



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)

2008 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended June 30, 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended June 30,	
		2008	2007
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue		3,295,903	2,309,051
Cost of sales		(2,214,700)	(1,681,790)
Gross profit		1,081,203	627,261
Other income		27,204	13,485
Selling and distribution expenses		(190,772)	(187,563)
Administrative expenses		(243,259)	(228,290)
Other expenses		(74,791)	(32,931)
Operating profit		599,585	191,962
Share of results of a jointly controlled entity		1,108	(4,593)
Share of results of an associate		1,362	—
Change in fair value of a derivative financial instrument		6,851	—
Finance costs		(57,737)	(55,075)
Profit before tax	3	551,169	132,294
Income tax expense	4	(105,586)	(10,505)
Profit for the period		445,583	121,789
Attributable to:			
Equity holders of the Company		443,952	123,394
Minority interests		1,631	(1,605)
		445,583	121,789
Interim dividend declared	5	—	—
Earnings per share — Basic	6	HK cents 28.86	HK cents 8.02

CONDENSED CONSOLIDATED BALANCE SHEET

		As at June 30, 2008	As at December 31, 2007
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		3,690,017	3,648,284
Prepaid lease payments		183,864	174,544
Intangible assets		48,602	58,876
Goodwill		105,810	100,718
Interest in a jointly controlled entity		22,608	20,146
Interest in an associate		46,339	—
Available-for-sale investment		15,669	—
Pledged bank deposits		5,292	751
Deposit paid for investment in an associate		—	21,277
		<u>4,118,201</u>	<u>4,024,596</u>
Current assets			
Inventories		1,102,131	927,867
Trade and other receivables	7	755,172	768,828
Bills receivables	7	342,463	281,586
Prepaid lease payments		5,751	5,384
Tax recoverable		7,308	—
Amount due from a jointly controlled entity		16,704	14,392
Trade receivables due from an associate		30,791	—
Pledged bank deposits		3,494	—
Bank balances and cash		689,852	436,092
		<u>2,953,666</u>	<u>2,434,149</u>

		As at June 30, 2008 <i>HK\$'000</i> (Unaudited)	As at December 31, 2007 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Current liabilities			
Trade and other payables	8	1,144,661	1,127,786
Bills payables	8	103,409	169,537
Trade payables due to a related company		26,326	25,820
Amounts due to related companies		10,171	14,978
Tax liabilities		68,726	47,103
Unsecured bank loans		998,954	976,043
Loans from a related company/ an intermediate holding company		10,087	9,404
Derivative financial instrument		—	551
		<u>2,362,334</u>	<u>2,371,222</u>
Net current assets		<u>591,332</u>	<u>62,927</u>
Total assets less current liabilities		<u>4,709,533</u>	<u>4,087,523</u>
Non-current liabilities			
Unsecured bank loans		675,455	716,383
Deferred tax liabilities		7,151	—
		<u>682,606</u>	<u>716,383</u>
Net assets		<u>4,026,927</u>	<u>3,371,140</u>
Capital and reserves			
Share capital		153,812	153,812
Reserves		3,854,276	3,198,486
Equity attributable to equity holders of the Company		<u>4,008,088</u>	<u>3,352,298</u>
Minority interests		18,839	18,842
Total equity		<u>4,026,927</u>	<u>3,371,140</u>

Notes:

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 (the “Listing Rules”) 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 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 Group for the year ended December 31, 2007.

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, 2008 (Unaudited)

	Bulk Drugs			Finished Drugs	Others	Eliminations	Consolidated
	Penicillin series	Cephalosporin series	Vitamin C series				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	1,068,635	342,079	892,728	959,380	33,081	—	3,295,903
Inter-segment sales	292,835	89,175	777	—	914	(383,701)	—
TOTAL REVENUE	1,361,470	431,254	893,505	959,380	33,995	(383,701)	3,295,903
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	177,144	(2,635)	365,894	69,706	1,950		612,059
Unallocated income							2,310
Unallocated expenses							(14,784)
Operating profit							599,585
Share of results of a jointly controlled entity					1,108		1,108
Share of results of an associate		1,362					1,362
Change in fair value of a derivative financial instrument							6,851
Finance costs							(57,737)
Profit before tax							551,169
Income tax expense							(105,586)
Profit for the period							445,583

For the six months ended June 30, 2007 (Unaudited)

	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	822,884	338,015	470,995	673,179	3,978	—	2,309,051
Inter-segment sales	175,132	15,130	600	—	70	(190,932)	—
TOTAL REVENUE	<u>998,016</u>	<u>353,145</u>	<u>471,595</u>	<u>673,179</u>	<u>4,048</u>	<u>(190,932)</u>	<u>2,309,051</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>187,904</u>	<u>11,139</u>	<u>47,384</u>	<u>(45,291)</u>	<u>(1,946)</u>		199,190
Unallocated income							1,195
Unallocated expenses							<u>(8,423)</u>
Operating profit							191,962
Share of results of a jointly controlled entity					(4,593)		(4,593)
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>

Geographical segments

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

	For the six months ended June 30,	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The People's Republic of China (the "PRC")	2,138,000	1,469,740
Asia other than the PRC	614,142	560,423
Europe	292,684	143,908
America	205,114	120,457
Others	45,963	14,523
	<u>3,295,903</u>	<u>2,309,051</u>

3. Profit before tax

	For the six months ended June 30,	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	15,656	11,775
Amortisation of prepaid lease payments	2,479	2,280
Contribution to retirement benefits scheme, including those of directors	28,537	33,487
Depreciation of property, plant and equipment	218,097	174,693
Staff costs, including those of directors	239,028	201,509
Loss on disposal of property, plant and equipment	49,724	25,145
Net foreign exchange losses	20,967	3,386
Research and development expenses	18,080	4,031
Interest income	(2,310)	(1,195)
	<u>(2,310)</u>	<u>(1,195)</u>

4. Income tax expense

	For the six months ended June 30,	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax		
— Current year	97,143	14,619
— Underprovision in prior years	1,292	886
— Tax refund	—	(5,000)
	<u>98,435</u>	<u>10,505</u>
Deferred taxation	<u>7,151</u>	<u>—</u>
	<u>105,586</u>	<u>10,505</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. 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 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 during the six months ended June 30, 2007 on the basis that the subsidiary of the has, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contribution to two PRC subsidiaries set up in previous years. The tax charge for the six months ended June 30, 2007 represented income tax provision which has taken into account of the above-mentioned tax incentive.

On March 16, 2007, the PRC promulgated the Law of the PRC (the “New Law”) by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. In accordance with the New Law and Implementation Regulations, the tax rate of certain subsidiaries has changed to 25% starting from January 1, 2008. Those subsidiaries which are under the tax exemption and relief as mentioned above will continue to be entitled to the exemption and relief from PRC Enterprise Income Tax based on the new tax rate of 25% or the concessionary tax rate in the relevant special zone in the PRC during the concessionary period.

As at June 30, 2008, the Group had unused tax losses of approximately HK\$105,487,000 (12.31.2007: HK\$141,440,000) 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 2013.

Starting from January 1, 2008, the New Law requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred taxation of approximately HK\$7,151,000 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 balance sheet date.

5. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2008 (1.1.2007 to 6.30.2007: Nil).

On June 10, 2008, a dividend of HK5 cents per share (1.1.2007 to 6.30.2007: Nil) was paid to shareholders as final dividend for the year ended December 31, 2007.

6. Earnings per share

The calculation of the basic earnings per share for the six months ended June 30, 2008 is based on the unaudited profit for the period attributable to equity holders of the Company of HK\$443,952,000 (1.1.2007 to 6.30.2007: HK\$123,394,000) and the 1,538,124,661 shares (1.1.2007 to 6.30.2007: 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, 2007 and 2008 as there were no potential ordinary shares in issue during both periods.

7. Trade and other receivables/Bills receivables

	As at June 30, 2008 HK\$'000 (Unaudited)	As at December 31, 2007 HK\$'000 (Audited)
Trade receivables	669,288	667,913
Bills receivables	342,463	281,586
	1,011,751	949,499
Other receivables	85,884	100,915
	1,097,635	1,050,414

The Group allows a general credit period up to 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:

	As at June 30, 2008 HK\$'000 (Unaudited)	As at December 31, 2007 HK\$'000 (Audited)
0 to 90 days	983,941	917,351
91 to 180 days	27,810	30,534
181 to 365 days	—	1,614
	1,011,751	949,499

8. Trade and other payables/Bills payables

	As at June 30, 2008 <i>HK\$'000</i> (Unaudited)	As at December 31, 2007 <i>HK\$'000</i> (Audited)
Trade payables	543,830	479,686
Bills payables	<u>103,409</u>	<u>169,537</u>
	647,239	649,223
Other payables	<u>600,831</u>	<u>648,100</u>
	<u><u>1,248,070</u></u>	<u><u>1,297,323</u></u>

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

	As at June 30, 2008 <i>HK\$'000</i> (Unaudited)	As at December 31, 2007 <i>HK\$'000</i> (Audited)
0 to 90 days	554,984	595,033
91 to 180 days	48,962	29,572
181 to 365 days	32,674	11,194
More than 365 days	<u>10,619</u>	<u>13,424</u>
	<u><u>647,239</u></u>	<u><u>649,223</u></u>

BUSINESS REVIEW AND OUTLOOK

Results

The Group reported a remarkable interim result with a profit attributable to shareholders of 443,952,000 for the first half of 2008, compared to a profit of HK\$123,394,000 for the same period last year. Earnings per share rose 259.9% to HK\$28.86 cents. Turnover increased by 42.7% to HK\$3,295,903,000.

Vitamin C Series

Total sales volume of the major products of this series for the period was 14,586 tonnes, slightly lower than the same period last year. With a tight market supply, product prices continued to rise during the period. For the first and second quarters of the year, the average prices of vitamin C were US\$6.77 and US\$8.52 per kg respectively. The gross profit margin of the entire series increased from 29.2% in the same period last year to 55.8% in the current period. It is expected that there is room for the product prices to increase further and the performance of this series will remain strong.

Penicillin Series

As a result of the enhancement in production capacity of the Group and the growth in market demand, total sales volume of the major products of this series increased by 29.5% to 6,057 tonnes for the current period. Market supply was tight as the production of certain manufacturers was still affected by the environmental concern, product prices began to rebound in April. The respective average prices of penicillin industrial salt, 6-APA and amoxicillin for the first quarter of the year were US\$11.59, US\$26.88 and US\$30.90 per kg while their respective average prices for the second quarter of the year were US\$20.00, US\$40.56 and US\$44.30 per kg. Market competition may intensify due to the expansion of production capacity of individual manufacturer.

Among the producers in the same business, the Group is currently the only producer that has passed the inspection of the environmental protection authority in China. With the granting of the amoxicillin bulk drug COS from the EDQM of the European Union during the period, the Group has successfully expanded its overseas market coverage and gained access to the high-end market in Europe and America.

Cephalosporin Series

Total sales volume of the major products of this series decreased by 7.1% to 474 tonnes for the current period. The average price of 7-ACA had been cut early this year in order to curb further increase in production capacity in the market. The average prices of 7-ACA for the first and second quarters of the year were US\$90.61 and US\$91.93 per kg respectively. The performance of this series is expected to improve with the steady recovery of the product prices.

Finished Drugs

As a result of the growth in demand for pharmaceutical products in the PRC and the strong business development efforts of the Group, sales revenue of the finished drug business increased significantly by 42.5% to approximately HK\$960 million for the current period. Gross profit margin increased from 24.0% in the same period last year to 27.0% in the current period, with the operating profit significantly improved to approximately HK\$70 million. The Group will continue to enhance the performance of this business by introducing new products and strengthening its sales efforts.

The Group is working on the research and development of over 150 new products. One National Class I New Medicine (patent drug) is expected to obtain approval for launch this year and 15 new products are of National Class III or above. The Group will continue to enhance the performance of this business by introducing new products and strengthening its sales efforts. Benefited from the medical insurance system and the new rural cooperative medical system implemented in China, the room for growth in sales of the Group has expanded. The Group is also endeavoring to improve product mix and develop the finished drug business. It is believed that the profit contribution from finished drug business to the Group will continue to increase.

Among the finished drugs, the business of patent drug butylphthalide continued to grow during the current period. In addition to strengthening its domestic sales efforts, the Group will continue its expansion into the overseas market.

FINANCIAL REVIEW

Liquidity and Financial Position

For the first half of 2008, the Group's operating activities generated a net cash inflow of 534,441,000. Capital expenditure in relation to the additions of property, plant and equipment amounted to HK\$86,685,000. The current ratio of the Group improved from 1.0 as at the end of 2007 to 1.3 as at June 30, 2008. 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) shortened from 62 days in 2007 to 50 days in the current period. Inventory turnover period (ratio of inventories balance to cost of goods sold) decreased from 98 days in 2007 to 91 days in the current period.

As at June 30, 2008, the Group had total borrowings of HK\$1,684,496,000 (comprising bank loans of HK\$1,674,409,000 and loans from a related company of HK\$10,087,000). The maturity profile spreads over a period of four years with HK\$1,009,041,000 repayable within one year and the remaining HK\$675,455,000 repayable between two to four years. Net gearing ratio was 25% as at June 30, 2008 (calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$698,638,000 over shareholders' equity at the balance sheet date), compared to 38% as at end of 2007.

38% of the Group's borrowings are denominated in Hong Kong dollars and the remaining 62% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group will enter into forward contracts to minimize foreign exchange risk when considered appropriate.

Pledge of Assets

As at June 30, 2008, bank deposits of HK\$8,786,000 (12.31.2007: HK\$751,000) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the announcement of the Company 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. 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 date of this announcement, 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.

On May 3, 2006, that 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. On June 5, 2007, the court heard the defendants' motions to dismiss based on the legal principles of act of state, foreign sovereign compulsion and international comity. The court has taken those motions under advisement and it is not known when a ruling will be forthcoming.

Submissions concerning whether the direct purchaser case may proceed as a class action have been made during the year 2007. According to the latest timetable fixed by the court, fact discovery is scheduled to be concluded by September 15, 2008, expert discovery is scheduled to be concluded by March 28, 2009 and a joint pre-trial order is due by May 15, 2009. The action is still in the stage of class discovery.

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.

Employees

As at June 30, 2008, the Group had about 9,284 employees, the majority of them are 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 contained in Appendix 14 of the Listing Rules throughout the six months ended June 30, 2008 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 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, 2008.

By order of the Board

Cai Dongchen

Chairman

Hong Kong, September 11, 2008

As at the date of this announcement, the board of directors of the Company comprises 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 as executive directors; Mr. Lee Ka Sze, Carmelo as non-executive director and Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard as independent non-executive directors.