	223,118	403,876
Trade payables due to related companies		11,360	–
Amounts due to related companies		10,454	4,146
Trade payable due to a jointly controlled entity		–	3,107
Tax liabilities		15,002	7,328
Unsecured bank loans		752,000	344,804
		1,766,081	1,738,017
Net current assets		1,381	166,690
Total assets less current liabilities		3,507,327	3,641,762
Non-current liabilities			
Loans from ultimate holding company		59,493	55,488
Loan from a fellow subsidiary		20,000	–
Unsecured bank loans		777,000	1,090,746
		856,493	1,146,234
		2,650,834	2,495,528
Capital and reserves			
Share capital		153,812	153,812
Reserves		2,487,829	2,331,020
Equity attributable to equity holders of the Company		2,641,641	2,484,832
Minority interests		9,193	10,696
		2,650,834	2,495,528

Notes:

1. Accounting policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. Revenue and segment information

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

For the year ended December 31, 2006

	Bulk Drugs						Finished Drugs HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000							
REVENUE										
External sales	1,016,186	671,996	575,303	1,255,518	19,751	–	–	–	3,538,754	
Inter-segment sales	202,634	78,740	606	–	–	(281,980)	–	–	–	
TOTAL REVENUE	1,218,820	750,736	575,909	1,255,518	19,751	(281,980)	–	–	3,538,754	
SEGMENT RESULTS	83,966	30,371	(10,626)	31,214	(19,934)	–	–	–	114,991	
Unallocated corporate income									2,481	
Unallocated corporate expenses									(16,746)	
									100,726	
Share of loss of a jointly controlled entity							(3,350)		(3,350)	
Finance costs									(95,776)	
Profit before tax									1,600	
Income tax									13,763	
Profit for the year									15,363	

For the year ended December 31, 2005

	Bulk Drugs						Finished Drugs HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000							
REVENUE										
External sales	525,091	855,131	692,507	1,109,971	9,365	–	–	–	3,192,065	
Inter-segment sales	219,615	137,039	–	–	–	(356,654)	–	–	–	
TOTAL REVENUE	744,706	992,170	692,507	1,109,971	9,365	(356,654)	–	–	3,192,065	
SEGMENT RESULTS	(9,220)	117,849	87,840	63,131	(21,728)	–	–	–	237,872	
Unallocated corporate income									4,325	
Unallocated corporate expenses									(23,967)	
									218,230	
Share of loss of a jointly controlled entity							(1,099)		(1,099)	
Finance costs									(68,139)	
Profit before tax									148,992	
Income tax									7,301	
Profit for the year									156,293	

Inter-segment sales are charged at prevailing market rates.

3. Income tax

	2006 HK\$'000	2005 HK\$'000
The tax credit comprises:		
PRC Enterprise Income Tax		
– current year	4,285	19,335
– overprovision in prior years	(1,337)	(3,813)
– tax credits/refunds	(16,711)	(22,823)
	(13,763)	(7,301)

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 years.

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 and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain subsidiaries of the Company were granted tax credits/refunds which were mainly derived from the following activities:

- Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to three PRC subsidiaries set up in previous years.

- b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authorities. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

At the balance sheet date, the Group has unused tax losses of HK\$141,262,000 (2005: HK\$51,376,000) 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. The unrecognised tax losses will expire in 2011.

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

4. Profit for the year

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of intangible assets	20,902	16,585
Amortisation of prepaid lease payments	4,361	4,474
Depreciation of property, plant and equipment	311,391	245,456
Interest income	(4,284)	(2,687)
	<u> </u>	<u> </u>

5. Dividend

No dividend was proposed by the directors for the years ended December 31, 2006 and 2005.

6. Earnings per share

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2006 is based on the profit for the year of HK\$15,664,000 (2005: HK\$156,518,000) and the 1,538,124,661 shares (2005: 1,538,124,661) in issue during the year.

No diluted earnings per share was presented for the years ended December 31, 2006 and 2005 as there were no potential ordinary shares in issue during both years.

7. Trade and other receivables / Bills receivable

	2006 HK\$'000	2005 HK\$'000
Trade receivables	497,288	379,192
Bills receivable	98,501	118,281
	<u> </u>	<u> </u>
	595,789	497,473
Other receivables	77,200	133,795
	<u> </u>	<u> </u>
	672,989	631,268

The Group allows a credit period from 30 days to 90 days to its customers. The following is an aged analysis of trade and bills receivables at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
0 to 90 days	559,880	472,208
91 to 180 days	35,731	24,436
181 to 365 days	178	829
	<u> </u>	<u> </u>
	595,789	497,473

8. Trade and other payables / Bills payable

	2006 HK\$'000	2005 HK\$'000
Trade payables	406,100	498,933
Bills payable	223,118	403,876
	<u> </u>	<u> </u>
	629,218	902,809
Other payables	348,047	475,823
	<u> </u>	<u> </u>
	977,265	1,378,632

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

	2006 HK\$'000	2005 HK\$'000
0 to 90 days	555,975	787,371
91 to 180 days	54,433	69,611
181 to 365 days	9,917	26,432
More than 365 days	8,893	19,395
	<u> </u>	<u> </u>
	629,218	902,809

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

Total sales volume of the major products of this series for the year amounted to 24,975 tonnes, a decrease of 4% over the previous year. Product prices were under pressure during the year due to overcapacity. Average price of vitamin C for the year was US\$ 2.80 per kg, down 13.6% from US\$3.24 in the previous year. Gross profit margin of the entire series decreased from 25.6% in the previous year to 13.5% in the current year.

With the product prices staying a low level, all manufacturers are not producing in full capacity. Product prices have rebounded recently and it is expected that the performance of this division will be able to improve.

Penicillin Series

Total sales volume of the major products of this series for the year amounted to 8,567 tonnes, an increase of 81% over the previous year. Product prices remained at low level for the past few years with the persisting market consolidation. Average prices of major products, namely penicillin industrial salt, amoxicillin and 6-APA, for the year were US\$10.01, US\$22.20 and US\$20.92 per kg respectively, slightly higher than those of the previous year. Production costs decreased as a result of the increased utilization of the production lines in Inner Mongolia. Gross profit margin of the entire series increased from 6.9% in the previous year to 15.7% in the current year.

After a long period of market consolidation, product prices began to return to an upward trend in the fourth quarter of 2006. It is expected that the market condition will continue to improve.

Cephalosporin Series

Total sales volume of the major products of this series for the year amounted to 1,104 tonnes, a decrease of 5% over the previous year. With a substantial increase in market supply, there was a sharp decline in the product prices during the year. Average price of 7-ACA for the year was US\$75.25 per kg, a decrease of 18.9% as compared with US\$92.82 per kg in the previous year. Gross profit margin of the entire series decreased from 24.4% in the previous year to 13.5% in the current year.

After rounds of price reductions, there was a slight rebound of the product prices recently. It is expected that the performance of this division will be able to stabilise.

Finished Drugs

As a result of fierce market competition, the profitability of this division further declined. Even though sales revenue for the year increased 13% to HK\$1,256 million, operating profits recorded a significant drop of 50.6% to HK\$31.21 million.

Market competition is expected to remain fierce. With a view to establishing a new driver of growth, the Group will put more efforts to develop the vitamin C health supplement market in the PRC while continuing to strive for growth in the generic drugs.

Patent Drug

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

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

FINANCIAL REVIEW

Liquidity and Financial Position

In 2006, the Group's operating activities generated a net cash inflow of HK\$230,818,000. Capital expenditure amounted to HK\$241,010,000. At December 31, 2006, the Group's current ratio was 1.0, slightly lower than 1.1 at the end of the previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) was 55 days as compared with 51 days in the previous year. The inventory turnover period (ratio of inventories balance to cost of sales) decreased to 85 days from 110 days in the previous year.

At December 31, 2006, the Group had total borrowings of HK\$1,608,493,000 (comprising bank loans of HK\$1,529,000,000 and loans from ultimate holding company and a fellow subsidiary of HK\$79,493,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$752,000,000 repayable within one year and the remaining HK\$856,493,000 repayable between two to three years. Net gearing ratio was 46%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$391,509,000 over shareholders' equity at the balance sheet date.

41% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 59% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited.

Pledge of Assets

At the balance sheet date, bank deposits of HK\$4,104,000 were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiary are named as, among others, defendants in certain antitrust complaints filed in the United States of America. These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volume 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 in the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the above-mentioned antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and 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 advisors to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

EMPLOYEES

At the balance sheet date, the Group had about 9,855 permanent employees and the majority of them were employed in the PRC. The Group offers competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

CORPORATE GOVERNANCE

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended December 31, 2006 with certain deviations as set out below.

Code provision A.2.1 stipulates that the roles of the chairman and managing director should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the managing director of the Company since December 1, 2005. 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 ANNUAL RESULTS

The Audit Committee has reviewed the Group's annual results for the year ended December 31, 2006 in conjunction with the external auditors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
CAI DONGCHEN
Chairman

Hong Kong, April 11, 2007

As at the date of this announcement, the Board of Directors of the Company comprises eight executive directors, namely Mr. Cai Dongchen, Mr. Yue Jin, Mr. Feng Zhenying, Mr. Ji Jianming, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Li Zhibiao and Mr. Zhang Zheng; one non-executive director, namely Mr. Lee Ka Sze, Carmelo and four independent non-executive directors, namely Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard.