

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



2011 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 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	3	4,174,143	3,941,018
Cost of sales		(3,176,152)	(2,710,806)
Gross profit		997,991	1,230,212
Other income		37,996	21,087
Selling and distribution expenses		(283,070)	(245,959)
Administrative expenses		(312,738)	(313,601)
Other expenses		(70,934)	(122,783)
Operating profit		369,245	568,956
Share of results of a jointly controlled entity		6,689	3,628
Finance costs		(31,461)	(34,624)
Profit before taxation	4	344,473	537,960
Taxation	5	(68,748)	(100,106)
Profit for the period		275,725	437,854
Profit for the period attributable to:			
Owners of the Company		263,833	426,223
Non-controlling interests		11,892	11,631
		275,725	437,854
		HK cents	HK cents
Earnings per share — Basic	7	17.21	27.77

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		As at 30 June 2011 <i>HK\$'000</i> (Unaudited)	As at 31 December 2010 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		4,515,945	4,353,404
Prepaid lease payments		304,397	302,141
Intangible assets		210,069	207,603
Goodwill		159,929	156,166
Interest in a jointly controlled entity		36,500	29,054
Available-for-sale investments		10,634	7,433
		<u>5,237,474</u>	<u>5,055,801</u>
Current assets			
Inventories		1,463,834	1,204,864
Trade and other receivables	8	1,884,200	1,441,956
Bills receivables	8	795,207	810,838
Prepaid lease payments		9,020	8,808
Tax recoverable		4,150	—
Trade receivables due from related companies		34,535	14,016
Trade receivables due from a connected party		41,410	14,407
Amount due from a jointly controlled entity		26,077	26,764
Pledged bank deposits		47,745	41,930
Bank balances and cash		746,819	1,099,806
		<u>5,052,997</u>	<u>4,663,389</u>
Current liabilities			
Trade and other payables	9	1,757,684	1,767,207
Bills payables	9	414,366	440,647
Amounts due to related companies		1,902	740
Amount due to a controlling shareholder		188,036	—
Tax liabilities		30,640	60,291
Other financial liabilities		896	—
Unsecured bank loans		707,894	323,282
		<u>3,101,418</u>	<u>2,592,167</u>
Net current assets		<u>1,951,579</u>	<u>2,071,222</u>
Total assets less current liabilities		<u>7,189,053</u>	<u>7,127,023</u>

	As at 30 June 2011 <i>HK\$'000</i> (Unaudited)	As at 31 December 2010 <i>HK\$'000</i> (Audited)
Non-current liabilities		
Unsecured bank loans	1,233,651	1,206,235
Deferred tax liabilities	47,925	44,348
	<u>1,281,576</u>	<u>1,250,583</u>
Net assets	<u><u>5,907,477</u></u>	<u><u>5,876,440</u></u>
Capital and reserves		
Share capital	152,977	153,496
Reserves	5,620,237	5,587,013
	<u>5,773,214</u>	<u>5,740,509</u>
Equity attributable to owners of the Company	5,773,214	5,740,509
Non-controlling interests	134,263	135,931
	<u>5,907,477</u>	<u>5,876,440</u>
Total equity	<u><u>5,907,477</u></u>	<u><u>5,876,440</u></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 (HKAS 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

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

The application of new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

For the six months ended 30 June 2011 (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	977,650	1,767,297	1,364,192	65,004	4,174,143	—	4,174,143
Inter-segment sales	867	494,089	—	138,123	633,079	(633,079)	—
TOTAL	<u>978,517</u>	<u>2,261,386</u>	<u>1,364,192</u>	<u>203,127</u>	<u>4,807,222</u>	<u>(633,079)</u>	<u>4,174,143</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	<u>161,226</u>	<u>136,356</u>	<u>134,530</u>	<u>834</u>			432,946
Unallocated income							2,302
Unallocated central expenses							(66,003)
Operating profit							369,245
Share of results of a jointly controlled entity							6,689
Finance costs							(31,461)
Profit before taxation							<u>344,473</u>

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					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	<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
Unallocated income							4,268
Unallocated central expenses							<u>(80,711)</u>
Operating profit							568,956
Share of results of a jointly controlled entity							3,628
Finance costs							<u>(34,624)</u>
Profit before taxation							<u>537,960</u>

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, central administrative expenses, 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 TAXATION

For the six months ended 30 June	
2011	2010
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

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

Amortisation of intangible assets (included in cost of sales)	21,459	10,336
Amortisation of prepaid lease payments	4,740	3,810
Depreciation of property, plant and equipment	281,202	252,412
Loss on disposal of property, plant and equipment (included in other expenses)	1,473	43,127
Net foreign exchange losses	4,391	2,792
Research and development expenses (included in other expenses)	63,395	64,063
Interest income	(2,302)	(4,268)
	<u> </u>	<u> </u>

For the six months ended 30 June 2010 and 2011, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated income statement.

5. TAXATION

For the six months ended 30 June	
2011	2010
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

The tax charge comprises:

PRC Enterprise Income Tax		
— Current year	62,015	91,606
— Underprovision in prior years	2,026	—
	<u>64,041</u>	<u>91,606</u>
Deferred taxation	4,707	8,500
	<u>68,748</u>	<u>100,106</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 established before 16 March 2007 are entitled to exemption from PRC Enterprise Income Tax for two years 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 Company'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.

In addition, pursuant to the approvals granted by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises in the PRC (the "Qualification") for a period of 3 years up to 2010 or 2011. The applicable tax rate for these enterprises is 15% despite the expiration of the Qualification for certain subsidiaries as the directors consider that the chance of approval of application for re-examination on the Qualification not being awarded is remote.

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\$4,707,000 (2010: HK\$8,500,000) has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits. During the period, withholding tax of HK\$1,242,000 (2010: HK\$5,682,000) has been paid.

As at 30 June 2011, the Group had unused tax losses of HK\$73,722,000 (31 December 2010: HK\$90,742,000) 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.

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 2011 (2010: Nil).

During the period, a final dividend of HK24 cents per share was distributed to shareholders as final dividend for the year ended 31 December 2010 (2010: HK24 cents for the year ended 31 December 2009). The aggregate amount of final dividend distributed amounted to HK\$367,732,000 (2010: HK\$368,391,000). The amount paid in current period amounted to HK\$179,696,000 (2010: HK\$368,391,000).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2011 is based on the profit for the period attributable to owners of the Company of HK\$263,833,000 (2010: HK\$426,223,000) and the weighted average number of ordinary shares of 1,532,864,584 (2010: 1,534,960,661 shares in issue) for the period.

No diluted earnings per share has been presented for the six months ended 30 June 2010 and 2011 as there were no potential ordinary shares in issue during both periods.

8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2011 <i>HK\$'000</i> (Unaudited)	As at 31 December 2010 <i>HK\$'000</i> (Audited)
Trade receivables	1,339,852	1,076,520
Bills receivables	<u>795,207</u>	<u>810,838</u>
	2,135,059	1,887,358
Other receivables	<u>544,348</u>	<u>365,436</u>
	<u><u>2,679,407</u></u>	<u><u>2,252,794</u></u>

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

	As at 30 June 2011 <i>HK\$'000</i> (Unaudited)	As at 31 December 2010 <i>HK\$'000</i> (Audited)
0 to 90 days	1,202,787	1,022,490
91 to 180 days	131,927	52,499
181 to 365 days	<u>5,138</u>	<u>1,531</u>
	<u><u>1,339,852</u></u>	<u><u>1,076,520</u></u>

9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2011 <i>HK\$'000</i> (Unaudited)	As at 31 December 2010 <i>HK\$'000</i> (Audited)
Trade payables	941,056	773,507
Bills payables	<u>414,366</u>	<u>440,647</u>
	1,355,422	1,214,154
Other payables	<u>816,628</u>	<u>993,700</u>
	<u><u>2,172,050</u></u>	<u><u>2,207,854</u></u>

The following is an aged analysis of trade payables presented based on the invoice date.

	As at 30 June 2011 HK\$'000 (Unaudited)	As at 31 December 2010 HK\$'000 (Audited)
0 to 90 days	720,938	731,593
91 to 180 days	214,068	31,850
181 to 365 days	6,050	8,331
More than 365 days	—	1,733
	<u>941,056</u>	<u>773,507</u>

BUSINESS REVIEW AND OUTLOOK

Results

For the first half of 2011, the Group recorded revenue of HK\$4,174 million, an increase of 5.9% as compared to the same period of last year. Profit attributable to shareholders amounted to HK\$264 million, a year-on-year decrease of 38.1%.

Intermediates and Bulk Drugs

Vitamin C Series

During the first half of 2011, the vitamin C market was affected by severe excess capacity, leading to a continued decline in product price. The decline was over 30% on a year-on-year basis. During the period, the Group fully leveraged its scale of production and market edges to further expand its market share. Compared to the same period of last year, sales volume increased by 37% whereas revenue decreased by 14.6% to HK\$978 million. Product price is expected to remain at low level in the second half of the year. The Group will continue to actively expand its market coverage.

Antibiotic Series

As affected by market competition and government policies, product price showed a downward trend during the first half of 2011. The decline in the product price of cephalosporin products was in particular more severe. Amid the tough market environment, the Group was able to attain full-capacity production and sales during the period though implementing effective marketing strategies. At the same time, the Group has enhanced its production technology in order to lower production cost. For the first half of the year, revenue of this business segment increased by 13.1% year-on-year to HK\$1,767 million. The market is expected to remain gloomy in the second half of the year. The Group will continue to upgrade its production technology and strive to attain full-capacity production and sales by leveraging its production scale and cost advantages and flexibly adjusting its marketing strategies.

Finished Drugs Business

Through strengthening the co-operation with large distributors and development of end-user markets, this business reported a relatively satisfactory growth for the first half of 2011. Revenue increased by 20.6% to HK\$1,364 million as compared to the same period of last year, with the growth in meropenem injections and Chinese medicine injections more notable in particular. During the period, tenders for essential drugs began in various provinces in China. However, as the new tender rules are orientated towards the lowest-price bidder, tender price showed a continued decline. The new tender system, coupled with more restrictions on the clinical usage of antibiotics in China, is expected to have negative impact on the performance of this business segment in the second half of the year. The Group will continue to strengthen the development of sales channels and markets, and to enhance the growth of the new products.

FINANCIAL REVIEW

Liquidity and Financial Position

During the period, the operating environment has become more unfavorable. In addition, the Group has increased the use of prepayment for the purchases of raw materials in order to stabilise the purchase costs. As a result, the working capital cycle was lengthened. For the first half of 2011, cash generated from operations amounted to HK\$28,847,000. 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) increased from 81 days of last year to 87 days. Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 80 days to 83 days. As at 30 June 2011, the current ratio of the Group was 1.6, slightly lower than 1.8 of last year. Capital expenditure in relation to the additions of production facilities amounted to HK\$359,131,000.

The financial position of the Group remained healthy. As at 30 June 2011, total bank balances and cash amounted to HK\$794,564,000 and total loans amounted to HK\$1,941,545,000. Out of the total loans, HK\$707,894,000 will be repayable within one year and the remaining HK\$1,233,651,000 repayable between two to four years. Net gearing ratio (calculated on the basis of the Group's total loans net of bank balances and cash over shareholders' equity) increased to 19.9%, as compared with 6.8% of last year.

47% of the Group's loans are denominated in Hong Kong dollars and the remaining 53% in Renminbi. The Group's sales are mainly denominated either in Renminbi or in US dollars. The Group will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

Pledge of Assets

As at 30 June 2011, the Group had pledged bank deposits of HK\$47,745,000 (31 December 2010: HK\$41,930,000) to banks to secure short-term banking facilities.

Contingent Liabilities

As disclosed in the 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 Company and the subsidiary have 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 is set out in the notes to the accounts in the 2011 Interim Report.

EMPLOYEES

As at 30 June 2011, the Group had about 10,474 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 2011 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

During the six months ended 30 June 2011, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Highest price per share paid <i>HK\$</i>	Lowest price per share paid <i>HK\$</i>	Aggregate consideration paid <i>HK\$</i>
February 2011	2,744,000	4.49	4.31	12,094,060
June 2011	<u>2,450,000</u>	3.63	3.45	<u>8,741,860</u>
	<u>5,194,000</u>			<u>20,835,920</u>

The above shares were cancelled upon delivery of the share certificates during the current interim period.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

By order of the Board
China Pharmaceutical Group Limited
Cai Dongchen
Chairman

Hong Kong, 30 August 2011

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