



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

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 1093)

2007 RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	2	4,986,059	3,538,754
Cost of sales		(3,449,641)	(2,925,429)
Gross profit		1,536,418	613,325
Other income		27,278	34,814
Selling and distribution expenses		(379,203)	(232,511)
Administrative expenses		(471,280)	(308,094)
Other expenses		(74,822)	(6,808)
Operating profit		638,391	100,726
Share of loss of a jointly controlled entity		(2,683)	(3,350)
Change in fair value of a derivative financial instrument		(551)	—
Finance costs		(112,809)	(95,776)
Profit before tax	3	522,348	1,600
Income tax (charge) credit	4	(45,569)	13,763
Profit for the year		476,779	15,363
Attributable to:			
Equity holders of the Company		477,388	15,664
Minority interests		(609)	(301)
		476,779	15,363
Proposed dividend	5	76,906	—
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share — Basic	6	31.04	1.02

CONSOLIDATED BALANCE SHEET

At December 31, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment		3,648,284	3,233,026
Prepaid lease payments		174,544	145,923
Intangible assets		58,876	48,275
Goodwill		100,718	55,764
Deposit paid for investment in an associate		21,277	—
Interest in a jointly controlled entity		20,146	21,646
Pledged bank deposits		751	1,312
		<u>4,024,596</u>	<u>3,505,946</u>
Current assets			
Inventories		927,867	682,935
Trade and other receivables	7	768,828	574,488
Bills receivables	7	281,586	98,501
Prepaid lease payments		5,384	4,361
Tax recoverable		—	1,165
Trade receivables due from a related company		—	2,660
Amount due from a jointly controlled entity		14,392	13,155
Pledged bank deposits		—	2,792
Bank balances and cash		436,092	387,405
		<u>2,434,149</u>	<u>1,767,462</u>
Current liabilities			
Trade and other payables	8	1,127,786	754,147
Bills payables	8	169,537	223,118
Trade payables due to a related company		25,820	11,360
Amounts due to related companies		14,978	10,454
Tax liabilities		47,103	15,002
Unsecured bank loans		976,043	752,000
Loans from an intermediate holding company		9,404	—
Derivative financial instrument		551	—
		<u>2,371,222</u>	<u>1,766,081</u>
Net current assets		<u>62,927</u>	<u>1,381</u>
Total assets less current liabilities		<u>4,087,523</u>	<u>3,507,327</u>
Non-current liabilities			
Unsecured bank loans		716,383	777,000
Loans from ultimate holding company		—	59,493
Loan from a related company		—	20,000
		<u>716,383</u>	<u>856,493</u>
Net assets		<u>3,371,140</u>	<u>2,650,834</u>
Capital and reserves			
Share capital		153,812	153,812
Reserves		3,198,486	2,487,829
Equity attributable to equity holders of the Company		<u>3,352,298</u>	<u>2,641,641</u>
Minority interests		18,842	9,193
Total equity		<u>3,371,140</u>	<u>2,650,834</u>

Notes:

1. Accounting policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Companies Ordinance.

2. Revenue and segment information

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Sale of goods	4,985,795	3,536,575
Service income	264	2,179
	<u>4,986,059</u>	<u>3,538,754</u>

Business segments

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

For the year ended December 31, 2007

	Bulk Drugs			Finished Drugs <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
	Penicillin series <i>HK\$'000</i>	Cephalosporin series <i>HK\$'000</i>	Vitamin C series <i>HK\$'000</i>				
REVENUE							
External sales	1,617,030	767,708	1,102,142	1,464,008	35,171	—	4,986,059
Inter-segment sales	410,999	43,695	803	—	19,069	(474,566)	—
TOTAL REVENUE	<u>2,028,029</u>	<u>811,403</u>	<u>1,102,945</u>	<u>1,464,008</u>	<u>54,240</u>	<u>(474,566)</u>	<u>4,986,059</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>396,726</u>	<u>38,261</u>	<u>252,727</u>	<u>6,409</u>	<u>(31,687)</u>		662,436
Unallocated income							3,489
Unallocated expenses							(27,534)
Operating profit							638,391
Share of loss of a jointly controlled entity					(2,683)		(2,683)
Change in fair value of a derivative financial instrument							(551)
Finance costs							(112,809)
Profit before tax							522,348
Income tax charge							(45,569)
Profit for the year							<u>476,779</u>

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
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	82,727	29,958	(11,274)	30,556	(18,779)		113,188
Unallocated income							4,284
Unallocated expenses							(16,746)
Operating profit							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 credit							13,763
Profit for the year							15,363

Geographical segments

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

	2007 HK\$'000	2006 HK\$'000
The People's Republic of China (the "PRC")	3,437,359	2,486,009
Asia other than the PRC	848,862	614,837
Europe	302,227	216,860
America	344,553	191,301
Others	53,058	29,747
	4,986,059	3,538,754

3. Profit before tax

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	371,906	252,032
Contribution to retirement benefit schemes, including those of directors	<u>53,570</u>	<u>43,104</u>
Total staff costs	<u>425,476</u>	<u>295,136</u>
Amortisation of intangible assets (included in cost of sales)	28,204	20,902
Amortisation of prepaid lease payments	5,384	4,361
Depreciation of property, plant and equipment	<u>392,795</u>	<u>311,391</u>
Total depreciation and amortisation	<u>426,383</u>	<u>336,654</u>
Auditor's remuneration	1,800	1,600
Interest income	(3,489)	(4,284)
Loss (gain) on disposal/write-off of property, plant and equipment	48,549	(3)
Net foreign exchange losses	10,574	2,726
Research and development expenses	17,275	8,148
Release of liability from a minority shareholder	—	(1,595)
	<u><u> </u></u>	<u><u> </u></u>

4. Income tax charge (credit)

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The tax charge (credit) comprises:		
PRC Enterprise Income Tax		
— Current year	60,169	4,285
— Under(over)provision in prior years	148	(1,337)
— Tax credits/refunds	<u>(14,748)</u>	<u>(16,711)</u>
	<u><u>45,569</u></u>	<u><u>(13,763)</u></u>

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong 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 jurisdiction.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC Enterprise Income Tax starting from their first profit-making years. In addition, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits/refunds, which were mainly derived from the following activities:

- a) A subsidiary of the Company was entitled to tax refunds on the basis that the subsidiary has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years.
- 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 authority. 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 authority.

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 had unused tax losses of HK\$141,440,000 (2006: HK\$141,262,000) 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 2012.

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

5. Proposed dividend

The Board of Directors recommends the payment of a final dividend of HK5 cents per share for the year ended December 31, 2007 (2006: Nil), representing a distribution of approximately HK\$76,906,000. Subject to shareholders' approval of the final dividend at the annual general meeting on May 23, 2008, payment of the final dividend will be made on June 10, 2008 to shareholders whose names appear on the register of members of the Company on May 23, 2008.

The register of members of the Company will be closed from May 19, 2008 to May 23, 2008, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 16, 2008.

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, 2007 is based on the profit for the year of HK\$477,388,000 (2006: HK\$15,664,000) and the 1,538,124,661 shares (2006: 1,538,124,661) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2006 and 2007 as there were no potential ordinary shares in issue during both years.

7. Trade and other receivables/Bills receivables

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade receivables	674,922	504,297
Less: allowance for doubtful debts	(7,009)	(7,009)
	667,913	497,288
Bills receivables	281,586	98,501
	949,499	595,789
Other receivables	100,915	77,200
	1,050,414	672,989

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 to 90 days	917,351	559,880
91 to 180 days	30,534	35,731
181 to 365 days	1,614	178
	949,499	595,789

8. Trade and other payables/Bills payables

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade payables	479,686	406,100
Bills payables	169,537	223,118
	649,223	629,218
Other payables	648,100	348,047
	1,297,323	977,265

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	595,033	555,975
91 to 180 days	29,572	54,433
181 to 365 days	11,194	9,917
More than 365 days	13,424	8,893
	<u>649,223</u>	<u>629,218</u>

BUSINESS REVIEW AND OUTLOOK

Vitamin C series

Total sales volume of the major products of this series increased by 13% to 28,288 tonnes for the current year. With the market supply and demand moving towards a more balanced state, product prices rebounded significantly during the year. The average price of vitamin C for the year was US\$4.60 per kg, an increase of 64.3% over US\$2.80 of the previous year. The gross profit margin of the entire series increased from 13.5% in the previous year to 38.0% in the current year.

The current market demand for vitamin C remains strong and product prices continue to stay at a satisfactory level. It is expected that the performance of this business will be able to improve further in 2008.

Penicillin series

Total sales volume of the major products of this series decreased by 5% to 8,102 tonnes for the current year. During the year, market supply has been affected by the more stringent environmental regulations, resulting in a sharp increase of the product prices. The respective average prices of penicillin industrial salt, amoxicillin and 6-APA for the year were US\$17.86, US\$35.11 and US\$38.51 per kg, substantially higher than the respective average prices of US\$10.01, US\$22.20 and US\$20.92 of the previous year. The gross profit margin of the entire series increased from 15.7% in the previous year to 37.5% in the current year.

Market supply has gradually returned to normal with the improvement in the area of environmental protection. Coupled with the addition of new production capacity in the market, product prices began to decline swiftly in the fourth quarter. Currently, the inventory pressure of the manufacturers has been lessened and product prices have begun to recover from the low level at the beginning of the year. However, the performance of this business in 2008 is not expected to be able to achieve the same profitability level of 2007.

Cephalosporin series

Total sales volume of the major products of this series decreased by 4% to 1,061 tonnes for the current year. After the significant drop in previous year, product prices steadily recovered during the year. The average price of 7-ACA for the year was US\$91.31 per kg, an increase of 21.3% over US\$75.25 of the previous year. Gross profit margin of the entire series increased from 13.5% in the previous year to 16.2% in the current year.

Product prices have declined recently. It is expected that the performance of this business will be relatively stable in 2008.

Finished drugs

Even though market competition was still fierce in the current year, revenue of this business managed to grow by 16.6%. Gross profit margin increased from 22.1% in the previous year to 25.0% in the current year. Sales revenue of the vitamin C supplement products reached HK\$64,000,000 for the year, a growth of 74% as compared with the previous year's figure. However, with the substantial increase of selling and distribution expenses, this business only ended up recording an operating profit of HK\$6,409,000 for the year, a decline of 79% as compared with the previous year's figure.

Market competition is expected to remain fierce. The Group will try to enhance the performance in 2008 by the introduction of new products and strengthening of sales efforts.

Patent drug

The patent drug, butylphthalide, maintained a steady growth in sales during the year. Apart from strengthening the domestic sales efforts, the Group will continue its efforts to tap into the overseas market.

FINANCIAL REVIEW

Liquidity and financial position

In 2007, the Group's operating activities generated a net cash inflow of HK\$899,494,000. Capital expenditure in relation to the additions of fixed assets amounted to HK\$491,740,000. As at December 31, 2007, the Group's current ratio was 1.0, same as the level of the previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivables balance to sales, inclusive of value added tax for sales in the PRC) was 62 days in the current year, as compared with 55 days a year earlier. Owing to the slowdown in sales of penicillin products in the second half of the year, inventory turnover period (ratio of inventories balance to cost of goods sold) increased from 85 days in the previous year to 98 days in the current year.

As at December 31, 2007, the Group had total borrowings of HK\$1,701,830,000 (comprising bank loans of HK\$1,692,426,000 and loans from an intermediate holding company of HK\$9,404,000). The maturity profile spreads over a period of four years with HK\$985,447,000 repayable within one year and the remaining HK\$716,383,000 repayable between two to four years. Net gearing ratio as at December 31, 2007 was 38% (which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$436,843,000 over shareholders' equity at the balance sheet date), as compared with 46% a year earlier.

38% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 62% in Renminbi. The Group's revenues are denominated mainly either in Renminbi or in US dollars. Foreign exchange forward contracts are employed by the Group to minimise the currency exposure.

Pledge of assets

As at December 31, 2007, bank deposits of HK\$751,000 (2006: 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 subsidiaries are named as, among others, defendants in a number of antitrust complaints filed in the United States. Up to the date of this announcement, 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 advisors 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 40 to the accounts in the 2007 Annual Report.

Employees

As at December 31, 2007, the Group had about 9,370 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.

CORPORATE GOVERNANCE

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules throughout the year ended December 31, 2007 with certain deviation as set out below.

Code provision A.2.1 stipulates that the roles of the chairman and managing director should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company’s Chairman, has also assumed the role as the managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, 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, 2007 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 17, 2008

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.