

(Stock Code: 1093)

2005 RESULTS ANNOUNCEMENT

2004 HK\$'000

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 December 31, 2005.

Notes

2005 HK\$'000

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2005

	Notes	HK\$'000	HK\$'000 (Restated)
Revenue Cost of sales	2	3,192,065 (2,498,501)	2,450,649 (1,819,804)
Gross profit Other income Distribution costs Administrative expenses Other expenses Share of results of a jointly controlled entity Finance costs		693,564 21,157 (182,723) (293,231) (20,337) (1,099) (68,139)	630,845 14,677 (131,453) (230,004) (10,948) 3,419 (27,959)
Profit before tax Income tax	3 4	148,992 7,301	248,577 (3,185)
Profit for the year		156,293	245,392
Attributable to: Equity holders of the Company Minority interests		156,518 (225)	245,011 381
•		156,293	245,392
Dividend	5		_
Basic earnings per share	6	HK10.18 cents	HK15.93 cents
CONSOLIDATED BALANCE SHEET At December 31, 2005			
	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-current assets Property, plant and equipment Prepaid lease payments Intangible assets Goodwill Interest in a jointly controlled entity Loan receivable Pledged bank deposits Deposits paid for acquisition of property, plant and equipment		3,176,949 154,612 61,233 55,764 24,086 - 2,428	2,908,317 101,450 69,950 55,764 24,654 655 9,416
		3,475,072	3,217,511
Current assets Inventories Trade and other receivables Bills receivable Prepaid lease payments Loan receivable Tax recoverable Trade receivables due from related companies Amount due from a jointly controlled entity Pledged bank deposits	7	756,053 512,987 118,281 4,474 670 8,096 14,393 17,047	452,855 413,629 90,331 2,837 795 — 3,854 16,806 7,282
Bank balances and cash		472,706	501,346
Current liabilities Trade and other payables Bills payable Amounts due to related companies Trade payable due to a jointly controlled entity Tax liabilities Bank loans – due within one year	8	974,756 403,876 4,146 3,107 7,328 344,804 	1,489,735 861,340 388,040 58,423 4,414 3,892 249,813 1,565,922
Net current assets (liabilities)		166,690	(76,187)
Total assets less current liabilities		3,641,762	3,141,324
Non-current liabilities Loans from ultimate holding company Bank loans – due after one year		55,488 1,090,746	54,818 817,409
		1,146,234	872,227
		2,495,528	2,269,097
Capital and reserves Share capital Reserves		153,812 2,331,020	153,812 2,105,227
Equity attributable to equity holders of the Company Minority interests		2,484,832 10,696	2,259,039 10,058
		2,495,528	2,269,097

Accounting policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (''HKFRSs''), Hong Kong Accounting Standards (''HKASs'') and Interpretations (hereinafter collectively referred to as the ''new HKFRSs'') issued by the Hong Kong Institute of Certified Public Accountants.

In the current year, the Group has applied, for the first time, a number of new HKFRSs that are effective for accounting periods beginning on or after January 1, 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas:

- The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests and share of tax of the jointly controlled entity.
- The Group has applied the relevant transitional provisions in HKFRS 3 "Business Combinations". Goodwill previously recognized in reserves of HK\$167,254,000 as at January 1, 2005 continues to be held in reserves and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group on January 1, 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$7,897,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from January 1, 2005 onwards and such goodwill will be tested for impairment at least annually.
- Under HKAS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The leasehold interests in land are reclassified to prepaid lease payments under operation leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. (iii)
- Prior to the application of HKAS 39 "Financial Instruments: Recognition and Measurement", an interest-free non-current loan from ultimate holding company was stated at the nominal amount. HKSA 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates.

The effects of the changes in the accounting policies on the results are as follows:

	Effect of adopting	2005 HK\$'000	2004 HK\$'000
Non-amortisation of goodwill	HKFRS 3	3,183	_
Imputed interest expenses on non-current interest-free			
loan from ultimate holding company	HKAS 39	(278)	_
Share of results of a jointly controlled entity	HKAS 1	_	(589)
Income tax	HKAS 1	-	589
Increase in profit for the year		2,905	_

Turnover and segment information

The Group's principal activity is the manufacture and sale of pharmaceutical products and its segment information by products is presented below:

For the year ended December 31, 2005

		Bulk Drugs					
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE External sales Inter-segment sales	525,091 219,615	855,131 137,039	692,507 -	1,109,971	9,365 -	(356,654)	3,192,065
TOTAL	744,706	992,170	692,507	1,109,971	9,365	(356,654)	3,192,065
SEGMENT RESULTS	(9,220)	117,849	87,840	63,131	(21,728)		237,872
Unallocated corporate expenses							(19,642)
Share of results of a jointly control Finance costs	olled entity				(1,099)		218,230 (1,099) (68,139)
Profit before tax Income tax							148,992 7,301
Profit for the year							156,293

Profit for the year

For the year ended Dece	mber 31, 2004	ļ					
		Bulk Drugs					
	Penicillin series HK\$'000	Cephalosporin series HK\$'000	Vitamin C series HK\$'000	Finished Drugs HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	360,782	504,670	626,124	947,785	11,288	_	2,450,649
Inter-segment sales	184,779	90,872			_	(275,651)	
TOTAL	545,561	595,542	626,124	947,785	11,288	(275,651)	2,450,649
SEGMENT RESULTS	5,307	34,625	189,694	67,965	(4,326)		293,265
Unallocated corporate expense	es						(20,148)
Share of results of a jointly co Finance costs	ntrolled entity				3,419		273,117 3,419 (27,959)
Profit before tax Income tax							248,577 (3,185)

245,392

3. Profit before tax

	2005 HK\$`000	2004 HK\$'000
Profit before tax has been arrived at after charging (crediting): Amortisation (included in administrative expenses) of: - intangible assets - goodwill Amortisation of prepaid lease payments Depreciation of property, plant and equipment Interest income	16,585 - 4,474 245,456 (2,687)	12,405 3,183 5,615 162,621 (2,454)
Income tax		
	2005 HK\$`000	2004 HK\$'000
The tax (credit) charge comprises: PRC Enterprise Income Tax - current year - overprovision in prior years - tax credits/refunds	19,335 (3,813) (22,823) (7,301)	36,711 (11,393) (22,133) 3,185

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 years.

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 PRC subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain PRC subsidiaries of the Company were granted tax credits/refunds which were mainly derived from the following activities:

- a) Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years.
- b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

At the balance sheet date, the Group had unused tax losses of HK\$51,376,000 (2004: HK\$69,000) available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2010.

There was no other significant unprovided deferred taxation for the year or at the balance sheet date.

5. Dividend

The Board of Directors does not recommend the payment of a final dividend for the year ended December 31, 2005 (2004: Nil)

An amount of HK\$107,669,000 was paid in 2004 in respect of the final dividend of HK7.0 cents per share for the year ended December 31, 2003.

6. Earnings per share

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2005 is based on the profit for the year of HK\$156,518,000 (2004: HK\$245,011,000) and the 1,538,124,661 shares (2004: 1,538,124,661 shares) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2005 and 2004 as there was no potential ordinary shares in issue during both years.

7. Trade and other receivables

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

	2005 HK\$*000	2004 HK\$'000
0 to 90 days 91 to 180 days 181 to 365 days	353,927 24,436 829	334,482 20,719 1,952
Other receivables	379,192 133,795	357,153 56,476
	512,987	413,629

8. Trade and other payables

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

	2005 HK\$`000	2004 HK\$'000
0 to 90 days 91 to 180 days 181 to 365 days More than 365 days	383,495 69,611 26,432 19,395	313,984 42,197 18,727 18,358
Other payables	498,933 475,823	393,266 468,074
	974,756	861,340

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

The total output of this series for the year amounted to 28,655 tonnes, an increase of 56% over last year. Following the significant expansion of the production capacity in the PRC, price of vitamin C had been continuously under pressure. The average price of vitamin C decreased from US\$ 3.61 per kg at the beginning of the year to US\$2.94 per kg at the end of the year. The average price for the whole year was US\$3.24 per kg, a decrease of 24% as compared with US\$4.26 per kg in the previous year. The gross profit margin of the entire series decreased from 41.8% in the previous year to 25.6% in the current year.

In view of the existing production capacity in the PRC, it is expected that the weak price will last some time. The Group will continue to expand its customer base and strengthen the business relations with its existing customers. We will also increase the proportion of our downstream products according to market demand in order to improve profitability of this series.

Penicillin Series

The total output of this series for the year amounted to 7,279 tonnes, an increase of 60% over last year. Owing to the intense market competition and the excessive production capacity, prices remained low. The average prices of penicillin industrial salt and amoxicillin for the year were US\$9.27 and US\$21.26 per kg respectively. The gross profit margin of the entire series decreased from 15.9% in the previous year to 6.9% in the current year.

Market consolidation still persists. However, the gradual increase in the utilization rate of the Group's production lines in Inner Mongolia will help improve the performance of this series.

Cephalosporin Serie

The total output of this series for the year amounted to 1,438 tonnes, an increase of 66% over last year. Demand for 7-ACA was strong in the current year and the price went up correspondingly. The average price of 7-ACA for the year was US\$92.82 per kg, an increase of 9% as compared with US\$85.13 per kg in the previous year. The gross profit margin of the entire series increased from 17.8% in the previous year to 24.4% in the current year.

Since the production capacity of 7-ACA in the PRC has increased significantly in the current year, excessive supply starts to develop. It is expected that product prices will be increasingly under pressure. At the beginning of 2006, the price of 7-ACA has declined to approximately US\$83 per kg.

Finished Drugs

Despite of the fierce market competition, this business unit still recorded a growth rate of 17% in the current year. Revenue increased to HK\$1,110 million with a gross profit margin of 24.2%. While the sales revenue was increasing, distribution costs also increased substantially, thereby bringing down the operating profit of this business unit to HK\$63 million in the current year, a decrease of 7% over last year.

Market competition is expected to remain fierce. The Group will continue to implement effective sales strategies so as to strive for business growth.

Patent Drug

The clinical trials of the patent drug, butylphthalide, in the PRC have been finished. The drug was launched to the market in the second half of the year and market response was desirable initially. As market build-up work is still in its early stage, this business unit is not expected to contribute considerable profit in the short term.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2005, the Group's operating activities generated a net cash inflow of HK\$186,908,000. Capital expenditure reached HK\$539,000,000, which was financed by internal resources and bank loans. At December 31, 2005, the Group's current ratio was 1.10, a slight improvement as compared with 0.95 at the end of previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) decreased to 51 days as compared with 59 days in the previous year. As affected by the unfavourable market conditions, inventory turnover period (ratio of inventories balance to cost of goods sold) increased to 110 days as compared with 91 days in the previous year.

At December 31, 2005, the Group had total borrowings of HK\$1,491,038,000 (comprising bank loans of HK\$1,435,550,000 and loans from ultimate holding company of HK\$55,488,000). The maturity profile of the total borrowings spreads over a period of four years with HK\$344,804,000 repayable within one year and HK\$1,146,234,000 between one to four years. Net gearing ratio was 41%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$475,134,000 over equity at the balance sheet date.

45% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 55% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. Our exposure to foreign exchange rate fluctuations is limited as the exchange rates between these currencies are relatively stable.

Pledge of Asset

At December 31, 2005, bank balances of HK\$2,428,000 and bills receivable of HK\$3,828,000 were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiary are named as, among others, defendants in certain antitrust complaints filed in the United States of America ("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 volume 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 in 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 (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the above-mentioned antitrust complaints filed in the United States. Up to the date of this announcement, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors of the Company are of the view that the allegations in the antitrust complaints are without merits and, the directors of the Company intend to contest to 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 estimated with certainty at this stage.

EMPLOYEES

At the balance sheet date, the Group had about 12,098 employees and the majority of them are employed in the PRC. The Group offers 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 Rules Governing the Listing of Securities on the Stock Exchange during the year ended December 31, 2005 with certain deviations from code provision A.2.1.

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. Prior to December 1, 2005, Mr. Cai Dong Chen was the chairman and Mr. Ding Er Gang was the managing director of the Company with their roles separate. Since the resignation of Mr. Ding as executive director and managing director of the Company on December 1, 2005, Mr. Cai has assumed both roles as the chairman and managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended December 31, 2005 in conjunction with the external auditors.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board CAI DONG CHEN Chairman

Hong Kong, April 11, 2006

As at the date of this announcement, the Board of Directors of the Company comprises seven executive directors, namely Mr. CAI Dong Chen, Mr. WEI Fu Min, Mr. YUE Jin, Mr. JI Jian Ming, Mr. YAO Shi An, Mr. FENG Zhen Ying and Mr. CHAK Kin Man; one non-executive director, namely Mr. LEE Ka Sze, Carmelo and four independent non-executive directors, namely, Mr. HUO Zhen Xing, Mr. QI Mou Jia, Mr. GUO Shi Chang and Mr. CHAN Siu Keung, Leonard.