



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 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, 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended June 30,	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	2,309,051	1,749,634
Cost of sales	<u>(1,681,790)</u>	<u>(1,427,681)</u>
Gross profit	627,261	321,953
Other income	13,485	17,336
Selling and distribution expenses	(187,563)	(111,253)
Administrative expenses	(228,290)	(156,279)
Other expenses	<u>(32,931)</u>	<u>(4,757)</u>
Operating profit	191,962	67,000
Share of results of a jointly controlled entity	(4,593)	783
Finance costs	<u>(55,075)</u>	<u>(48,115)</u>
Profit before tax	132,294	19,668
Income tax expense	<u>(10,505)</u>	<u>(3,068)</u>
Profit for the period	<u><u>121,789</u></u>	<u><u>16,600</u></u>
Attributable to:		
Equity holders of the Company	123,394	16,642
Minority interests	<u>(1,605)</u>	<u>(42)</u>
	<u><u>121,789</u></u>	<u><u>16,600</u></u>
Dividend	<u>—</u>	<u>—</u>
Earnings per share — Basic	<u><u>HK8.02 cents</u></u>	<u><u>HK1.08 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

	As at June 30, 2007 <i>HK\$'000</i> (Unaudited)	As at December 31, 2006 <i>HK\$'000</i> (Audited)
Non-current assets		
Property, plant and equipment	3,272,788	3,233,026
Prepaid lease payments	146,989	145,923
Intangible assets	48,039	48,275
Goodwill	55,764	55,764
Interest in a jointly controlled entity	17,053	21,646
Pledged bank deposits	772	1,312
	<u>3,541,405</u>	<u>3,505,946</u>
Current assets		
Inventories	688,654	682,935
Trade and other receivables	670,141	574,488
Bills receivables	168,680	98,501
Prepaid lease payments	4,685	4,361
Tax recoverable	2,197	1,165
Trade receivables due from a related company	14,361	2,660
Amount due from a jointly controlled entity	15,300	13,155
Pledged bank deposits	—	2,792
Bank balances and cash	405,749	387,405
	<u>1,969,767</u>	<u>1,767,462</u>
Current liabilities		
Trade and other payables	932,537	754,147
Bills payables	139,501	223,118
Trade payables due to a related company	7,017	11,360
Amounts due to related companies	11,759	10,454
Tax liabilities	21,068	15,002
Unsecured bank loans	820,000	752,000
Loans from immediate holding company	9,667	—
	<u>1,941,549</u>	<u>1,766,081</u>
Net current assets	<u>28,218</u>	<u>1,381</u>
Total assets less current liabilities	<u>3,569,623</u>	<u>3,507,327</u>
Non-current liabilities		
Unsecured bank loans	671,000	777,000
Loan from a related company	126,000	20,000
Loans from ultimate holding company	—	59,493
	<u>797,000</u>	<u>856,493</u>
Net assets	<u>2,772,623</u>	<u>2,650,834</u>
Capital and reserves		
Share capital	153,812	153,812
Reserves	2,611,223	2,487,829
Equity attributable to equity holders of the Company	2,765,035	2,641,641
Minority interests	7,588	9,193
Total equity	<u>2,772,623</u>	<u>2,650,834</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2006.

2. Segmental information

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 six months ended June 30, 2007

	Bulk Drugs			Finished Drugs	Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
REVENUE							
External sales	822,884	338,015	470,995	660,901	16,256	—	2,309,051
Inter-segment sales	<u>175,132</u>	<u>15,130</u>	<u>600</u>	—	<u>70</u>	<u>(190,932)</u>	<u>—</u>
TOTAL REVENUE	<u>998,016</u>	<u>353,145</u>	<u>471,595</u>	<u>660,901</u>	<u>16,326</u>	<u>(190,932)</u>	<u>2,309,051</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>188,199</u>	<u>11,178</u>	<u>47,835</u>	<u>(35,900)</u>	<u>(10,981)</u>		200,331
Unallocated income							54
Unallocated corporate expenses							<u>(8,423)</u>
Operating profit							191,962
Share of results of a jointly controlled entity					(4,593)		<u>(4,593)</u>
Finance costs							<u>(55,075)</u>
Profit before tax							132,294
Income tax expense							<u>(10,505)</u>
Profit for the period							<u>121,789</u>

For the six months ended June 30, 2006

	Bulk Drugs			Finished Drugs	Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE							
External sales	442,370	361,006	303,111	636,057	7,090	—	1,749,634
Inter-segment sales	<u>104,552</u>	<u>57,217</u>	<u>319</u>	<u>—</u>	<u>—</u>	<u>(162,088)</u>	<u>—</u>
TOTAL REVENUE	<u>546,922</u>	<u>418,223</u>	<u>303,430</u>	<u>636,057</u>	<u>7,090</u>	<u>(162,088)</u>	<u>1,749,634</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>24,196</u>	<u>33,570</u>	<u>2,581</u>	<u>26,972</u>	<u>(12,176)</u>		75,143
Unallocated income							269
Unallocated corporate expenses							<u>(8,412)</u>
Operating profit							67,000
Share of results of a jointly controlled entity					783		783
Finance costs							<u>(48,115)</u>
Profit before tax							19,668
Income tax expense							<u>(3,068)</u>
Profit for the period							<u>16,600</u>

Geographical segments

The following is an analysis of the Group's revenue by geographical market for the period under review:

	For the six months ended June 30,	
	2007 <i>HK\$'000</i> (unaudited)	2006 <i>HK\$'000</i> (unaudited)
The People's Republic of China (the "PRC")	1,469,740	1,226,593
Asia other than the PRC	560,423	284,474
Europe	143,908	125,573
America	120,457	103,136
Others	14,523	9,858
	<u>2,309,051</u>	<u>1,749,634</u>

3. Profit before tax

	For the six months ended June 30,	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets	11,775	10,297
Amortisation of prepaid lease payments	2,280	2,087
Depreciation of property, plant and equipment	174,693	153,297
Employee benefits expenses, including those of directors (<i>Note</i>)	201,509	137,712
Contribution to retirement benefits schemes, including those of directors	33,487	23,335
Loss on disposal of property, plant and equipment, included in other expenses	25,145	29
Research and development expenses	4,031	3,626
Share of tax of a jointly controlled entity, included in share of results of a jointly controlled entity	—	187
Interest income	(1,195)	(1,517)

Note: The amount for the current period includes a half-year bonus of HK\$39,695,000 (1.1.2006 to 6.30.2006: Nil)

4. Income tax expense

	For the six months ended June 30,	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC Foreign Enterprise Income Tax		
— current year	14,619	3,068
— underprovision in prior years	886	—
— tax refund	(5,000)	—
	<u>10,505</u>	<u>3,068</u>

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. The tax charge for the period arose from taxation on its subsidiaries established in the PRC.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption and relief from PRC Foreign Enterprise Income Tax starting from their first profit-making years.

In addition, pursuant to an approval granted by the relevant tax authority, a subsidiary of the Company was granted tax refund on the basis that the subsidiary of the Company has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contribution to a PRC subsidiary set up in previous years.

The tax charge for the period represents income tax provision which has taken into account of the above-mentioned tax incentive.

As at June 30, 2007, the Group had unused tax losses of HK\$197,751,000 (12.31.2006: 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. The unrecognised tax losses will expire in 2012.

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

5. Dividend

No dividend was 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 for the six months ended June 30, 2007 is based on the unaudited profit for the period attributable to equity holders of the Company of HK\$123,394,000 (1.1.2006 to 6.30.2006: HK\$16,642,000) and the 1,538,124,661 shares (1.1.2006 to 6.30.2006: 1,538,124,661 shares) in issue during the period.

No diluted earnings per share has been presented for the six months ended June 30, 2006 and 2007 as there were no potential ordinary shares in issue during both periods.

7. Trade and other receivables/Bills receivables

	As at June 30, 2007 HK\$'000 (unaudited)	As at December 31, 2006 HK\$'000 (audited)
Trade receivables	562,447	497,288
Bills receivables	<u>168,680</u>	<u>98,501</u>
	731,127	595,789
Other receivables	<u>107,694</u>	<u>77,200</u>
	<u>838,821</u>	<u>672,989</u>

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

	As at June 30, 2007 HK\$'000 (unaudited)	As at December 31, 2006 HK\$'000 (audited)
0 to 90 days	703,035	559,880
91 to 180 days	27,122	35,731
181 to 365 days	970	178
	<u>731,127</u>	<u>595,789</u>

8. Trade and other payables/Bills payables

	As at June 30, 2007 HK\$'000 (unaudited)	As at December 31, 2006 HK\$'000 (audited)
Trade payables	391,111	406,100
Bills payables	139,501	223,118
	<u>530,612</u>	<u>629,218</u>
Other payables	541,426	348,047
	<u>1,072,038</u>	<u>977,265</u>

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

	As at June 30, 2007 HK\$'000 (unaudited)	As at December 31, 2006 HK\$'000 (audited)
0 to 90 days	456,710	555,975
91 to 180 days	42,337	54,433
181 to 365 days	21,942	9,917
More than 365 days	9,623	8,893
	<u>530,612</u>	<u>629,218</u>

BUSINESS REVIEW AND OUTLOOK

Results

For the first half of 2007, the Group's revenue and profit attributable to equity holders of the Company amounted to HK\$2,309,051,000 and HK\$123,394,000, representing an increase of 32% and 641% over the same period of last year, respectively.

Vitamin C Series

Total sales volume of the major products of this series for the period amounted to 15,249 tonnes, an increase of 16.7% over the same period of last year. With the market supply and demand moving towards a more balanced state, product prices rebounded significantly during the current period. For the first and second quarters of the year, the average prices of vitamin C were US\$3.02 and US\$4.34 per kg respectively. The gross profit margin of the entire series increased from 15.9% in the same period of last year to 29.2% in the current period. It is expected that the upward trend of the product prices will continue in the second half of the year.

Penicillin Series

Total sales volume of the major products of this series for the period amounted to 4,676 tonnes, an increase of 26.7% over the same period of last year. After a long period of market consolidation, coupled with the lessening of market supply as a result of the more stringent environmental regulations, product prices increased sharply during the current period. The respective average prices of penicillin industrial salt, amoxicillin and 6-APA for the first quarter of the year were US\$12.96, US\$27.60 and US\$27.84 per kg whilst their respective average prices for the second quarter of the year were US\$19.12, US\$37.56 and US\$37.09 per kg. The gross profit margin of the entire series increased from 12.4% in the same period of last year to 33.8% in the current period. It is expected that the upward trend of the product prices will continue in the second half of the year.

Cephalosporin Series

Total sales volume of the major products of this series for the period amounted to 510 tonnes, a decrease of 9.1% over the same period of last year. After the significant drop in previous year, product prices recovered slightly during the current period. The average prices of 7-ACA in the first and second quarters of the year were US\$ 82.80 and US\$83.21 per kg respectively. As the production costs have increased during the current period, the gross profit margin of the entire series decreased from 20.0% in the same period of last year to 14.8% in the current period. It is expected that market conditions will be able to improve gradually.

Finished Drugs

Market competition remained fierce in the current period, revenue of this business grew slightly by 3.9% as compared with the same period of last year. Gross profit margin increased from 22.6% in the same period of last year to 23.6% in the current period. During the period, the Group has increased its efforts in developing the vitamin C health supplement market in the PRC, leading to a significant increase in the selling and distribution expenses. The finish drugs division ended up recording an operating loss of HK\$35,900,000 for the current period. Market competition is expected to remain fierce.

Patent Drug

The patent drug, butylphthalide, maintained a steady growth in sales during the period and its operating conditions have improved slightly. The Group will continue its efforts to tap into this new market.

FINANCIAL REVIEW

Liquidity and Financial Position

For the first half of 2007, the Group's operating activities generated a net cash inflow of HK\$230,770,000. Capital expenditure amounted to HK\$244,998,000. As at June 30, 2007, the Group's current ratio was 1.0, similar to that at the end of 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 52 days in the current period, as compared to 55 days in 2006. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 85 days in 2006 to 74 days in the current period.

As at June 30, 2007, the Group had total borrowings of HK\$1,626,667,000 (comprising bank loans of HK\$1,491,000,000, loan from a related company of HK\$126,000,000 and loans from immediate holding company of HK\$9,667,000). The maturity profile of the total borrowings spreads over a period of three years with HK\$829,667,000 repayable within one year and the remaining HK\$797,000,000 repayable within two to three years. Net gearing ratio was 44%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$406,521,000 over equity attributable to equity holders of the Company 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 mainly either in Renminbi or in US dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited.

Pledge of Assets

As at June 30, 2007, bank deposits of HK\$772,000 (12.31.2006: HK\$4,104,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

The Company and one of its subsidiaries 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 annual financial statements of the Group for the year ended December 31, 2006. 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 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.

Employees

As at June 30, 2007, the Group has about 10,083 permanent 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 contained in Appendix 14 of the Listing Rules throughout the six months ended June 30, 2007 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 2006 annual report of the Company, Mr. Cai Dongchen 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 of directors, 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, 2007.

By order of the Board
CAI DONGCHEN
Chairman

Hong Kong, September 13, 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. Ji Jianming, Mr. Feng Zhenying, 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.