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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2014

HIGHLIGHTS

	Three months ended 31 March		Change
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	
Revenue	2,582,577	2,548,540	+1.3%
Profit attributable to shareholders before share-based payment expense	305,824	218,764	+39.8%
Share-based payment expense (<i>Note</i>)	(44,737)	—	
Profit attributable to shareholders	<u>261,087</u>	<u>218,764</u>	+19.3%
Earnings per share			
— Basic	HK4.42 cents	HK3.95 cents	+11.9%
— Diluted	HK4.37 cents	HK3.74 cents	+16.8%

Note: The share-based payment expense represents the expense recognised for the period in connection with the share options granted by the Company in April 2013.

- Revenue grew 1.3% to HK\$2,583 million.
- The relatively low revenue growth was primarily due to the disposal of the Group's penicillin business in Inner Mongolia in June 2013. This penicillin business contributed sales revenue of approximately HK\$212 million for the same period of last year.
- Profit attributable to shareholders before share-based payment expense was HK\$306 million, a 39.8% increase over the same period of last year.
- Profit attributable to shareholders was HK\$261 million, a 19.3% increase over the same period of last year.

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2014

	Three months ended	
	31 March	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	2,582,577	2,548,540
Cost of sales	<u>(1,608,997)</u>	<u>(1,740,091)</u>
Gross profit	973,580	808,449
Other income	41,998	35,565
Selling and distribution expenses	(395,639)	(324,414)
Administrative expenses	(175,451)	(137,808)
Other expenses	<u>(85,111)</u>	<u>(60,971)</u>
Operating profit	359,377	320,821
Finance costs	(15,903)	(22,810)
Share of results of a joint venture	<u>(539)</u>	<u>(7,701)</u>
Profit before tax	342,935	290,310
Income tax expenses	<u>(77,292)</u>	<u>(61,357)</u>
Profit for the period	<u>265,643</u>	<u>228,953</u>
Profit for the period attributable to:		
Owners of the Company	261,087	218,764
Non-controlling interests	<u>4,556</u>	<u>10,189</u>
	<u>265,643</u>	<u>228,953</u>
	<i>HK cents</i>	<i>HK cents</i>
Earnings per share		
Basic	<u>4.42</u>	<u>3.95</u>
Diluted	<u>4.37</u>	<u>3.74</u>

Notes:

1. Principal Accounting Policies

The principal accounting policies used in the preparation of the financial data for the three months ended 31 March 2014 are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2013.

2. Profit Before Tax

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	4,879	2,843
Amortisation of prepaid lease payments	3,565	4,145
Depreciation of property, plant and equipment	144,461	182,636
Government grant income	(34,424)	(21,154)
Research and development expenditure recognised as expense (included in other expenses)	76,721	56,156
Share-based payment expense (included in administrative expenses)	44,737	—

3. 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:

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	261,087	218,764

	Three months ended	
	31 March	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,908,018	5,533,529
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	61,216	—
Tranche II Convertible Bonds as if converted	<u>—</u>	<u>312,012</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,969,234</u>	<u>5,845,541</u>

The Tranche II Convertible Bonds share similar characteristics of ordinary shares of the Company and accordingly treated as outstanding and included in the 2014 calculation of basic earnings per share from the date when all necessary conditions are satisfied (i.e. the downward adjustment depending on the financial performance of the Robust Sun Group for the year ended 31 December 2013 was fixed on 1 January 2014).

4. Dividend

The board of directors does not declare the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

5. Review of Results

The financial data for three months ended 31 March 2014 is based on the internal records and management accounts of the Group and has not been reviewed or audited by the external auditor of the Company.

SEGMENT INFORMATION

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.

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

For the three months ended 31 March 2014 (Unaudited):

	Finished drugs <i>HK\$'000</i>	Antibiotics <i>HK\$'000</i>	Vitamin C <i>HK\$'000</i>	Caffeine and others <i>HK\$'000</i>	Total <i>HK\$'000</i>	Segments eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE							
External sales	1,543,741	550,882	332,727	155,227	2,582,577	—	2,582,577
Inter-segment sales	—	10,243	1,493	1,701	13,437	(13,437)	—
TOTAL REVENUE	<u>1,543,741</u>	<u>561,125</u>	<u>334,220</u>	<u>156,928</u>	<u>2,596,014</u>	<u>(13,437)</u>	<u>2,582,577</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>393,388</u>	<u>20,466</u>	<u>(9,409)</u>	<u>28,576</u>	<u>433,021</u>		433,021
Unallocated income							1,189
Unallocated expenses							<u>(74,833)</u>
Operating profit							359,377
Finance costs							(15,903)
Share of results of a joint venture							<u>(539)</u>
Profit before tax							<u>342,935</u>

For the three months ended 31 March 2013 (Unaudited):

	Finished drugs HK\$'000	Antibiotics HK\$'000	Vitamin C HK\$'000	Caffeine and others HK\$'000	Total HK\$'000	Segments eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	1,369,652	782,454	232,212	164,222	2,548,540	—	2,548,540
Inter-segment sales	—	51,576	547	967	53,090	(53,090)	—
TOTAL REVENUE	<u>1,369,652</u>	<u>834,030</u>	<u>232,759</u>	<u>165,189</u>	<u>2,601,630</u>	<u>(53,090)</u>	<u>2,548,540</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	<u>302,794</u>	<u>21,942</u>	<u>(29,024)</u>	<u>40,038</u>	<u>335,750</u>		335,750
Unallocated income							1,005
Unallocated expenses							<u>(15,934)</u>
Operating profit							320,821
Finance costs							(22,810)
Share of results of a joint venture							<u>(7,701)</u>
Profit before tax							<u>290,310</u>

Segment profit (loss) represents the profit earned/loss recognised by each segment without allocation of interest income, finance costs, central administrative expenses and share of results of a joint venture. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

BUSINESS REVIEW

FINISHED DRUGS

During the period, the finished drug business maintained a continuous growth momentum. In particular, total sales revenue of the innovative drug products reached HK\$627 million, an increase of 50.8% over the same period of last year. Among the innovative drugs, sales revenue of “NBP”, “Oulaining” and “Xuanning” increased 48.6%, 23.6% and 41.7%, respectively, over the same period of last year; while sales revenue of the oncology drugs such as “Duomeisu”, “Jinyouli” and “Ailineng” amounted to HK\$51 million in aggregate for the period.

BULK DRUGS

The performance of the caffeine business and antibiotics business remained stable; while the vitamin C business achieved a reduction in loss incurred during the period compared to the same period of last year due to an increase in product price.

RESEARCH AND DEVELOPMENT

The application of the Group’s products for the Abbreviated New Drug Application (“ANDA”) in the U.S. has achieved progress. In April 2014, three production lines of the Group used to manufacture menatetrenone capsules, cefotaxime sodium for injection, ceftriaxone sodium for injection and cefixime tablets have passed the U.S. FDA on-site inspection.

By order of the Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 23 May 2014

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 and Mr. ZHANG Fawang as independent non-executive directors.