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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)

2010 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 30 June 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	For the six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Revenue	3	3,941,018	3,502,908
Cost of sales		(2,710,806)	(2,330,866)
Gross profit		1,230,212	1,172,042
Other income		21,087	16,553
Selling and distribution expenses		(245,959)	(299,903)
Administrative expenses		(313,601)	(216,246)
Other expenses		(122,783)	(27,855)
Operating profit		568,956	644,591
Share of results of a jointly controlled entity		3,628	322
Finance costs		(34,624)	(35,596)
Profit before tax	4	537,960	609,317
Income tax expense	5	(100,106)	(72,049)
Profit for the period		437,854	537,268
Profit for the period attributable to:			
Owners of the Company		426,223	532,710
Non-controlling interests		11,631	4,558
		437,854	537,268
		HK cents	HK cents
Earnings per share — Basic	7	27.77	34.71

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		As at 30 June 2010 <i>HK\$'000</i> (Unaudited)	As at 31 December 2009 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		4,011,953	4,044,989
Prepaid lease payments		255,011	257,499
Intangible assets		152,323	154,528
Goodwill		150,843	150,843
Interest in a jointly controlled entity		23,059	23,976
Available-for-sale investment		8,360	7,770
		<u>4,601,549</u>	<u>4,639,605</u>
Current assets			
Inventories		1,153,294	978,525
Trade and other receivables	8	1,182,157	1,065,967
Bills receivables	8	794,743	725,750
Prepaid lease payments		7,625	7,605
Tax recoverable		—	60
Trade receivables due from a related company		279	—
Trade receivables due from a connected company		29,198	28,283
Amount due from a jointly controlled entity		21,910	17,939
Pledged bank deposits		41,801	50,637
Bank balances and cash		1,313,397	1,443,163
		<u>4,544,404</u>	<u>4,317,929</u>
Current liabilities			
Trade and other payables	9	1,872,260	1,497,610
Bills payables	9	172,380	357,045
Trade payables due to a related company		—	829
Amounts due to related companies		1,149	7,057
Amounts due to connected companies		20,347	37,449
Tax liabilities		69,954	96,540
Unsecured bank loans		434,873	880,782
		<u>2,570,963</u>	<u>2,877,312</u>
Net current assets		<u>1,973,441</u>	<u>1,440,617</u>
Total assets less current liabilities		<u>6,574,990</u>	<u>6,080,222</u>

	As at 30 June 2010	As at 31 December 2009
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Unsecured bank loans	1,163,454	687,027
Loan from a jointly controlled entity	—	28,409
Deferred tax liabilities	38,141	35,323
	<u>1,201,595</u>	<u>750,759</u>
Net assets	<u>5,373,395</u>	<u>5,329,463</u>
Capital and reserves		
Share capital	153,496	153,496
Reserves	5,062,298	5,006,788
Equity attributable to owners of the Company	5,215,794	5,160,284
Non-controlling interests	157,601	169,179
Total equity	<u>5,373,395</u>	<u>5,329,463</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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 “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. The application of HKAS 27 had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and present them as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. Instead,

the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions in the amendment to HKAS 17 Leases, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases. The application of the amendment to HKAS 17 has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The adoption of the other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

For the six months ended 30 June 2010 (Unaudited)

	Intermediates and Bulk Drugs		Finished Drugs	Others	Segment Total	Eliminations	Consolidated
	Vitamin C series	Antibiotics 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>
SEGMENT REVENUE							
External sales	1,144,258	1,562,199	1,131,542	103,019	3,941,018	—	3,941,018
Inter-segment sales	1,163	459,758	—	138,925	599,846	(599,846)	—
TOTAL REVENUE	<u>1,145,421</u>	<u>2,021,957</u>	<u>1,131,542</u>	<u>241,944</u>	<u>4,540,864</u>	<u>(599,846)</u>	<u>3,941,018</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>489,411</u>	<u>58,841</u>	<u>99,493</u>	<u>(2,346)</u>			645,399
Interest income							4,268
Unallocated central costs							(80,711)
Operating profit							568,956
Share of results of a jointly controlled entity							3,628
Finance costs							(34,624)
Profit before tax							<u>537,960</u>

For the six months ended 30 June 2009 (Unaudited)

	Intermediates and Bulk Drugs		Finished Drugs	Others	Segment Total	Eliminations	Consolidated
	Vitamin C series	Antibiotics 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>
SEGMENT REVENUE							
External sales	1,230,307	1,167,518	1,070,149	34,934	3,502,908	—	3,502,908
Inter-segment sales	<u>2,839</u>	<u>349,717</u>	<u>—</u>	<u>273</u>	<u>352,829</u>	<u>(352,829)</u>	<u>—</u>
TOTAL REVENUE	<u>1,233,146</u>	<u>1,517,235</u>	<u>1,070,149</u>	<u>35,207</u>	<u>3,855,737</u>	<u>(352,829)</u>	<u>3,502,908</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>668,035</u>	<u>(18,928)</u>	<u>62,485</u>	<u>1,455</u>			713,047
Interest income							4,359
Unallocated central costs							<u>(72,815)</u>
Operating profit							644,591
Share of results of a jointly controlled entity							322
Finance costs							<u>(35,596)</u>
Profit before tax							<u>609,317</u>

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, central administration costs, central advertising costs, share of results of a jointly controlled entity and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAX

**For the six months
ended 30 June**
2010 **2009**
HK\$'000 **HK\$'000**
(Unaudited) **(Unaudited)**

Profit before tax has been arrived at after charging (crediting) the following items:

Amortisation of intangible assets (included in cost of sales)	10,336	9,726
Amortisation of prepaid lease payments	3,810	2,924
Depreciation of property, plant and equipment	252,412	231,391
Contribution to retirement benefits schemes, including those of directors	38,936	34,873
Staff costs, including those of directors	324,593	257,991
Loss on disposal of property, plant and equipment (included in other expenses)	43,127	3,589
Net foreign exchange losses	2,792	4,001
Research and development expenses (included in other expenses)	64,063	23,847
Interest income	(4,268)	(4,359)
	<u> </u>	<u> </u>

For the six months ended 30 June 2009 and 2010, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated income statement.

5. INCOME TAX EXPENSE

**For the six months
ended 30 June**
2010 **2009**
HK\$'000 **HK\$'000**
(Unaudited) **(Unaudited)**

The tax charge comprises:

PRC Enterprise Income Tax		
— Current year (including PRC withholding tax of HK\$5,682,000 (2009: Nil))	97,288	107,493
— Overprovision in prior years	—	(4,136)
— Tax credits	—	(39,698)
	<u> </u>	<u> </u>
	97,288	63,659
Deferred taxation	2,818	8,390
	<u> </u>	<u> </u>
	<u>100,106</u>	<u>72,049</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 from PRC Enterprise Income Tax starting from their first profit-making years, followed by a 50% reduction in tax rate for the next three years.

The tax charge for both periods represents income tax provisions which have taken into account the above-mentioned tax incentives. The basic tax rate of the Group's PRC subsidiaries is 25%, except those which are enjoying the concessionary tax rate of 15% in the relevant special zone in the PRC during the concessionary period ending in 2010.

In addition, pursuant to the approvals by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises in Hebei Province, the PRC for a period of 3 years up to 2010 or 2011. The applicable tax rate for these enterprises is 15% during those years.

As at 30 June 2010, the Group had unused tax losses of HK\$91,991,000 (31.12.2009: HK\$101,241,000) 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 2014.

In respect of the withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders, deferred taxation of HK\$2,818,000 (2009: HK\$8,390,000), net of HK\$5,682,000 withholding tax (2009: Nil) paid, 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 end of the reporting period.

6. DIVIDENDS

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

During the period, a dividend of HK24 cents per share was paid to shareholders as final dividend for the year ended 31 December 2009 (2009: HK20 cents for the year ended 31 December 2008).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2010 is based on the unaudited profit for the period attributable to owners of the Company of HK\$426,223,000 (2009: HK\$532,710,000) and 1,534,960,661 (2009: 1,534,960,661) shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2009 and 2010 as there were no potential ordinary shares in issue during both periods.

8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2010 <i>HK\$'000</i> (Unaudited)	As at 31 December 2009 <i>HK\$'000</i> (Audited)
Trade receivables	901,573	839,525
Bills receivables	<u>794,743</u>	<u>725,750</u>
	1,696,316	1,565,275
Other receivables	<u>280,584</u>	<u>226,442</u>
	<u>1,976,900</u>	<u>1,791,717</u>

The Group allows a general credit period of up to 90 days to its trade customers. The following is an analysis of trade and bills receivables (net of allowance for doubtful debts) by age, presented based on invoice date.

	As at 30 June 2010 <i>HK\$'000</i> (Unaudited)	As at 31 December 2009 <i>HK\$'000</i> (Audited)
0 to 90 days	1,648,005	1,525,668
91 to 180 days	48,311	37,102
181 to 365 days	<u>—</u>	<u>2,505</u>
	<u>1,696,316</u>	<u>1,565,275</u>

9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2010 <i>HK\$'000</i> (Unaudited)	As at 31 December 2009 <i>HK\$'000</i> (Audited)
Trade payables	953,727	663,594
Bills payables	<u>172,380</u>	<u>357,045</u>
	1,126,107	1,020,639
Other payables	<u>918,533</u>	<u>834,016</u>
	<u>2,044,640</u>	<u>1,854,655</u>

The following is an analysis of trade and bills payables by age, presented based on the invoice date.

	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
0 to 90 days	786,188	863,773
91 to 180 days	161,950	63,293
181 to 365 days	152,611	52,140
More than 365 days	25,358	41,433
	<u>1,126,107</u>	<u>1,020,639</u>

BUSINESS REVIEW AND OUTLOOK

Results

For the first half of 2010, the Group recorded revenue and profit attributable to shareholders of HK\$3,941 million and HK\$426 million respectively, representing an increase of 12.5% and a decrease of 20.0% as compared with the same period last year.

Intermediates and Bulk Drugs Business

Vitamin C Series

Under the impact of the continued expansion of production capacity in the PRC, the selling prices of vitamin C products recorded a downward trend during the period. Amid the intensifying market competition, the Group increased production scale to enhance economies of scale, with the aim of reducing production cost and expanding market share. Despite a decline of approximately 20% in the product prices during the period, this business managed to record revenue of HK\$1,144 million, representing a decrease of 7.0% as compared with the same period last year. During the second half of this financial year, the decline in product prices will accelerate under a more severe market condition. It is expected that the performance of this business will be greatly impacted.

Antibiotic Series

During the period, the penicillin market remained weak with selling prices staying at low level. On the other hand, the cephalosporin business recorded a significant increase in revenue, mainly driven by the launch of new products (including intermediate GCLE and various downstream bulk drugs) and rise in selling price of intermediate 7-ACA. Revenue of the entire antibiotic business amounted to HK\$1,562 million for the first half of the year, representing an increase of 33.8% as compared with the same period last year. Operating environment in the second half of the year is expected to remain stable and the Group will strive to improve production technologies to reduce production cost.

Finished Drugs Business

The finished drugs business continued to maintain a stable growth during the period with revenue increasing by 5.7% to HK\$1,132 million as compared with the same period last year. During the period under review, the intensified market competition and pressure on product prices had impacted the growth in revenue and gross profit margin of this business. The Group will continue to expand its sales network, strengthen its business ties with distributors and end users, and drive new product development in order to achieve the goal of sustainable rapid growth.

FINANCIAL REVIEW

Liquidity and Financial Position

For the first half of 2010, the Group's operating activities generated a net cash inflow of HK\$614,191,000. Capital expenditure in relation to the additions of production facilities amounted to HK\$265,730,000. As at 30 June 2010, the current ratio of the Group improved to 1.8 as compared with 1.5 as at the end of 2009. Debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) shortened from 73 days in 2009 to 71 days in the current period. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 75 days to 77 days in the current period.

The financial position of the Group remained strong. As at 30 June 2010, total bank balances and cash amounted to HK\$1,355,198,000 and total loans amounted to HK\$1,598,327,000. Out of the total loans, HK\$434,873,000 will be repayable within one year and the remaining HK\$1,163,454,000 repayable between two to five years. Net gearing ratio (calculated on the basis of the Group's total loans net of bank balances and cash over shareholders' equity at the balance sheet date) increased to 5% as at 30 June 2010 as compared with 2% at the end of 2009.

44% of the Group's loans are denominated in Hong Kong dollars or US dollars and the remaining 56% in Renminbi. The Group's revenues are mainly either in Renminbi or in US dollars. The Group believes that its exposure to foreign currency risks is not significant but will monitor closely the currency movement.

Pledge of Assets

As at 30 June 2010, bank deposits of HK\$41,801,000 (31.12.2009: HK\$50,637,000) were pledged to banks to secure banking facilities.

Contingent Liabilities

As disclosed in the press announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries were 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 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.

Further information on the antitrust complaints will be set out in the notes to the accounts in the 2010 Interim Report.

Employees

As at 30 June 2010, the Group had about 10,941 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 six months ended 30 June 2010 with certain deviation as set out below.

Code provision A.2.1 of the Code stipulates that the roles of the chairman and chief executive officer 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 chief executive officer 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 auditor 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 30 June 2010.

By order of the Board
Cai Dongchen
Chairman

Hong Kong, 30 August 2010

As at the date of this announcement, the Board comprises Mr. Cai Dongchen, Mr. Yue Jin, Mr. Feng Zhenying, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Zhao John Huan and Mr. Wang Shunlong 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.