CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

	2014	2013	Change
	HK$'000	*HK$'000*	
Revenue *(Note 1)*	**10,955,077**	9,949,103	+10.1%
Profit attributable to shareholders before gain on disposal of subsidiaries and share-based payment expense	**1,321,122**	946,769	+39.5%
Gain on disposal of subsidiaries *(Note 2)*	**511**	154,228	
Share-based payment expense *(Note 3)*	**(53,187)**	(128,246)	
Profit attributable to shareholders	**1,268,446**	972,751	+30.4%
Earnings per share			
— Basic	**HK21.47 cents**	HK17.49 cents	+22.8%
— Diluted	**HK21.26 cents**	HK16.54 cents	+28.5%
Final dividend per share	**HK10 cents**	HK8 cents	+25.0%

Notes:

1. The 2013 comparative comprises sales revenue of approximately HK$410,850,000 attributable to CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("NMG Zhongrun"), CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Tianjin Cenway") and their subsidiaries, which were principally engaged in the manufacture of bulk antibiotic products. The equity interests in NMG Zhongrun and Tianjin Cenway have been disposed of by the Company in June 2013 and September 2013 respectively. The 2013 comparative will become approximately HK$9,538,253,000 if revenue attributable to these companies which have been disposed of in 2013 is not accounted for. On this basis, revenue of the current year has increased 14.9%.

2. The gain of HK$511,000 for the current year arises from the disposal of the Group's 20% equity interest in Siping City Fine Chemicals Product Co., Ltd. in November 2014. The 2013 comparative comprises the gain of HK$154,228,000 arising from the disposal of the Group's equity interests in NMG Zhongrun in June 2013 and Tianjin Cenway in September 2013.

3. The share-based payment expense of HK$53,187,000 (2013: HK$128,246,000) represents the amount of expense recognised for the year in connection with the share options granted by the Company in April 2013.

CHAIRMAN'S STATEMENT

OVERVIEW

In 2014, the global economy saw a tough recovery with increasing uncertainties, economic growth remained weak. Despite the changes in the global landscape, the Chinese economy maintained a relatively strong growth momentum with fundamentals remaining unchanged. Economic policies in China have been adjusted in order to promote transformation and upgrades, eliminate old and excess production capacities and accelerate the development of emerging industries. Overall economy remained strong with economic growth smoothly transiting from policy-driven to organic-driven. These changes in the external economic environment have provided opportunities for the Group to develop and transform its business. In order to ensure sustainable growth, the Group will continue to actively engage in the development of new drugs, promote overseas expansion and strengthen its leading position in the bulk drug business.

Along with the continued expansion of the economy and the increase in scale of the urban cities in China, there has been a new round of hospital expansion. This round of hospital expansion is mainly represented by the tier-3 general hospitals, focusing on the construction of modern ward buildings, establishment of sub-hospitals and branches in the new urban areas, and establishment of healthcare centers in the communities. In terms of medical services, expansion in oncology diagnosis and treatment is one of the most important directions. This development enables the general hospitals to have an expanding coverage and improving service standard for their oncology treatment services.

Industry Outlook

With the accelerated ageing of population, progress of urbanisation policies and increase in people's income level, the demand for pharmaceutical products in China is expected to have a continuous increase. The prevalence rate of hypertension and dementia has been steadily rising over the years due to continuing growth of China's ageing population. With these two massive patient groups, there is a great market potential for the Group's "Xuanning" and "Oulaining" products. On the other hand, the prevalence rate of cancer and corresponding demand for treatment are also increasing over the years, mainly due to ageing, urbanization, industrialization and changes in life-style and dietary habits. The expansion of hospitals, expansion of the medical reimbursement scope and higher affordability of patients will ensure that the demand for medical treatments is more able to be met.

Group's Business Outlook

Innovative Drug Business

The Group will continue to implement the market strategy of "market differentiation, professional marketing and brand building". In addition, the Group will follow closely the national and provincial medical insurance and tender policies in order to seize policy opportunities and minimize risks. With its increasingly mature sales network, expanding professional sales team, and exceptional product efficacy and quality, the Group's innovative drug business is expected to achieve rapid growth in the coming years and increase its contribution to the Group.

Common Generic Drug Business

The Group will conduct in-depth study on policies in relation to essential drugs and low-priced drugs. Leveraging on its quality, brand, product chain and other competitive advantages, the Group will actively participate in tenders and extend its focus of tenders to the county level. Low-priced drugs will be an important driver of profit growth for the common generic drug business in the future. In addition, the common generic drug business will implement professional marketing plans for the specialty drugs and promote the professional knowledge of specialty drugs in the lower-tier medical institutions. The Group will also strengthen its sales force and network development, and will establish strategic partnerships with end-market operators covering the lower-tier market network. It is expected that the common generic drug business will continue to achieve steady growth in 2015.

Bulk Drug Business

In respect of the bulk drug business, the Group will continue its efforts in technological upgrades and production costs reduction in order to maintain its leading position in the industry. Currently, the Group has received U.S. FDA approvals for 6 bulk drugs and 5 bulk drug production workshops. The Group will also continue its efforts in high-end quality certification and product quality enhancement, and will continue to closely monitor changes in the market and timely adjust its operating strategies. After several years of intense competition, the bulk drug market is showing a steadily upward trend. With its leading position in the industry, the bulk drug business of the Group is expected to continue to achieve steady growth in 2015.

CAI Dongchen
Chairman

Hong Kong, 24 March 2015

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014** *HK$'000*	2013 *HK$'000*
Revenue	*2*	**10,955,077**	9,949,103
Cost of sales		**(6,767,724)**	(6,816,042)
Gross profit		**4,187,353**	3,133,061
Other income		**134,558**	211,402
Selling and distribution expenses		**(1,788,032)**	(1,300,739)
Administrative expenses		**(551,697)**	(620,291)
Other expenses		**(307,814)**	(243,455)
Operating profit		**1,674,368**	1,179,978
Finance costs		**(54,358)**	(72,537)
Share of results of			
— an associate		**375**	—
— a joint venture		**588**	(14,045)
Gain on disposal of subsidiaries		**511**	154,228
Profit before tax	*3*	**1,621,484**	1,247,624
Income tax expense	*4*	**(337,153)**	(258,324)
Profit for the year		**1,284,331**	989,300
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(225,574)**	150,299
Share of exchange differences of			
— an associate		**(5)**	—
— a joint venture		**(459)**	(337)
Other comprehensive (expense) income for the year, net of income tax		**(226,038)**	149,962
Total comprehensive income for the year		**1,058,293**	1,139,262

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

		2014	2013
	Notes	***HK$'000***	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**1,268,446**	972,751
Non-controlling interests		**15,885**	16,549
		1,284,331	989,300
Total comprehensive income attributable to:			
Owners of the Company		**1,045,174**	1,120,755
Non-controlling interests		**13,119**	18,507
		1,058,293	1,139,262
		HK cents	*HK cents*
Earnings per share			
— Basic	*5*	**21.47**	17.49
— Diluted	*5*	**21.26**	16.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 *HK$'000*	2013 *HK$'000*
Non-current assets			
Property, plant and equipment		**5,049,087**	4,961,171
Prepaid lease payments		**498,522**	547,754
Goodwill		**125,060**	128,438
Other intangible assets		**111,289**	127,597
Interest in an associate		**56,732**	—
Interest in a joint venture		**18,167**	18,038
Available-for-sale investment		**1,705**	1,705
Deferred tax assets		**34,922**	43,071
		5,895,484	5,827,774
Current assets			
Inventories		**1,805,749**	1,855,188
Trade and other receivables	*7*	**2,006,712**	2,029,961
Bills receivables	*8*	**1,079,359**	982,437
Trade receivables due from related companies		**92,471**	122,137
Amount due from a joint venture		**76,450**	91,519
Prepaid lease payments		**14,928**	16,909
Tax recoverable		**2,754**	226
Held for trading investments		**703**	438
Derivative financial instruments		**—**	3,428
Restricted bank deposits		**58,199**	82,779
Bank balances and cash		**1,468,421**	1,187,751
		6,605,746	6,372,773

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Current liabilities			
Trade and other payables	9	**2,329,726**	2,303,199
Bills payables	10	**227,150**	273,397
Trade payables due to related companies		**26,483**	47,607
Trade payables due to an associate		**576**	—
Trade payables due to a joint venture		**—**	2,007
Amounts due to related companies		**277,894**	475,179
Tax liabilities		**116,597**	77,116
Unsecured bank loans		**624,070**	659,946
		3,602,496	3,838,451
Net current assets		**3,003,250**	2,534,322
Total assets less current liabilities		**8,898,734**	8,362,096
Non-current liabilities			
Deferred tax liabilities		**29,645**	33,117
Unsecured bank loans		**601,800**	680,120
Government grants		**115,761**	52,059
		747,206	765,296
Net assets		**8,151,528**	7,596,800
Capital and reserves			
Share capital		**9,819,731**	558,636
Reserves		**(1,740,577)**	6,893,984
Equity attributable to owners of the Company		**8,079,154**	7,452,620
Non-controlling interests		**72,374**	144,180
Total equity		**8,151,528**	7,596,800

NOTES TO FINANCIAL STATEMENTS

1. Basic of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of reporting period.

Amendments to HKFRSs and the new Interpretation that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to HKFRSs and a new interpretation issued by HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) — Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- measure and evaluate performance of substantially all of investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Group is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The application of the above new Interpretation and other amendments to HKFRSs in the current annual period also has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 — 2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 — 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with early application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

The Group is in the process of assessing their impact on the Group's financial statements.

2. Revenue and Segment Information

	2014	2013
	HK$'000	*HK$'000*
Sale of goods	**10,955,077**	9,949,103

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance.

The Group's reportable and operating segments for financial reporting purposes are as follows:

(a) Finished drugs

(b) Antibiotics (intermediates and bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

All reportable segments are engaged in the manufacture and sales of pharmaceutical products.

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 2014:

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	**6,716,184**	**2,369,864**	**1,243,347**	**625,682**	**10,955,077**	**—**	**10,955,077**
Inter-segment sales	**—**	**47,514**	**6,794**	**8,332**	**62,640**	**(62,640)**	**—**
TOTAL REVENUE	**6,716,184**	**2,417,378**	**1,250,141**	**634,014**	**11,017,717**	**(62,640)**	**10,955,077**

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	**1,635,411**	**155,929**	**(87,666)**	**122,688**	**1,826,362**		**1,826,362**
Unallocated income							**7,849**
Unallocated expenses							**(159,843)**
Operating profit							**1,674,368**
Finance costs							**(54,358)**
Share of results of							
— an associate							**375**
— a joint venture							**588**
Gain on disposal of a subsidiary							**511**
Profit before tax							**1,621,484**

For the year ended 31 December 2013:

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	5,753,847	2,446,370	1,116,433	632,453	9,949,103	—	9,949,103
Inter-segment sales	—	99,108	8,347	7,053	114,508	(114,508)	—
TOTAL REVENUE	5,753,847	2,545,478	1,124,780	639,506	10,063,611	(114,508)	9,949,103

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	1,319,825	53,930	(135,986)	149,206	1,386,975		1,386,975
Unallocated income							7,720
Unallocated expenses							(214,717)
Operating profit							1,179,978
Finance costs							(72,537)
Share of result of a joint venture							(14,045)
Gain on disposal of subsidiaries							154,228
Profit before tax							1,247,624

Segment profit (loss) represents the profit earned/loss recognised by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of an associate and a joint venture and gain on disposal of subsidiaries. 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:

	2014	2013
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC") (country of domicile)	**8,164,521**	7,099,136
Other Asian regions	**1,134,235**	1,361,914
Americas *(Note)*	**790,634**	664,579
Europe	**711,190**	665,940
Others	**154,497**	157,534
	10,955,077	9,949,103

Note: The majority of revenue came from sales of pharmaceutical products in the United States of America (the "United States").

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

3. Profit Before Tax

	2014	2013
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration:		
Salaries, wages and other benefits	**919,282**	826,729
Contribution to retirement benefit schemes	**106,704**	99,455
Share-based payment expense (included in administrative expenses)	**53,187**	128,246
Total staff costs	**1,079,173**	1,054,430
Amortisation of intangible assets (included in cost of sales)	**19,850**	11,525
Amortisation of prepaid lease payments	**15,319**	14,277
Depreciation of property, plant and equipment	**575,043**	630,530
Total depreciation and amortisation	**610,212**	656,332
Auditor's remuneration	**3,600**	3,700
(Gain) loss on disposal/write-off of property, plant and equipment (included in other income/other expenses)	**(3,402)**	11,505
Government grant income	**(85,547)**	(139,179)
Interest income	**(7,852)**	(5,994)
(Reversal) write down of inventories (included in cost of sales)	**(7,342)**	15,000
Net foreign exchange loss (gain)	**4,518**	(17,506)
Rental expenses	**31,268**	15,461
Net impairment loss on trade receivables	**2,883**	190
Research and development expenditure recognised as an expense (included in other expenses)	**307,223**	212,462

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2014 and 2013.

4. Income Tax Expense

	2014	2013
	HK$'000	*HK$'000*
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax ("PRC EIT")	**300,781**	224,395
— PRC withholding tax on dividends distributed by subsidiaries	**32,422**	49,775
	333,203	274,170
Deferred taxation	**3,950**	(15,846)
	337,153	258,324

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profit under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable income for both years.

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 regulations of the EIT law. 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 reduced to 15% for a period of 3 years up to 2014. PRC EIT had been relieved by approximately HK$1,847,000 for the year ended 31 December 2013 as a result of tax losses brought forward from pervious years.

Capital gain tax was determined at the applicable PRC withholding tax rate of 10% based on the surplus of sales proceeds from disposal of subsidiaries over investment cost of those disposed subsidiaries according to the relevant tax rule in the PRC.

5. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,268,446**	972,751

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,908,018**	5,562,186
Effect of dilutive potential ordinary shares:		
Tranche II Convertible Bonds as if converted *(Note)*	—	317,247
Share options granted by the Company	**59,664**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,967,682**	5,879,433

The computation of diluted earnings per share in 2013 does not assume the exercise of the Company's share options because the adjusted exercise price of those options was higher than the average market price for shares from the date of grant of the options to the end of that reporting period.

Note: On 29 October 2012, the Company issued two tranches of convertible bonds with respective principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) and US$86,003,274.70 (equivalent to HK$670,825,542.66) ("Tranche II Convertible Bonds"). Details of the convertible bonds are set out in the Company's consolidated financial statements for the year ended 31 December 2014.

6. Dividend

	2014	2013
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2013 Final, paid — HK8 cents (2013: 2012 Final, paid — HK10 cents) per share	**472,641**	382,542

The directors recommend the payment of a final dividend of HK10 cents (2013: HK8 cents) per share in respect of the year ended 31 December 2014. Subject to approval by the shareholders in the forthcoming annual general meeting, the proposed final dividend will be paid on or around 15 June 2015 to shareholders of the Company whose names appear on the register of members of the Company on 2 June 2015.

7. Trade and Other Receivables

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**1,699,086**	1,720,828
Less: allowance for doubtful debts	**(4,395)**	(1,588)
	1,694,691	1,719,240
Prepayment for purchase of raw material	**183,695**	126,911
Deposits and prepayment for utilities	**40,093**	28,942
Other tax recoverable	**28,672**	62,879
Others	**59,561**	91,989
	2,006,712	2,029,961

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 which approximated the respective revenue recognition dates:

	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**1,479,654**	1,484,861
91 to 180 days	**210,236**	174,391
181 to 365 days	**4,801**	11,377
Over 365 days	**—**	48,611
	1,694,691	1,719,240

8. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2013: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

9. Trade and Other Payables

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**955,617**	935,534
Customer deposits and advance from customers	**373,342**	280,999
Other tax payables	**53,984**	37,313
Freight and utilities charges payable	**28,430**	27,727
Construction cost and acquisition of property, plant and equipment payable	**601,792**	548,376
Government grants	**88,596**	182,235
Staff welfare payable	**131,792**	141,077
Selling expense payable	**60,260**	73,000
Provision for litigation	**783**	45,999
Others	**35,130**	30,939
	2,329,726	2,303,199

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

	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**703,652**	658,963
91 to 180 days	**104,716**	78,391
More than 180 days	**147,249**	198,180
	955,617	935,534

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.

10. Bills Payables

All bills payables of the Group are aged within 180 days (2013: 180 days) and not yet due at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

In 2014, the Group recorded sales revenue of approximately HK$10,955 million, representing an increase of 10.1% over last year, and profit attributable to shareholders of approximately HK$1,268 million, representing an increase of 30.4% over last year.

Finished Drug Business

Innovative Drug Products

During the year, the innovative drug business of the Group maintained strong growth momentum, with continuous expansion of market share and a stronger presence and coverage in the high-end market. With the continuous efforts put in academic-based promotion, the innovative drug business maintained a rapid growth in sales. For the current year, sales revenue reached approximately HK$2,784 million, representing a 44.9% growth over last year. It is expected that many provinces and cities in China will initiate tender process in 2015. The Group will strive to ensure that its innovative drug products can win the tenders at reasonable prices in order to expand market coverage and to drive rapid and sustainable growth. The Group will also further improve its expert network and increase its efforts in academic-based promotion, so as to strengthen the market position of its innovative drug products in the respective therapeutic sector.

Following is an overview of the Group's major innovative drug products:

"NBP"

"NBP" series is a Class I new drug in China and is also a patent-protected exclusive product. Its major ingredient is butylphthalide, and the drug is mainly used for the treatment of acute ischemic stroke. Its soft capsule and injection forms were launched in 2005 and 2010, respectively. This product has been awarded the State Science and Technology Progress Award (Second Class) and Golden Award for Outstanding Chinese Patented Invention. It was also awarded the China Grand Awards for Industry in 2014. "NBP" is a recommended drug in the "Guidelines for Cerebrovascular Disease Prevention and Treatment in China" and "Guidelines for Acute Ischemic Stroke Treatment in China 2010". Currently, "NBP" is one of the fastest growing products for the treatment of acute ischemic stroke and is also a blockbuster innovative drug of the Group.

"Oulaining"

"Oulaining" series is available in the forms of capsule and lyophilized powder injection. Its major ingredient is oxiracetam, and the drug is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. "Oulaining" lyophilized powder injection is currently an exclusive preparation form in China, and has been awarded the Hebei Province Science and Technology Progress Award (First Class). "Oulaining" has grown into a leading brand of oxiracetam.

“Xuanning”

“Xuanning” series is available in the forms of tablet and dispersible tablet. Its major ingredient is maleate levamlodipine, and the drug is mainly used for the treatment of hypertension. The product has been awarded the State Technological Invention Award (Second Class). After years of market development, “Xuanning” has grown into a major brand among hypertension drugs in China.

“Duomeisu”, “Jinyouli”, “Ailineng” and “Nuolining”

The existing oncology drug products of the Group include “Duomeisu”, “Jinyouli”, “Ailineng” and “Nuolining”.

“Duomeisu” (Doxorubicin hydrochloride liposome injection) is a new anthracycline used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. “Jinyouli” (PEG-rhG-CSF injection) is the first long-acting growth factor drug in China and is used for the prevention of leucopenia and infection induced by chemotherapy. “Ailineng” (Elemene injection) is a drug mainly used for the treatment of nerve glioma and brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. Its unique liquid injection form has obtained patent in China. “Nuolining” (Imatinib mesylate tablet) is a tyrosine-kinase inhibitor product that can inhibit the activity of Bcr-Abl tyrosine kinase, and is used for the treatment of chronic myelocytic leukemia and malignant gastrointestinal stromal tumor. “Nuolining” is a new drug of the Group with production approval obtained in November 2014, and has been launched in March 2015.

With the progress of academic-based promotion and further enhancement of market recognition, “Duomeisu”, “Jinyouli” and “Ailineng” effectively expanded their market coverage and achieved satisfying growth. In 2014, the oncology drug products contributed sales revenue of approximately HK$252 million, representing a growth of 2.3 times as compared to last year.

In addition, the Group has some other oncology drugs under research and development, among which “bortezomib injection” has been submitted for production approval, “mitoxantrone hydrochloride liposome injection” has commenced phase II clinical trial, and “paclitaxel injection (albumin-bound)” has been submitted for clinical trial. The Group expects these products will be approved for market launch in the coming years.

Common Generic Drug Products

In 2014, a new round of essential drug tenders, together with new GMP and GSP authorization in China have brought opportunities and challenges to the Group’s production and operation. During the year, the Group further enhanced its sales strategies for common generic drugs, refined its product portfolio and established its sales channels. In particular, the Group cooperated with pharmacy chains in China to further explore market potentials. Meanwhile, appropriate sales partners were identified to cooperate in revitalizing selective dormant products, and certain achievements have been made. In addition, the Group’s Chinese medicine soft capsule product series (including “Qingre Jiedu soft capsule（清熱解毒軟膠囊）", "Ganmao Qingre soft capsule（感冒清熱軟膠囊）", "Yin Huang soft capsule（銀黃軟膠囊）", "Xiangsha Yangwei soft capsule（香砂養胃軟膠囊）" and "Huoxiang Qushu soft capsule（藿香祛暑軟膠囊）") have formed a brand portfolio and become another strong growth momentum of the Group.

In 2014, the common generic drug business has achieved satisfactory growth in both the lower-tier medical market and non-prescription drug market, with continuous earnings improvement.

Bulk Drug Business

Antibiotics

In 2014, the antibiotics business has picked up a steady and upward trend subsequent to the previous stage of intense competition which led to production halt or reduced production by some manufacturers. The Group also continued to lower its production costs through technological upgrades, reinforced internal management and energy-saving measures, which enabled the Group to maintain its leading position in the industry. Because of an improvement in the market environment together with an enhanced product portfolio, this business has achieved a significant growth in 2014.

Vitamin C

In 2014, competition in the vitamin C market remained intense. However, after a long period of competition, the market showed signs of differentiation under which some competitors had suspended or reduced their production. Leveraging on its advantages in scale, quality and production costs, the Group continued to maintain its absolute competitiveness in the industry. In 2014, the Group's vitamin C products was ranked number one in terms of total sales and export volume in this industry. However, this business still recorded a loss for the year due to low product price.

Caffeine and Others

In 2014, both the market demand and product price of caffeine remained stable, and the Group's market share further increased. The Group also enhanced the product mix of this business by reducing the sales of non-major products. In 2014, this business continued to contribute stable profit to the Group.

Research and Development

The Group continued to capitalise on its technological advantages in the realm of drug research and development. Currently, the Group has over 170 products under research and development, with focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infective. Among these products, 14 are Class I new drugs and 46 are Class III new drugs (of which 33 products are among the first three applications).

5 of the 14 Class I new drugs are under clinical trial. Of which, "recombinant glucagon-like peptide-1 receptor agonist for injection (rE4)" and "compound amlodipine and atorvastatin calcium tablet" have commenced phase III clinical trial; "pinocembrin injection" is under phase II clinical trial; "baicalein tablet" has been submitted for phase II and III clinical trial application and "DBPR-108" has obtained phase I clinical trial approval. In addition, "mitoxantrone hydrochloride liposome injection" has commenced phase II clinical trial.

Apart from these, the Group has submitted applications for 34 drugs with the China Food and Drug Administration during the year (of which, 9 are production applications and 25 are clinical trial applications). 18 of the 34 drugs are among the first three applications. During the year, the Group had obtained production approvals for 6 products in China.

With regard to overseas research and development, the Group has submitted 2 ANDA applications in the U.S. during the year. Currently, the Group has a total of 9 drugs applying for ANDA in the U.S.. In addition, three production lines of the Group for the production of "menatetrenone capsule", "cefotaxime sodium injection" and "cefixime tablet" have passed the U.S. FDA's on-site inspection during the year. Meanwhile, the application for phase II clinical trial protocol of "butylphthalide soft capsule" has been approved by the U.S. FDA and has completed the pharmacokinetic research in human subjects as requested by the U.S. FDA.

The Group implements the innovation-driven strategy by continuously investing in research and development to enhance the drive for innovation. This ensures that the performance of the Group will continue to grow and greater contributions could be made to the shareholders and the community.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2014, the Group's operating activities continued to generate a healthy level of cash inflow. Debtor turnover period (ratio of the balance of trade receivables to sales, inclusive of value added tax for sales in China) improved from 63 days in 2013 to 55 days *(Note)*. Inventory turnover period (ratio of inventory balance to cost of sales) also slightly shortened from 105 days in 2013 to 102 days *(Note)*. Current ratio of the Group improved from 1.7 a year earlier to 1.8 as at 31 December 2014. Capital expenditure in relation to the additions of production facilities amounted to HK$877 million for the current year.

The financial position of the Group remained healthy and strong. As at 31 December 2014, total bank balances and cash amounted to HK$1,527 million and total bank borrowings amounted to HK$1,226 million. Of the total bank borrowings, HK$624 million will be repayable within one year and the remaining HK$602 million repayable between two to three years. Gearing ratio (calculated on the basis of the Group's total bank borrowings over total equity) was 15.0% as compared to 17.6% as at 31 December 2013.

50% of the Group's bank borrowings are denominated in Hong Kong dollars, 19% in US dollars and the remaining 31% 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.

Note: The related figures exclude sales and cost of sales attributable to Siping City Fine Chemicals Product Co., Ltd. which ceased to be a subsidiary and became an associate of the Company upon disposal of its 20% equity interest by the Group during the year.

Contingent Liabilities

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints filed in the United States in relation to the exports of vitamin C to the United States and elsewhere in the world.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement for US$22.5 million to resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. On 16 October 2013, the court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the direct purchaser action. The first instalment of the settlement amounting to US$20 million has been paid by the Company and Weisheng on 13 April 2013 and the remaining US$2.5 million was settled on 9 October 2014.

On 13 November 2013, the Company, Weisheng and the putative indirect purchaser class in the indirect purchaser actions entered into a settlement agreement for US$2.2 million to fully and finally resolve all the claims in the indirect purchaser actions. On 16 May 2014, the Court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the indirect purchase actions. The settlement amount of US$2.2 million has been paid by the Company and Weisheng on 9 January 2014.

Employees

As at 31 December 2014, the Group had about 10,565 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.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in the bulk drug business in order to achieve long-term sustainable growth.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2014 except the deviations from code provisions A.2.1 and A.5.1 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.

Code provision A.5.1 of the Code stipulates that the nomination committee should comprise a majority of independent non-executive directors. Since the retirement of Mr. Qi Moujia as an independent non-executive director on 20 May 2014, the number of independent non-executive directors of the nomination committee of the Company has fallen below a majority required by code provision A.5.1. Following the appointment of Mr. Lo Yuk Lam as a new independent non-executive director and a member of the nomination committee of the Company with effect from 1 June 2014, the Company has complied with the code provision from the same date.

In addition, according to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the changes of independent non-executive directors on 1 June 2014, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules. The composition of the Board currently comprises ten (10) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The Company is endeavoring to identify a suitable candidate to act as an independent non-executive director to meet the requirement set out in rule 3.10A of the Listing Rules and will make an announcement as and when appropriate.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's annual results for the year ended 31 December 2014 in conjunction with the external auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 May 2015 to Tuesday, 26 May 2015, both days inclusive, during which period no transfer of shares Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Tuesday, 26 May 2015, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 May 2015.

The register of members of the Company will be closed from Monday, 1 June 2015 to Tuesday, 2 June 2015, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 May 2015.

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

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

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 24 March 2015

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, Mr. LU Jianmin, Mr. WANG Zhenguo and Mr. WANG Jinxu as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Mr. LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Shilin as independent non-executive directors.