CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	2016 ***HK$'000***	2015 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**4,773,634**	3,775,220	26.4%	34.3%
Common generic drugs	**4,193,217**	4,018,485	4.3%	10.8%
Bulk drugs				
Antibiotics	**1,333,565**	1,718,436	(22.4%)	(17.6%)
Vitamin C	**1,308,687**	1,202,694	8.8%	15.6%
Caffeine and others	**759,938**	678,891	11.9%	18.9%
Total revenue	**12,369,041**	11,393,726	8.6%	15.3%
Gross profit	**6,308,809**	5,220,878	20.8%	28.3%
Operating profit	**2,649,484**	2,166,453	22.3%	29.9%
Profit attributable to shareholders	**2,100,848**	1,665,271	26.2%	34.0%

Note: Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the prior year to current year local currency results.

INDUSTRY OUTLOOK

During the "12th Five-Year Plan" period, the growth in pharmaceutical industry in China had gradually slowed down from high to moderate and has entered into a new norm. However, the Group has seen the existence of both opportunities and challenges. As a leading pharmaceutical enterprise in China, the Group has adapted to the healthcare reform by innovation and transformation. Business focus has been concentrated on developing high value-added new drugs, actively responding to market changes, exploring new businesses in the market and internationalisation of products and brand, with remarkable results achieved.

As we entered the "13th Five-Year Plan" period, the healthcare reform in China further deepened in 2016 with numerous policies introduced, involving drug manufacturing, drug distribution, quality supervision, drug usage and health insurance. Healthcare reform policies related to product quality bioequivalence evaluation and manufacture practice inspection are expected to gradually shift pharmaceutical production to large enterprises. Implementation of the two-invoice system, the change from business tax to value-added tax and the new GSP are expected to reshuffle the pharmaceutical distribution industry. Stringent usage restriction on antibiotic and inspection of product adverse reaction are expected to facilitate structural changes on end-users' drug usage. Moreover, the slow approval process for new drugs, policy tightening, tender price pressure and drug price negotiation have created a direct impact on the pharmaceutical industry. Under this challenging environment, pharmaceutical companies need to keep on seeking new business developments and growth drivers.

With the accelerating aging population, progress of urbanisation policy and increase in the people's income level in China, the demand for pharmaceutical products in China is expected to have a continuous increase. On top of that, factors such as deteriorating environmental pollution and unhealthy dietary habits have led to an increasing number of new cancer cases in China, with current number standing at about 3.5 million each year. As a result, the demand for effective treatment is growing year by year. In addition, the recent government policies on major innovative drugs have facilitated the development and market expansion of cancer drugs. With increasing concern for major and serious diseases, local provinces have also included more drugs for major and serious diseases in the medical reimbursement scope and supported the clinical use of domestic drugs in order to alleviate the burden of patients. Driven by these favorable factors, we expect the oncology drugs market in China will continue to maintain rapid growth in the future. Meanwhile, the increasing incidence of other senile diseases (such as cardio-cerebrovascular disease, senile dementia, diabetes, etc.) is also leading to a greater demand for medical treatment.

In view of the massive size of population with the four major diseases mentioned above, the Group's "NBP", "Oulaining", "Xuanning", "Duomeisu", "Jinyouli", "Linmeixin" (glimepiride dispersible tablets) have huge market potential. On the other hand, the Group will also actively adapt to the policy direction towards tiered medical system and allocating more medical resources to the basic-tier market. The Group will make adjustments to its market strategy and step up the development of the basic-tier end-user market. With the revision of the national reimbursement drug list this year, the Group has 8 products newly included in the new national reimbursement drug list which will provide promising prospect on market expansion in the future.

BUSINESS OUTLOOK

Finished Drug Business

Innovative Drug Products

In recent years, the market share of innovative drugs continues to expand with a rapid growth momentum, with the product brands gaining reputation in the market. With the release of the new national reimbursement drug list, changes in the provincial medical reimbursement standards and the implementation of the two-invoice system, innovative drugs will face new opportunities and challenges. The Group will follow closely on the policy changes in order to seize opportunities and respond timely to challenges. For the provincial tenders, the Group will strive to maintain a reasonable tender price, constantly expand the market potential and extend the product life cycle to ensure sustainable and rapid growth for its products. With regard to the two-invoice system, the Group will consolidate and merge the distribution channels to ensure a smooth transition for our innovative drugs in the distribution channels. In the meantime, the Group will further improve its existing expert network through professional academic-based promotion, thus enhancing the reputation of its innovative drugs in the domestic market and bringing the market influence of its innovative drugs to a new level.

Common Generic Drug Products

The Group will seize the market opportunities provided by the new national healthcare reform, including the bioequivalence evaluation for generic drugs, medical reimbursement standards, tiered medical system and development of the basic-tier market. The Group will leverage the competitive edge of its product chain, quality control, brand value, channel structure and marketing team to expand its presence in the basic-tier medical market. In addition, the Group will gradually develop more generic drugs (including traditional Chinese medicines, pediatrics and gynecological drugs) which are in line with the government's direction, hoping to share the growth potential of the expanding basic-tier market. The Group will further cooperate with professional marketing teams to create pillar products with growth potential. It is expected that the common generic drug business will continue to have a stable growth in 2017.

Bulk Drug Business

In respect of the bulk drug business, the Group will continue its efforts in technology upgrades, production costs reduction, high-end quality certification, product quality enhancement and market expansion in order to increase the profitability and maintain the leading position in the industry. The Group will continue to closely monitor changes in the market and timely adjust its operating strategies. After several years of intense competition, the vitamin C market has started to demonstrate an upward trend. With its leading position in the industry, the bulk drug business of the Group is expected to remain stable in 2017 with certain products having the likelihood of achieving higher growth.

CAI Dongchen
Chairman

Hong Kong, 20 March 2017

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 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	*2*	**12,369,041**	11,393,726
Cost of sales		**(6,060,232)**	(6,172,848)
Gross profit		**6,308,809**	5,220,878
Other income		**106,970**	86,561
Selling and distribution expenses		**(2,788,160)**	(2,266,958)
Administrative expenses		**(553,694)**	(534,881)
Other expenses		**(424,441)**	(339,147)
Operating profit		**2,649,484**	2,166,453
Finance costs		**(41,711)**	(56,335)
Share of results of			
— an associate		**—**	141
— joint ventures		**27,559**	10,663
Loss on disposal of an associate		**—**	(8,873)
Profit before tax	*3*	**2,635,332**	2,112,049
Income tax expense	*4*	**(522,107)**	(432,423)
Profit for the year		**2,113,225**	1,679,626
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(658,279)**	(423,345)
Share of exchange differences of an associate and joint ventures		**(2,773)**	(1,244)
Other comprehensive expense for the year, net of income tax		**(661,052)**	(424,589)
Total comprehensive income for the year		**1,452,173**	1,255,037

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**2,100,848**	1,665,271
Non-controlling interests		**12,377**	14,355
		2,113,225	1,679,626
Total comprehensive income attributable to:			
Owners of the Company		**1,445,017**	1,244,595
Non-controlling interests		**7,156**	10,442
		1,452,173	1,255,037
		HK cents	*HK cents*
Earnings per share			
— Basic	*5*	**35.25**	28.18
— Diluted	*5*	**35.00**	27.95

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**5,415,032**	5,142,767
Prepaid lease payments		**526,712**	467,785
Goodwill		**111,785**	119,388
Other intangible assets		**79,232**	96,080
Interests in joint ventures		**80,089**	27,586
Available-for-sale investments		**91,732**	—
Deferred tax assets		**27,986**	38,706
		6,332,568	5,892,312
Current assets			
Inventories		**1,933,147**	1,819,228
Trade and other receivables	*7*	**1,835,266**	1,877,617
Bills receivables	*8*	**1,215,156**	1,389,493
Trade receivables due from related companies		**73,570**	162,212
Amounts due from joint ventures		**115,986**	75,179
Prepaid lease payments		**16,419**	15,057
Tax recoverable		**—**	2,477
Held for trading investments		**521**	606
Restricted bank deposits		**2,875**	6,202
Bank balances and cash		**3,234,678**	2,299,468
		8,427,618	7,647,539

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Current liabilities			
Trade and other payables	*9*	**2,937,893**	2,488,645
Bills payables	*10*	**100,559**	392,828
Trade payables due to related companies		**—**	1,108
Trade payables due to a joint venture		**—**	1,591
Amounts due to related companies		**657**	3,060
Tax liabilities		**147,769**	145,063
Borrowings		**897,777**	451,966
		4,084,655	3,484,261
Net current assets		**4,342,963**	4,163,278
Total assets less current liabilities		**10,675,531**	10,055,590
Non-current liabilities			
Deferred tax liabilities		**68,865**	46,322
Borrowings		**240,380**	1,010,944
Government grants		**174,964**	185,717
		484,209	1,242,983
Net assets		**10,191,322**	8,812,607
Capital and reserves			
Share capital		**10,569,620**	9,835,299
Reserves		**(461,994)**	(1,097,244)
Equity attributable to owners of the Company		**10,107,626**	8,738,055
Non-controlling interests		**83,696**	74,552
Total equity		**10,191,322**	8,812,607

NOTES TO FINANCIAL STATEMENTS

1. Basis 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 (the "HKICPA") and 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 that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

The Group has already commenced an assessment of the impact of these new and revised standards and amendments to the Group and is not yet in a position to state whether these would have a significant impact on the Group's results and financial position.

2. Revenue and Segment Information

	2016	2015
	HK$'000	*HK$'000*
Sale of goods	**12,369,041**	11,393,726

Information reported to the board of directors, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs

(b) Antibiotics (bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

All reportable and operating 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 2016:

	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	**8,966,851**	**1,333,565**	**1,308,687**	**759,938**	**12,369,041**	**—**	**12,369,041**
Inter-segment sales	**—**	**72,689**	**12,621**	**7,688**	**92,998**	**(92,998)**	**—**
TOTAL REVENUE	**8,966,851**	**1,406,254**	**1,321,308**	**767,626**	**12,462,039**	**(92,998)**	**12,369,041**
SEGMENT PROFIT	**2,554,555**	**24,493**	**25,726**	**175,254**	**2,780,028**		**2,780,028**
Unallocated income							**13,005**
Unallocated expenses							**(143,549)**
Operating profit							**2,649,484**
Finance costs							**(41,711)**
Share of results of joint ventures							**27,559**
Profit before tax							**2,635,332**

For the year ended 31 December 2015:

	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	7,793,705	1,718,436	1,202,694	678,891	11,393,726	—	11,393,726
Inter-segment sales	—	55,434	4,126	8,245	67,805	(67,805)	—
TOTAL REVENUE	7,793,705	1,773,870	1,206,820	687,136	11,461,531	(67,805)	11,393,726
SEGMENT PROFIT (LOSS)	2,030,600	189,496	(39,577)	119,853	2,300,372		2,300,372
Unallocated income							9,807
Unallocated expenses							(143,726)
Operating profit							2,166,453
Finance costs							(56,335)
Share of results of							
— an associate							141
— a joint venture							10,663
Loss on disposal of an associate							(8,873)
Profit before tax							2,112,049

Segment profit (loss) represents the profit earned by/loss from each segment without allocation of interest income, finance costs, central administrative expenses, share of results of an associate and joint ventures and loss on disposal of an associate. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Geographical information

Information about the Group's revenue is presented based on geographical location of customers:

	2016 ***HK$'000***	2015 *HK$'000*
The People's Republic of China (the "PRC") (country of domicile)	**9,679,224**	8,671,612
Other Asian regions	**1,228,182**	1,122,154
Americas	**659,305**	830,673
Europe	**654,555**	607,443
Others	**147,775**	161,844
	12,369,041	11,393,726

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

	2016	2015
	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	**810,800**	789,421
— Contribution to retirement benefit schemes	**100,533**	106,812
Total staff costs	**911,333**	896,233
Amortisation of intangible assets (included in cost of sales)	**17,796**	18,430
Amortisation of prepaid lease payments	**19,218**	14,794
Depreciation of property, plant and equipment	**550,713**	572,036
Total depreciation and amortisation	**587,727**	605,260
Auditor's remuneration	**3,500**	3,660
Gain on disposal of a subsidiary (included in other income)	**(26)**	—
Gain on disposal of an available-for-sale investment (included in other income)	**—**	(358)
Government grant income	**(24,976)**	(39,730)
Interest income	**(13,005)**	(9,807)
Loss on disposal of property, plant and equipment (included in other expenses)	**20,572**	7,012
Net foreign exchange (gain) loss	**(10,009)**	1,786
Rental expenses	**32,791**	36,577
Reversal of impairment loss on trade receivables	**(4,460)**	—
Impairment loss on trade receivables	**1,972**	9,024
Research and development expenditure recognised as an expense (included in other expenses)	**403,140**	324,505

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 2016 and 2015.

4. Income Tax Expense

	2016	2015
	HK$'000	*HK$'000*
Current taxation		
— PRC Enterprise Income Tax	**450,233**	377,464
— PRC withholding tax on dividends distributed by subsidiaries	**41,899**	42,096
	492,132	419,560
Deferred taxation	**29,975**	12,863
	522,107	432,423

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profits 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 profits 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 2017.

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:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**2,100,848**	1,665,271

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,960,417**	5,908,795
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	**42,275**	48,879
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,002,692**	5,957,674

6. Dividends

	2016	2015
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2015 Final, paid — HK11 cents		
(2015: 2014 Final, paid — HK10 cents) per share	**650,212**	590,802

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK12 cents (2015: final dividend in respect of the year ended 31 December 2015 of HK11 cents) per ordinary share has been proposed by the directors of the Company. Subject to approval by the shareholders in the forthcoming general meeting, the proposed final dividend will be paid on or around Thursday, 15 June 2017 to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 6 June 2017.

7. Trade and Other Receivables

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**1,492,855**	1,560,948
Less: allowance for doubtful debts	**(10,423)**	(13,181)
	1,482,432	1,547,767
Prepayment for purchase of raw materials	**150,585**	176,527
Deposits and prepayment for utilities	**51,720**	62,798
Other tax recoverable	**46,891**	29,325
Others	**103,638**	61,200
	1,835,266	1,877,617

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) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**1,357,953**	1,375,675
91 to 180 days	**114,647**	129,875
181 to 365 days	**9,832**	42,217
	1,482,432	1,547,767

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 (2015: 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

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**1,113,908**	752,256
Customer deposits and advance from customers	**547,937**	441,063
Other tax payables	**86,518**	113,088
Freight and utilities charges payable	**79,299**	70,562
Construction cost and acquisition of property, plant and equipment payable	**678,108**	678,785
Government grants	**126,114**	109,537
Staff welfare payable	**109,749**	111,950
Selling expense payable	**115,388**	145,430
Others	**80,872**	65,974
	2,937,893	2,488,645

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

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**1,008,024**	613,893
91 to 180 days	**45,290**	65,471
More than 180 days	**60,594**	72,892
	1,113,908	752,256

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 (2015: 180 days) and not yet due at the end of the reporting period.

RESULTS

For the year of 2016, the Group recorded sales of approximately HK$12,369 million, representing a 8.6% growth (or a 15.3% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$2,101 million, representing a 26.2% growth (or a 34.0% growth on a constant currency basis) year-on-year.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2016, with sales reaching approximately HK$8,967 million, representing a 15.1% growth (or a 22.2% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the year, the Group continued its efforts in expanding its professional sales team, strengthening academic-based promotion and endeavoring hospital coverage expansion, whereas the new round of drug tenders also brought about new market potential. With these efforts made, the innovative drug business managed to continue its robust growth, along with continuous expansion of market share and a stronger presence and coverage in the high-end market. Sales for the year reached approximately HK$4,774 million, representing a 26.4% growth (or a 34.3% growth on a constant currency basis) year-on-year.

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

"NBP"

"NBP" series is a Class 1 new drug in China and 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. Both "NBP" soft capsule and injection forms have been listed in the latest edition of the national reimbursement drug list released in February 2017 (the "NRDL").

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for Outstanding Chinese Patented Invention" and the "China Grand Awards for Industry". "NBP" is also listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China 2014" (the "Treatment Guidelines"), which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke, hence providing a solid basis for the academic-based promotion of "NBP". The Treatment Guidelines also mentioned the better efficacy results of the "NBP" sequential treatment group (14 days of "NBP" injection followed by 76 days of "NBP" soft capsules) against the control group in a study, which provides a sound basis for expanding the product's market potential. "NBP" also made progress in expanding into new treatment area. In addition to obtaining approval from the China Food and Drug Administration ("CFDA") for conducting clinical study of "NBP" soft capsules for the treatment of vascular dementia caused by ischemic stroke, the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015 Edition)" published in August 2016 also pointed out the effectiveness of "NBP" in improving the cognitive function of patients with ischemic subcortical non-dementia-type vascular cognitive dysfunction as well as their ability to manage daily activities. The study of this new indication will create room for further expansion of the market potential for "NBP".

The new tender prices of "NBP" are largely stable and in line with the Group's product pricing strategy. It is expected that the new tenders will create more market opportunities for "NBP" injection. On the other hand, apart from achieving sustainable growth and vigorous expansion in the high-end market, the Group will gradually expand its coverage into the lower-tier medical markets. The Group will also continue to strengthen academic-based promotion by means of organizing academic conferences and initiating clinical study projects, so as to improve its expert network and enhance experts' recognition of the product. The inclusion of "NBP" injection in the new NRDL will also provide additional sales driver.

"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 an exclusive formulation in China, and has been awarded the "Hebei Province Science and Technology Progress Award (First Class)". At present, products of the Oulaining" series are included in the tender and procurement lists of most provinces and cities in China. As both the national and local reimbursement drug lists will be progressively adjusted in 2017, the products of "Oulaining" series may have the chance of being included in more provincial reimbursement drug lists, aiding the oxiracetam market to further expand. Leveraging on this opportunity, the Group will adopt a more sophisticated approach in product positioning and market analysis for oxiracetam while continuing its professional academic-based promotion strategy to seek stable growth for "Oulaining" series.

"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 and angina pectoris. The product has been awarded the "State Technological Invention Award (Second Class)". With the aging population and the high prevalence rate of hypertension in China, the product has good market potential. After years of academic-based promotion, market development and clinical research, "Xuanning" has become a reputable brand among hypertension drugs in China, and is recommended by a number of domestic treatment guidelines. In 2017, the Group will continue to expand market coverage in areas with essential drug tenders won and concurrently increase marketing resources in areas with less robust sales in order to capture a bigger market share.

"Duomeisu"

"Duomeisu" (Doxorubicin hydrochloride liposome injection) is used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. This product can also be used as a second-line chemotherapy drug for treating patients with improving progress of AIDS-related Kaposi's sarcoma, as well as patients who are intolerant of chemotherapy involving a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). The patented nano-membrane extrusion technique of "Duomeisu" can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug and significantly minimizing cardiotoxicity, hair loss, nausea, vomiting and other side effects. The product has good market prospects given that the current market penetration rate of doxorubicin hydrochloride liposome injection in China is relatively low.

"Jinyouli"

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to a low white blood cell count in patients receiving chemotherapy, thus ensuring the chemotherapy can proceed according to schedule and dosage. Clinical researches of this drug have been conducted in China on various cancers, including lung cancer, breast cancer and lymphoma. It is also a key drug recommended by the treatment guidelines in China for clinical use. PEG-rhGCSF injection is a product newly introduced to China in recent years, market potential is huge. The inclusion of PEG-rhGCSF in the new NRDL significantly enhances the competitive advantage of "Jinyouli" and provides an additional sales driver.

"Ailineng"

"Ailineng" (Elemene injection) is a drug mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The upgraded liquid formulation of this product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume.

"Nuolining"

"Nuolining" (Imatinib mesylate tablets) was launched in 2015 as the Group's first approved small molecule targeted cancer drug. It is a first-line drug mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML) and Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL). This product (Imatinib mesylate tablets) is now reimbursable according to the new NDRL.

Common Generic Drug Products

During the year, the Group was dedicated in participating provincial tenders as well as online bidding, price negotiation and delivery across districts and counties in a meticulous manner. It has also organized various interactive activities in the end-user market. For instance, the promotion of best treatment options for common diseases and frequent diseases in the low-tier end-user market has enhanced the standard of services provided by medical practitioners and concurrently reinforced the reputation of the Group's common generic drugs in the low-tier market.

Additionally, the Group has progressively enriched its common generic drug portfolio. New products launched during the year include "Niuhuang Jiangya capsules(牛黃降壓膠囊)", "Xiao'er Anfen Huang Namin granules(小兒氨酚黃那敏顆粒)" and "Jian'er Qinjie solutions(健兒清解液)", all of which are in line with the Chinese government's current support for the development of Chinese medicine and pediatric drugs and have growth potential. The Group will continue to fully make use of the strength of its sales and marketing team and distribution channels with the goal of developing strategic products for the low-tier market, capturing the opportunities in the Chinese medicine and pediatric drug markets as well as the expanding low-tier market. Furthermore, a series of sporoderm-broken health supplement products launched this year have recorded satisfactory sales and become the Group's new niche with growth potential.

The Group's Chinese medicine soft capsule product series (including "Qingre Jiedu soft capsules(清熱解毒軟膠囊)", "Ganmao Qingre soft capsules(感冒清熱軟膠囊)", "Yin Huang soft capsules(銀黃軟膠囊)", "Xiangsha Yangwei soft capsules(香砂養胃軟膠囊)" and "Huoxiang Qushu soft capsules(藿香祛暑軟膠囊)") have attained sound growth during the year. Meanwhile, the Group's high-end antibiotic product "Zhongnuo Shuluoke(中諾舒羅克)" (meropenem for injection) and health supplement product "Guoweikang(果維康)" (vitamin C tablet) have also recorded rapid growth for several consecutive years. Products for chronic diseases also represent one of the Group's key development areas. Sales of the existing product series including "Qinkexi(勤可息)" (enalapril maleate tablets), "Gubang(固邦)" (alendronate sodium enteric-coated tablets/tablets), "Ouyi(歐意)" (aspirin enteric-coated tablets), "Ouwei(歐維)" (mecobalamin tablets) and "Linmeixin(林美欣)" (glimepiride dispersible tablets) have also achieved rapid growth during the year.

In 2016, the common generic drug business maintained stable growth with sales reaching approximately HK$4,193 million, representing a 4.3% growth (or a 10.8% growth on a constant currency basis) year-on-year.

BULK DRUG BUSINESS

Antibiotics

As affected by the sluggish market demand and increasing market supply, there was a general decline in the prices of the antibiotic products in 2016, resulting in a significant deterioration in the business performance during the year. Difficult market conditions are expected to remain for a certain period of time. The Group will continue to implement a number of measures such as technology upgrade, management reinforcement, energy saving and consumption reduction in order to continuously reduce the production costs and maintain its leading position in the industry.

Vitamin C

Overcapacity of the vitamin C market still lingered in 2016, yet the product price, which has hit the bottom, rebounded after years of continual volatility. In the first half of the year, the Group focused on market development and production technology improvement, resulting in an increase in sales volume and a continuous decrease in production costs. In the second half of the year, the Group was devoted to seizing market opportunities, realigning customer structure and expanding market coverage. Benefited from a rebound in product price and a decrease in production costs, the vitamin C business successfully turned around from loss-making to profit-making this year.

Caffeine and Others

In 2016, the market demand of caffeine remained stable while product prices recorded a slight increase. The Group also succeeded in increasing market share and lowering production costs during the year. As a result, the overall business performance has further improved.

RESEARCH AND DEVELOPMENT

The Group continued to invest in the research and development of new products, and currently has approximately 170 new products under research and development, primarily focusing on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infection. Among these products, 15 are Class 1 new drugs and 50 are Class 3 new drugs.

In 2016, the Group has submitted clinical trial application for 2 products and production application for 4 products (namely "paclitaxel for injection (albumin-bound)" (new Class 4 chemical drug), "moxifloxacin hydrochloride raw material and tablets" (Class 3+6 chemical drug), "metformin hydrochloride extended-release tablets" (Class 6 chemical drug) and "metformin hydrochloride tablets" (Class 6 chemical drug) to the CFDA; and has obtained production approval for 5 products (namely "cefamandole nafate for injection", "cefmetazole sodium for injection", "doxorubicin hydrochloride liposome injection (additional specification)", "ambroxol hydrochloride injection (additional specification)" and "pitavastatin calcium raw material") and clinical trial approval for 55 products (including Class 1 new drugs "SKLB1028 capsules", "ammoxetine hydrochloride tablets" and "recombinant glucagon-like peptide 1 receptor agonist (rE4) injection") from the CFDA.

At present, the Group has 28 products pending for production approval by the CFDA (including 4 Class 3 new drugs) and 20 products undergoing bioequivalence studies or clinical trials (including 9 Class 1 new drugs).

With regard to the Abbreviated New Drug Application ("ANDA") in the U.S., the Group has submitted application for 4 drugs (namely "montelukast sodium tablets", "montelukast sodium chewable tablets", "memantine hydrochloride tablets" and "benzonatate soft capsules 100 mg") and obtained approval for 3 drugs (namely "metformin hydrochloride tablets", "metformin hydrochloride extended-release tablets" (change of production site) and "clopidogrel hydrogen sulfate tablets") during the year. Currently, the Group has a total of 7 drugs with ANDA application submitted, and a total of 16 drugs in the research phase.

Meanwhile, the phase II clinical trial of "butylphthalide soft capsules" in the U.S. is in the stage of selecting clinical centers to conduct the clinical research. It is expected that subjects will be enrolled for the phase II clinical trial in the first half of 2017. The Investigational New Drug ("IND") application for "mitoxantrone hydrochloride liposome injection" in the U.S. has also been approved by the U.S. FDA to commence clinical trials during the year. At present, the protocol for clinical trial has passed the ethical evaluation and has started subject screening.

The Group also proactively explored cooperation opportunities with overseas pharmaceutical enterprises. During the year, the Group entered into agreements with four foreign pharmaceutical companies in relation to product technology licensing and commercialization of the Group's drugs in the overseas market. According to these agreements, the Group is entitled to receive milestone payments in line with the progress of the products' application and future sales performance, and a share of sales or profit after product launch.

FINANCIAL REVIEW

Results

	2016	2015	Change
Revenue *(HK$'000)*			
Finished drugs	**8,966,851**	7,793,705	15.1%
Bulk drugs	**3,402,190**	3,600,021	(5.5)%
Total	**12,369,041**	11,393,726	8.6%
Operating profit *(HK$'000)*	**2,649,484**	2,166,453	22.3%
Operating profit margin	**21.4%**	19.0%	
Profit attributable to Shareholders *(HK$'000)*	**2,100,848**	1,665,271	26.2%
Net profit margin	**17.0%**	14.6%	
Basic earnings per share *(HK cents)*	**35.25**	28.18	25.1%

Finished drug business continued to be the major growth driver to the Group. In particular, the innovative drugs of the Group delivered a strong growth in 2016 with aggregate sales reaching approximately HK$4,774 million, representing a growth of 26.4%. Revenue from innovative drugs as a percentage of the total revenue of the Group further increased from 33.1% in 2015 to 38.6% in the current year. Mainly driven by the growing contribution from the innovative drugs, operating profit margin and net profit margin of the Group improved to 21.4% and 17.0% in 2016, respectively. Profit attributable to shareholders increased by 26.2% to HK$2,101 million with a corresponding 25.1% increase of basic earnings per share to HK35.25 cents in 2016.

Liquidity and Financial Position

In 2016, the Group's operating activities generated a cash inflow of HK$2,916 million (2015: HK$2,249 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) further improved from 49 days in 2015 to 41 days in 2016. Compared with the bulk drug business, the finished drug business has a longer inventory turnover period in light of its business model. Given that the finished drug business has taken up a bigger proportion of the overall business of the Group, the average turnover period of inventories (ratio of balance of inventories to cost of sales) of the Group increased from 108 days in 2015 to 116 days in 2016. Current ratio of the Group was 2.1 as at 31 December 2016, remaining stable as compared to 2.2 a year earlier. Capital expenditure for the year amounted to HK$1,134 million, which were mainly spent to expand the production capacities and improve the production efficiency.

The Group's financial position remained solid. As at 31 December 2016, total bank balances and cash amounted to HK$3,238 million (2015: HK$2,306 million) and total borrowings amounted to HK$1,138 million (2015: HK$1,463 million), resulting in a net cash positon of HK$2,100 million (2015: HK$843 million). Total borrowings comprised bank loans of HK$1,096 million and loan from a related company of HK$42 million. HK$898 million of the total borrowings are repayable within one year and the remaining HK$240 million repayable between two to three years. Gearing ratio further reduced from 16.6% as at 31 December 2015 to 11.2% as at 31 December 2016.

24.3% of the Group's borrowings are denominated in Hong Kong dollars, 8.2% in United States dollars and 67.5% in Renminbi. The Group's sales are denominated in Renminbi for domestic sales in China and in United States dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Employees

As at 31 December 2016, the Group had approximately 10,529 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 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 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 2016 except the 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.

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 resignation of Mr. Chen Shilin as an independent non-executive director on 8 January 2016, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board. With the appointment of Mr. Chen Chuan as an independent non-executive director on 6 June 2016, the composition of the board comprises nine (9) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The independent non-executive directors represent not less than one-third of the Board as required under rule 3.10A of the Listing Rules.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, during which period no transfer of shares 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 Thursday, 25 May 2017, 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 Thursday, 18 May 2017.

The register of members of the Company will be closed from Friday, 2 June 2017 to Tuesday, 6 June 2017, 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 Thursday, 1 June 2017.

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, 20 March 2017

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. LU Jianmin, Mr. WANG Jinxu, Mr. WANG Zhenguo, Mr. LU Hua, Mr. WANG Shunlong and Mr. CHAK Kin Man 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 Chuan as independent non-executive directors.