

2006 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended June 30,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	1,749,634	1,442,643
Cost of sales	(1,427,681)	(1,102,790)
Gross profit	321,953	339,853
Other income	17,336	5,982
Distribution costs	(111,253)	(71,106)
Administrative expenses	(156,279)	(141,406)
Other expenses	(4,757)	(14,078)
Share of results of a jointly controlled entity	783	(438)
Finance costs	(48,115)	(25,575)
Profit before tax	19,668	93,232
Income tax expense	(3,068)	(7,665)
Profit for the period	16,600	85,567
Attributable to:		
Equity holders of the Company	16,642	85,571
Minority interests	(42)	(4)
	16,600	85,567
Dividend	–	–
Earnings per share – Basic	HK1.08 cents	HK5.56 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2006	December 31, 2005
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current assets		
Property, plant and equipment	3,084,132	3,176,949
Prepaid lease payments	137,871	154,612
Intangible assets	55,580	61,233
Goodwill	55,764	55,764
Interest in a jointly controlled entity	24,869	24,086
Pledged bank deposits	3,746	2,428
	3,361,962	3,475,072
Current assets		
Inventories	656,253	756,053
Trade and other receivables	705,415	512,987
Bills receivable	145,421	118,281
Prepaid lease payments	4,174	4,474
Loan receivable	670	670
Tax recoverable	176	8,096
Trade receivables due from related companies	62	14,393
Amount due from a jointly controlled entity	17,817	17,047
Pledged bank deposits	5,518	–
Bank balances and cash	369,997	472,706
	1,905,503	1,904,707
Current liabilities		
Trade and other payables	892,860	974,756
Bills payable	333,805	403,876
Amounts due to related companies	8,128	4,146
Trade payable due to a jointly controlled entity	–	3,107
Tax liabilities	16,607	7,328
Bank loans – due within one year	767,024	344,804
	2,018,424	1,738,017
Net current (liabilities) assets	(112,921)	166,690
Total assets less current liabilities	3,249,041	3,641,762
Non-current liabilities		
Loans from ultimate holding company	55,627	55,488
Bank loans – due after one year	682,880	1,090,746
	738,507	1,146,234
	2,510,534	2,495,528
Capital and reserves		
Share capital	153,812	153,812
Reserves	2,347,662	2,331,020
Equity attributable to equity holders of the Company	2,501,474	2,484,832
Minority interests	9,060	10,696
	2,510,534	2,495,528

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended December 31, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, amendments to Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

2. Revenue and segment information

Business segments

The Group reports its primary segment information by products, segment information about these products is presented below:

For the six months ended June 30, 2006

	Bulk Drugs				Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	442,370	361,006	303,111	636,057	7,090	–	1,749,634
Inter-segment sales	104,552	57,217	319	–	–	(162,088)	–
TOTAL REVENUE	546,922	418,223	303,430	636,057	7,090	(162,088)	1,749,634
SEGMENT RESULTS	24,196	33,570	2,581	26,972	(12,176)	–	75,143
Unallocated corporate expenses							(8,143)
Share of results of a jointly controlled entity					783		783
Finance costs							(48,115)
Profit before tax							19,668
Income tax expenses							(3,068)
Profit for the period							16,600

Inter-segment sales are charged at prevailing market rates.

For the six months ended June 30, 2005

	Bulk Drugs				Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	158,960	376,431	370,174	533,768	3,310	–	1,442,643
Inter-segment sales	115,811	72,916	–	–	–	(188,727)	–
TOTAL REVENUE	274,771	449,347	370,174	533,768	3,310	(188,727)	1,442,643
SEGMENT RESULTS	(12,227)	33,900	71,902	44,887	(8,395)	–	130,067
Unallocated corporate expenses							(10,822)
Share of results of a jointly controlled entity					(438)		(438)
Finance costs							(25,575)
Profit before tax							93,232
Income tax expenses							(7,665)
Profit for the period							85,567

Inter-segment sales are charged at prevailing market rates.

Geographical segments

	For the six months ended June 30,	
	2006	2005
	HK\$'000	HK\$'000
REVENUE		
The People's Republic of China (the "PRC")	1,226,593	1,001,769
Asia other than the PRC	284,474	214,842
Europe	125,573	128,002
America	103,136	84,772
Others	9,858	13,258
	1,749,634	1,442,643

3. Profit before tax

	For the six months ended June 30,	
	2006	2005
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets	10,297	7,418
Amortisation of prepaid lease payments	2,087	1,748
Depreciation of property, plant and equipment	153,297	106,762
Loss on disposal of property, plant and equipment	29	12,620
Research and development expenses	3,626	5,039
Share of tax of a jointly controlled entity	187	22
Interest income	(1,517)	(1,390)

4. Income tax expense

The charge comprises PRC Enterprise Income Tax for both periods.

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 PRC subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years. The income tax expenses for both periods represent income tax provision which has taken into account of the tax incentive.

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

5. Dividend

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

6. Earnings per share

The calculation of the basic earnings per share attributable to the equity holders of the Company for the six months ended June 30, 2006 is based on the following data:

	For the six months ended June 30,	
	2006	2005
Profit for the period attributable to equity holders of the Company	HK\$16,642,000	HK\$85,571,000
Number of ordinary shares for the purposes of basic earnings per share	1,538,124,661	1,538,124,661

No diluted earnings per share has been presented for the six months ended June 30, 2006 and 2005 as there was no potential ordinary shares in issue during both periods.

7. Trade and other receivables/Bills receivable

The Group allows a credit period from 30 days to 90 days to its trade customers. An aged analysis of trade receivables net of allowances is as follows:

	June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
0 to 90 days	457,059	353,927
91 to 180 days	51,074	24,436
181 to 365 days	6,968	829
	515,101	379,192
Other receivables	190,314	133,795
	705,415	512,987

At balance sheet date, the amount of the Group's bills receivable was aged within one year.

8. Trade and other payables/Bills payable

An aged analysis of trade payables is as follows:

	June 30, 2006 HK\$'000	December 31, 2005 HK\$'000
0 to 90 days	344,798	383,495
91 to 180 days	89,646	69,611
181 to 365 days	28,637	26,432
More than 365 days	19,201	19,395
	482,282	498,933
Other payables	410,578	475,823
	892,860	974,756

At balance sheet date, the amount of the Group's bills payable was aged within one year.

BUSINESS REVIEW AND OUTLOOK

Results

For the first half of 2006, the Group's turnover and profit attributable to shareholders of the Company amounted to HK\$1,749,634,000 and HK\$16,642,000, representing an increase of 21% and a decrease of 81% over the same period of last year respectively.

Vitamin C Series

The total output of this series for the period amounted to 11,807 tonnes, a decrease of 20% over the same period of last year. Product prices continued to decline during the period. For the first and second quarters of the year, the average prices of vitamin C were US\$2.91 and US\$2.79 per kg respectively. The gross profit margin of the entire series decreased from 31.3% in the same period of last year to 15.9% in the current period. Under the current relatively low price level, the output of the manufacturers has decreased accordingly. It is expected that product prices would become stable.

Penicillin Series

The total output of this series for the period amounted to 4,388 tonnes, an increase of 71% over the same period of last year. Product prices were relatively stable during the current period. For the first half of the year, the average prices of penicillin industrial salt, amoxicillin and 6-APA were US\$9.15, US\$20.93 and US\$20.04 per kg respectively. Production costs were decreased due to the increasing utilization rate of the production lines in Inner Mongolia. The gross profit margin of the entire series increased from 9.4% in the same period of last year to 12.4% in the current period. It is expected that market condition will improve gradually and product prices would be able to rebound.

Cephalosporin Series

The total output of this series for the period amounted to 634 tonnes, approximately the same level of the corresponding period of last year. Being affected by the significant increase in market supply, product prices dropped sharply during the period. The average prices of 7-ACA in the first and second quarters of the year were US\$84.01 and US\$74.37 per kg respectively. With the reduction of production costs, the gross profit margin of the entire series only decreased from 20.5% in the same period of last year to 20.0% in the current period. It is expected that product prices would continue to be under pressure.

Finished Drugs

Though market competition remained fierce, the revenue of this business managed to grow by 19% as compared with the same period of last year. Gross profit margin decreased from 24.7% in the same period of last year to 22.6% in the current period. However, the significant increase in distribution costs has brought down the operating profit as compared with the same period of last year. Market competition is expected to remain fierce and the profitability of this business may further decline.

Patent Drug

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

In order to speed up the development of butylphthalide in overseas markets, the Group entered into a license agreement with an overseas pharmaceutical company during the period. Pursuant to the agreement, the overseas pharmaceutical company is responsible for applying overseas accreditation for the patent 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

Certain long-term bank loans will be due for repayment starting from current year, so parts of the loans were classified as current liabilities at the balance sheet date. As a result, the Group's current ratio fell to 0.94 at June 30, 2006. The Group will seek to improve its liquidity position by arranging new banking facilities. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in PRC) increased to 61 days as compared to 51 days in 2005. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 110 days in 2005 to 83 days in current period. For the first half of 2006, the capital expenditure of the Group was HK\$66,489,000.

At June 30, 2006, the Group had total borrowings of HK\$1,505,531,000 (comprising bank loans of HK\$1,449,904,000 and loans from ultimate holding company of HK\$55,627,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$767,024,000 repayable within one year. Net gearing ratio was 45%, which was calculated on the basis of the Group's total borrowings net of bank deposits, bank balances and cash of HK\$379,261,000 over equity at the balance sheet date.

45% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 55% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group is of the view that its exposure to foreign exchange rate risk is limited.

Pledge of Assets

At June 30, 2006, bank deposits of HK\$9,264,000 (December 31, 2005: bank deposits of HK\$2,428,000 and bills receivable of HK\$3,828,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

(i) The Company and one of its subsidiary are named as, among others, defendants in a number of antitrust complaints filed in The United States of America. The details of the antitrust complaints have been set out in the financial statements of the Company for the year ended December 31, 2005. As at June 30, 2006, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors of the Company are of the view that the allegations in the antitrust complaints are without merit and the directors 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.

(ii) At the beginning of 2006, an anti-dumping investigation of Penicillin-G was initiated by the Department of Commerce, Government of India. Two subsidiaries of the Company were invited to provide information for the investigation so as to determine the existence, degree and effect of alleged dumping of the above-mentioned product. On April 28, 2006, the investigation was withdrawn by the Department of Commerce, Government of India. In the opinion of the directors, there is no contingent liability on this investigation as at June 30, 2006.

Employees

At the balance sheet date, the Group has about 12,338 employees, the majority of them are employed in the PRC. The Group continues 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 during the six months ended June 30, 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. As disclosed in the 2005 annual report of the Company, Mr. Cai Dong Chen has assumed both roles as the chairman and 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 INTERIM RESULTS

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

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended June 30, 2006.

By order of the Board
CAI DONG CHEN
Chairman

Hong Kong, September 7, 2006

As at the date of this announcement, the Board of Directors of the Company comprises six executive directors, namely Mr. Cai Dong Chen, Mr. Wei Fu Min, Mr. Yue Jin, Mr. Ji Jian Min, Mr. Feng Zhen Ying and Mr. Chak Kin Man; one non-executive director, namely Mr. Lee Ka Sze, Carmelo and four independent non-executive directors, namely Mr. Huo Zhen Xing, Mr. Qi Mou Jia, Mr. Guo Shi Chang and Mr. Chan Siu Keung, Leonard.