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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHTLIGHTS

- Revenue decreased by 5.1% to HK$7,379,481,000
- Profit attributable to shareholders decreased by 69.0% to HK$233,162,000
- Earnings per share decreased by 68.9% to HK15.23 cents
- No final dividend was proposed

RESULTS

The Board of Directors of China Pharmaceutical Group Limited (the "Company") submits the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Revenue	*2*	**7,379,481**	7,774,424
Cost of sales		**(5,897,943)**	(5,500,837)
Gross profit		**1,481,538**	2,273,587
Other income		**125,799**	71,121
Selling and distribution expenses		**(521,724)**	(520,826)
Administrative expenses		**(602,700)**	(626,163)
Other expenses		**(105,791)**	(177,889)
Operating profit		**377,122**	1,019,830
Share of profit of a jointly controlled entity		**10,554**	8,732
Finance costs		**(73,315)**	(63,788)
Profit before tax	*3*	**314,361**	964,774
Income tax expense	*4*	**(63,912)**	(189,963)
Profit for the year		**250,449**	774,811
Profit for the year attributable to:			
Owners of the Company		**233,162**	751,689
Non-controlling interests		**17,287**	23,122
		250,449	774,811
		HK cents	*HK cents*
Earnings per share — Basic	*6*	**15.23**	48.97

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**4,877,186**	4,353,404
Prepaid lease payments		**350,958**	302,141
Intangible assets		**261,718**	207,603
Goodwill		**163,878**	156,166
Interest in a jointly controlled entity		**41,256**	29,054
Available-for-sale investments		**6,169**	7,433
		5,701,165	5,055,801
Current assets			
Inventories		**1,641,060**	1,204,864
Trade and other receivables	*7*	**1,796,265**	1,441,956
Bills receivables	*7*	**670,034**	810,838
Prepaid lease payments		**10,114**	8,808
Tax recoverable		**9,493**	—
Trade receivables due from related companies		**15,490**	14,016
Trade receivables due from a connected company		**24,128**	14,407
Amount due from a jointly controlled entity		**24,420**	26,764
Restricted bank deposits		**32,113**	41,930
Bank balances and cash		**1,034,536**	1,099,806
		5,257,653	4,663,389
Current liabilities			
Trade and other payables	*8*	**1,904,670**	1,767,207
Bills payables	*8*	**725,617**	440,647
Amount due to an immediate holding company		**188,036**	—
Amounts due to related companies		**3,315**	740
Tax liabilities		**16,455**	60,291
Other financial liabilities		**1,321**	—
Unsecured bank loans		**880,880**	323,282
		3,720,294	2,592,167
Net current assets		**1,537,359**	2,071,222
Total assets less current liabilities		**7,238,524**	7,127,023

	2011	2010
	HK$'000	*HK$'000*
Non-current liabilities		
Unsecured bank loans	**1,148,058**	1,206,235
Deferred tax liabilities	**47,326**	44,348
	1,195,384	1,250,583
Net assets	**6,043,140**	5,867,440
Capital and reserves		
Share capital	**152,977**	153,496
Reserves	**5,747,262**	5,587,013
Equity attributable to owners of the Company	**5,900,239**	5,740,509
Non-controlling interests	**142,901**	135,931
Total equity	**6,043,140**	5,876,440

NOTES:

1. Significant Accounting policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on fair value of the consideration given in exchange for assets.

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Based on the Group's financial assets and financial liabilities as at 31 December 2011, the application of HKFRS 9 will affect the measurement and classification of the Group's available-for-sale investments, but is not likely to affect the Group's other financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) — Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. Under HKFRS 11, the jointly controlled entity of the Group will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement.

However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

2. Revenue and segment information

	2011 *HK$'000*	2010 *HK$'000*
Sale of goods	**7,379,481**	7,774,424

The Group's operating and reportable segments, identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, board of directors, in order to allocate resources to the segments and to assess their performance, are summarised below. This is also the basis upon which the Group is organised.

(a) Intermediates and bulk drugs

— vitamin C series
— antibiotics series

(b) Finished drugs

(c) Other pharmaceutical related business and research and development activities

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2011:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	**Antibiotics series** *HK$'000*	**Finished Drugs** *HK$'000*	**Others** *HK$'000*	**Segment Total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE							
External sales	**1,747,178**	**3,091,945**	**2,422,649**	**117,709**	**7,379,481**	**—**	**7,379,481**
Inter-segment sales	**1,300**	**806,156**	**—**	**258,758**	**1,066,214**	**(1,066,214)**	**—**
TOTAL REVENUE	**1,748,478**	**3,898,101**	**2,422,649**	**376,467**	**8,445,695**	**(1,066,214)**	**7,379,481**
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	**183,029**	**105,362**	**184,974**	**(1,813)**			**471,552**
Unallocated income							**9,100**
Unallocated central expenses							**(103,530)**
Operating profit							**377,122**
Share of profit of a jointly controlled entity							**10,554**
Finance costs							**(73,315)**
Profit before tax							**314,361**

For the year ended 31 December 2010:

	Intermediates and Bulk Drugs						
	Vitamin C series *HK$'000*	Antibiotics series *HK$'000*	Finished Drugs *HK$'000*	Others *HK$'000*	Segment Total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	2,074,070	3,257,899	2,276,340	166,115	7,774,424	—	7,774,424
Inter-segment sales	1,483	892,933	—	290,713	1,185,129	(1,185,129)	—
TOTAL REVENUE	2,075,553	4,150,832	2,276,340	456,828	8,959,553	(1,185,129)	7,774,424

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT	715,935	259,058	176,033	3,555			1,154,581
Unallocated income							8,120
Unallocated central expenses							(142,871)
Operating profit							1,019,830
Share of profit of a jointly controlled entity							8,732
Finance costs							(63,788)
Profit before tax							964,774

Segment profit represents the profit earned by each segment without allocation of interest income, central administrative expenses, share of profit of a jointly controlled entity and finance costs. This is the measure reported to the board of directors for the purposes of resources allocation and performance assessment.

Geographical information

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

	2011 *HK$'000*	2010 *HK$'000*
The People's Republic of China (the "PRC")	**4,453,990**	4,791,686
India	**852,519**	791,237
Other Asian regions	**726,941**	936,304
Americas	**598,413**	629,066
Europe	**563,276**	538,946
Others	**184,342**	87,185
	7,379,481	7,774,424

3. Profit before tax

	2011	2010
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including those of directors	**657,097**	644,925
Contribution to retirement benefit schemes, including those of directors	**82,371**	79,116
Total staff costs	**739,468**	724,041
Amortisation of intangible assets (included in cost of sales)	**45,475**	30,471
Amortisation of prepaid lease payments	**8,381**	7,735
Depreciation of property, plant and equipment	**551,103**	535,946
Total depreciation and amortisation	**604,959**	574,152
Auditor's remuneration	**2,200**	2,115
Government grant income	**(77,533)**	(20,710)
Impairment loss on trade receivables	**1,290**	4,781
Impairment loss on inventories (included in cost of sales)	**30,850**	—
Interest income	**(9,100)**	(8,120)
(Gain)loss on disposal/write-off of property, plant and equipment (included in other income (2010: other expenses))	**(1,208)**	70,065
Net foreign exchange losses	**8,386**	2,712
Research and development expenditure recognised as an expense (included in other expenses)	**100,901**	99,248

Note:

(1) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement for both years.

(2) Government grant income was received from the relevant local government authorities of the PRC mainly to encourage PRC subsidiaries i) to improve the effectiveness of the Group's production and ii) to enhance environmental protection, for examples, for having achieved savings in electricity and decreases in sewage discharge during production. Government grant income was recognised upon receipt and fulfillment of conditions set (if any).

4. Income tax expense

	2011	2010
	HK$'000	*HK$'000*
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	**68,836**	174,118
— (over)underprovision in prior years	**(9,778)**	1,295
	59,058	175,413
Deferred taxation	**4,854**	14,550
	63,912	189,963

No Hong Kong Profits Tax is payable by the Company nor its subsidiaries incorporated in Hong Kong since they either had no assessable profit or incurred tax losses for both years.

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 year, followed by a 50% reduction in tax rate for the next three years.

In addition, certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate to be at a reduced rate of 15% for a period of 2 or 3 years up to 2012 or 2014.

The tax charge for both years represents income tax provision which has taken into account of the above-mentioned tax incentives. The basic tax rate of the Company's PRC subsidiaries is 25%, under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law, except those subsidiaries described above.

5. Dividend

	2011	2010
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year: 2010 final dividend of HK24 cents (2010: 2009 final dividend of HK24 cents) per share	**367,732**	368,391

No dividend has been proposed since the end of the reporting period (2010: HK$24 cents per share).

6. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2011 is based on the profit for the year attributable to the owners of the Company of HK$233,162,000 (2010: HK$751,689,000) and the weighted average number of ordinary shares of 1,531,323,877 (2010: 1,534,960,661 shares in issue) during the year.

No diluted earnings per share is presented for the years ended 31 December 2010 and 2011 as there were no potential ordinary shares in issue during both years.

7. Trade and other receivables/Bills receivables

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**1,241,130**	1,090,141
Less: allowance for doubtful debts	**(15,278)**	(13,621)
	1,225,852	1,076,520
Bills receivables	**670,034**	810,838
	1,895,886	1,887,358
Other receivables	**570,413**	365,436
	2,466,299	2,252,794

Included in other receivables are value added tax recoverable of HK$224,403,000 (2010: HK$135,572,000), prepayment for utilities of HK$95,377,000 (2010: HK$69,295,000), prepayment for purchase of raw materials of HK$157,853,000 (2010: 82,447,000) and receivables of various nature of HK$92,780,000 (2010: HK$78,122,000).

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

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**1,001,965**	1,022,490
91 to 180 days	**194,449**	52,499
181 to 365 days	**29,438**	1,531
	1,225,852	1,076,520

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2010: 180 days) and not yet due at the end of the reporting period.

8. Trade and other payables/Bills payables

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**949,102**	773,507
Bills payables	**725,617**	440,647
	1,674,719	1,214,154
Other payables	**955,568**	993,700
	2,630,287	2,207,854

Included in other payables are payables for the acquisition of property, plant and equipment of HK$585,344,000 (2010: HK$474,651,000), receipts in advance from customers of HK$102,383,000 (2010: HK$105,865,000), and accruals and payables of various nature of HK$267,841,000 (2010: HK$413,184,000).

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**848,658**	731,593
91 to 180 days	**81,919**	31,850
181 to 365 days	**11,474**	8,331
More than 365 days	**7,051**	1,733
	949,102	773,507

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

All bills payable of the Group are aged within 180 days and not yet due at the end of the reporting period.

BUSINESS REVIEW AND OUTLOOK

Results

The overall business environment was very difficult in 2011. Affected by the decline in product prices and slowdown in sales, the Group's operating results dropped substantially. Compared with last year, revenue for the year decreased by 5.1% to HK$7,379 million and profit attributable to shareholders decreased by 69.0% to HK$233 million.

Intermediates and Bulk Drugs Business

Vitamin C Series

With a substantial addition of production capacity in the market, the vitamin C market faced the severe challenge of excess supply and price decline in 2011. The average selling price of pure vitamin C powder has dropped by nearly 29% as compared with last year. Amid the fierce competition, apart from solidifying its existing market share, the Group also endeavoured to expand its customer base. Compared with last year, sales volume for the year managed to increase by 15%, while revenue decreased by 15.8% to HK$1,747 million.

It is expected that market supply will remain excessive, exerting great pressure on selling prices. Faced with this difficult operating environment, the Group will formulate strategies to minimize the adverse impact. The key initiatives in 2012 include: (i) obtaining international accreditation and expanding the business in worldwide high-end market; (ii) strengthening business relationship with its existing customers and further developing new end-user customers; (iii) developing regional markets with market potential, including Eastern Europe, South America and Southeast Asia; and (iv) further enhancing product differentiation to meet the requirements of different customers, strengthening business relationship through customised service.

Antibiotics Series

In 2011, market competition and government policies have severely affected the antibiotic industry. Market demand weakened and product price showed a continued decline. The operating environment was particularly difficult in the second half of the year. During the year, the Chinese government promulgated the "Administrative Measures on the Clinical Use of Antibacterial drugs (Consultation Draft)", imposing a more stringent control on antibacterial drugs and regulating the volume used in hospitals. Following implementation of the new GMP in China, certain manufacturers expanded production capacity and modified production line at the same time. Besides, with the tender system orientated towards the lowest-price bidder, tender price and purchase volume of antibiotic drugs both dropped significantly. All these factors led to a slowdown in market demand for bulk drugs and a decline in product price, pessimistic sentiment prevailed in the market. Under this tough market environment, the Group devised various marketing strategies and made every effort to secure new customers in the domestic and overseas markets. Sales volume for the year managed to increase slightly as compared with last year whereas revenue decreased by 5.1% to HK$3,092 million.

Market competition is still expected to remain keen in 2012. Given that price level has been staying at a very low level for some time, it is expected that the market players, for the sake of survival and profitability, will make possible a slight rebound. The Group will continue to improve production technology, flexibly adjust marketing strategies according to market changes and reinforce product penetration in order to improve the performance of this business and expand its market presence.

Finished Drugs Business

Through effective marketing strategies and development of end-user markets, this business saw a relatively satisfactory growth in the first half of 2011. However, following the adoption of Anhui model (lowest-price bidding) in essential drug tenders across China and the promulgation of the "Administrative Measures on the Clinical Use of Antibacterial drugs (Consultation Draft)", market conditions aggravated in the second half of the year. Not only the tender prices of essential drug products fell significantly in every province, the volume used in the basic-tier medical institutions also reduced noticeably.

During 2011, satisfactory results were achieved from the Group's effort to expand sales to end-user customers by the establishment of new local offices in addition to its existing provincial offices. Under the tough market conditions of essential drugs, sales volumes of the Group's major products including amoxicillin capsules and ceftriaxone sodium injections remained stable or even recorded a slight growth, far surpassing other market players. Regarding non-essential drugs, sales volumes of products with high gross margin including meropenem injections and traditional Chinese medicine injections rose significantly through enhancing sales network and using of effective sales strategies. Notwithstanding the tough challenges, revenue of this business for the year increased by 6.4% to HK$2,423 million.

Looking forward to 2012, the overall essential drug market will continue to be under the shadow of the macro policies concerning tender system, drug price cut and regulation of the use of antibacterial drugs. However, being the most major type of drug among the anti-infective, antibiotics has been occupying a mainstream position in the market for its efficacy, low price level and wide application. With the natural growth and ageing of population, migration of people from rural to urban areas, improvement of the basic medical insurance system and promotion of essential drugs in China, overall usage of antibiotics will be able to maintain a growth momentum, though at a restrained growth rate. On the other hand, the implementation of new GMP will lead to a higher requirement for investment and product quality management. This will accelerate the phase-out of small and medium manufacturers and the market will be more concentrated in large enterprise as the Group.

In 2012, the Group will continue to devise new sales strategies, improve sales channels and develop end-user market. It will also step up its efforts in product registration and market development in the international market, striving to expand its export business. Regarding product portfolio, the Group will put more efforts in the sales of non-antibiotic products and speed up the development and launch of new products with a view to reducing its dependence on antibiotic products.

Outlook

As market conditions of all the operating units are expected to remain difficult, the overall operating results of the Group in 2012 will continue to be under pressure. The Group will adopt the operating strategies mentioned above and strive to alleviate the adverse impact of the market challenges. We are confident that we would be able to overcome these challenges and further consolidate our leading position in the market.

FINANCIAL REVIEW

Liquidity and financial position

In 2011, the Group's operating activities generated a net cash inflow of HK$358,305,000. The Group used to grant a credit period of up to 90 days to customers. As the operating environment became unfavorable, the Group extended the credit period during the year in order to secure more sales. As a result, debtor turnover period (ratio of the total balance of trade and bills receivables to sales, inclusive of value added tax for sales in China) was lengthened in the current year, increasing from 81 days in last year to 87 days. As sales slowed down in the fourth quarter of the year, the inventory level was also higher at the end of the year. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 80 days in last year to 102 days. As at 31 December 2011, current ratio of the Group was 1.4, which was slightly lower than 1.8 a year ago. Capital expenditure in relation to the additions of production facilities amounted to HK$879,361,000 for the current year.

As at 31 December 2011, total bank balances and cash amounted to HK$1,066,649,000 and total borrowings amounted to HK$2,028,938,000. Out of the total borrowings, HK$880,880,000 will be repayable within one year and the remaining HK$1,148,058,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over total equity) increased to 15.9%, as compared with 6.6% of last year.

42% of the Group's borrowings are denominated in Hong Kong dollars, 8% in US dollars and the remaining 50% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

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. These 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 federal and state laws of the United States. It is alleged in these 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, unfair trade and consumer protection statutes. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) seek damages and other relief. 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 legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company has submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of 27 May 2008. In addition, on 31 August 2009, the Company submitted an alternative motion for summary judgment to dismiss the direct purchaser action on the ground there is insufficient evidence indicating the Company was involved in the alleged conspiracy. The court has not ruled on these motions.

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

In February 2007, the direct purchaser plaintiffs amended their complaint and sought to represent only those who purchased vitamin C for delivery in the United States, other than pursuant to a contract containing an arbitration clause, from any defendants other than one named defendant.

Fact discovery relevant to merits was concluded in October 2008. On 15 January 2009, plaintiffs and defendants agreed to a case schedule, which bifurcated liability and damages issues and allowed certain liability issues to be determined by the court first.

On 26 January 2012, the court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. That motion was fully briefed as of 5 February 2010. On 6 September 2011, the court issued an order denying defendant manufacturers' joint motion for summary judgment. On 9 February 2012, the court denied defendant manufacturers' request for permission to immediately appeal its September 2011 order.

On 9 March 2012, the court set a new schedule, pursuant to which expert discovery on damages shall be completed by 7 September 2012 and a trial be set in October 2012. Direct purchaser plaintiffs' expert estimated the single damages to be US$58.4 million. U.S. federal antitrust laws provide for treble damages, which defendants are jointly and severally liable for. Defendants have retained their own expert who will challenge plaintiffs' damages analysis.

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.

Employees

At the end of the reporting period, the Group had about 10,475 employees. The majority of them are employed in mainland China. 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 all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011 with deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of 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 ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's annual results for the year ended 31 December 2011 in conjunction with the external auditor.

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

During the year, 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$0.10 each	Highest price per share paid	Lowest price per share paid	Aggregate consideration paid
		HK$	*HK$*	*HK$*
February 2011	2,744,000	4.49	4.31	12,092,900
June 2011	2,450,000	3.63	3.45	8,740,580
	5,194,000			20,833,480

The above shares were cancelled upon delivery of the share certificates during the year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

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

Hong Kong, 30 March 2012

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