CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

2016 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			Change in % excluding foreign currency effects *(Note)*
	2016 ***HK$'000*** **(Unaudited)**	2015 *HK$'000* (Unaudited)	Change in %	
Revenue by business units:				
Finished drugs				
Innovative drugs	**2,268,398**	1,767,684	**+28.3%**	**+34.9%**
Common generic drugs	**2,111,400**	2,031,836	**+3.9%**	**+9.2%**
Bulk drugs				
Antibiotics	**729,020**	974,490	**-25.2%**	**-21.4%**
Vitamin C	**679,027**	610,241	**+11.3%**	**+17.0%**
Caffeine and others	**358,021**	346,124	**+3.4%**	**+8.7%**
Total revenue	**6,145,866**	5,730,375	**+7.3%**	**+12.7%**
Gross profit	**3,036,082**	2,576,726	**+17.8%**	**+23.9%**
Operating profit	**1,310,280**	1,070,967	**+22.3%**	**+28.6%**
Profit attributable to shareholders	**1,032,813**	822,014	**+25.6%**	**+32.1%**

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 same period in the prior year to current period local currency results.

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 six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		For the six months ended 30 June	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**6,145,866**	5,730,375
Cost of sales		**(3,109,784)**	(3,153,649)
Gross profit		**3,036,082**	2,576,726
Other income		**40,158**	36,518
Selling and distribution expenses		**(1,291,476)**	(1,100,322)
Administrative expenses		**(278,948)**	(265,624)
Other expenses		**(195,536)**	(176,331)
Operating profit		**1,310,280**	1,070,967
Finance costs		**(22,212)**	(27,885)
Share of results of			
— a joint venture		**9,009**	4,196
— an associate		**—**	141
Profit before tax	*4*	**1,297,077**	1,047,419
Income tax expense	*5*	**(257,275)**	(217,399)
Profit for the period		**1,039,802**	830,020
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(182,852)**	—
Share of exchange differences of a joint venture		**(598)**	—
Other comprehensive expense for the period, net of income tax		**(183,450)**	—
Total comprehensive income for the period		**856,352**	830,020

	Notes	For the six months ended 30 June	
		2016	2015
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		**1,032,813**	822,014
Non-controlling interests		**6,989**	8,006
		1,039,802	830,020
Total comprehensive income for the period attributable to:			
Owners of the Company		**850,880**	822,014
Non-controlling interests		**5,472**	8,006
		856,352	830,020
		HK cents	*HK cents*
Earnings per share	*7*		
— Basic		**17.47**	13.91
— Diluted		**17.30**	13.76

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**As at 30 June 2016** ***HK$'000*** **(Unaudited)**	As at 31 December 2015 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**5,231,914**	5,142,767
Prepaid lease payments		**485,008**	467,785
Goodwill		**117,014**	119,388
Other intangible assets		**93,029**	96,080
Interest in a joint venture		**30,052**	27,586
Deposit for acquisition of prepaid lease payments		**76,374**	—
Deferred tax assets		**36,387**	38,706
		6,069,778	5,892,312
Current assets			
Inventories		**1,946,625**	1,819,228
Trade and other receivables	*8*	**2,043,734**	1,877,617
Bills receivables	*8*	**1,539,469**	1,389,493
Trade receivables due from related companies		**261,289**	162,212
Amount due from a joint venture		**91,259**	75,179
Prepaid lease payments		**15,583**	15,057
Tax recoverable		**817**	2,477
Other financial assets		**12,216**	606
Restricted bank deposits		**4,347**	6,202
Bank balances and cash		**2,173,919**	2,299,468
		8,089,258	7,647,539

	Notes	As at 30 June 2016 HK$'000 (Unaudited)	As at 31 December 2015 HK$'000 (Audited)
Current liabilities			
Trade and other payables	*9*	**2,759,414**	2,488,645
Bills payables	*9*	**292,573**	392,828
Trade payables due to related companies		**402**	1,108
Trade payable due to a joint venture		**—**	1,591
Amounts due to related companies		**120,220**	3,060
Tax liabilities		**119,405**	145,063
Borrowings		**1,098,001**	451,966
		4,390,015	3,484,261
Net current assets		**3,699,243**	4,163,278
Total assets less current liabilities		**9,769,021**	10,055,590
Non-current liabilities			
Deferred tax liabilities		**82,101**	46,322
Borrowings		**474,784**	1,010,944
Government grants		**177,521**	185,717
		734,406	1,242,983
Net assets		**9,034,615**	8,812,607
Capital and reserves			
Share capital		**9,835,299**	9,835,299
Reserves		**(884,697)**	(1,097,244)
Equity attributable to owners of the Company		**8,950,602**	8,738,055
Non-controlling interests		**84,013**	74,552
Total equity		**9,034,615**	8,812,607

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2015 that is presented in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are effective during the current period:

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 above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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 chief operating decision makers, 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 and operating 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 segments:

For the six months ended 30 June 2016 (Unaudited)

	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	**4,379,798**	**729,020**	**679,027**	**358,021**	**6,145,866**	**—**	**6,145,866**
Inter-segment sales	**—**	**26,289**	**1,881**	**3,308**	**31,478**	**(31,478)**	**—**
TOTAL REVENUE	**4,379,798**	**755,309**	**680,908**	**361,329**	**6,177,344**	**(31,478)**	**6,145,866**
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	**1,275,454**	**22,973**	**1,484**	**83,089**			**1,383,000**
Unallocated income							**2,899**
Unallocated expenses							**(75,619)**
Operating profit							**1,310,280**
Finance costs							**(22,212)**
Share of results of a joint venture							**9,009**
Profit before tax							**1,297,077**

For the six months ended 30 June 2015 (Unaudited)

	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	3,799,520	974,490	610,241	346,124	5,730,375	—	5,730,375
Inter-segment sales	—	26,797	2,391	2,067	31,255	(31,255)	—
TOTAL REVENUE	3,799,520	1,001,287	612,632	348,191	5,761,630	(31,255)	5,730,375
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	944,501	140,016	(32,119)	61,242			1,113,640
Unallocated income							5,028
Unallocated expenses							(47,701)
Operating profit							1,070,967
Finance costs							(27,885)
Share of results of							
— a joint venture							4,196
— an associate							141
Profit before tax							1,047,419

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 a joint venture and an associate. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities are not regularly provided to chief operating decision maker for review.

4. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2016	2015
	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)	**7,834**	10,480
Amortisation of prepaid lease payments	**7,051**	7,346
Depreciation of property, plant and equipment	**270,371**	284,398
Total depreciation and amortisation	**285,256**	302,224
(Gain) loss on disposal of property, plant and equipment (included in other income/other expenses)	**(549)**	2,400
Government grant income *(note ii)*	**(10,294)**	(9,462)
Interest income	**(6,478)**	(4,670)
Net foreign exchange loss (gain)	**4,626**	(2,674)
Impairment loss on trade receivables	**705**	8,199
Research and development expenditure (included in other expenses)	**192,164**	171,325

Notes:

(i) For the six months ended 30 June 2015 and 2016, cost of inventories recognised as expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss and other comprehensive income.

(ii) Government grants include cash subsidies from the PRC government which are specific for (i) the purchase of plant and machineries and are recognised over the useful lives of the related assets and (ii) the development of pharmaceutical products or improvement of production efficiency which are recognised upon compliance with the attached condition.

5. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax	**224,023**	189,438
Deferred taxation	**33,252**	27,961
	257,275	217,399

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 periods.

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 2018.

Under the EIT Law of the PRC, withholding tax is imposed on dividends distributed in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$3,388,684,000 (31 December 2015: HK$3,248,175,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDENDS

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
2015 Final, paid — HK11 cents (2015: 2014 Final, paid — HK10 cents) per share	**650,212**	590,802

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

7. 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:

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,032,813**	822,014

	For the six months ended 30 June	
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,911,018**	5,908,018
Effect of dilutive potential ordinary shares: Share options granted by the Company	**58,957**	65,284
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,969,975**	5,973,302

8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2016	As at 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**1,719,605**	1,560,948
Less: allowance for doubtful debts	**(13,612)**	(13,181)
	1,705,993	1,547,767
Prepayment for purchase of raw materials	**147,027**	176,527
Deposits and prepayment for utilities	**62,373**	62,798
Other tax recoverable	**36,792**	29,325
Others	**91,549**	61,200
	2,043,734	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) presented based on invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	As at 30 June 2016	As at 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,434,249**	1,375,675
91 to 180 days	**233,715**	129,875
181 to 365 days	**23,075**	42,217
Over 365 days	**14,954**	—
	1,705,993	1,547,767

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2015: less than 180 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2016	As at 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**1,026,524**	752,256
Customer deposits and advance from customers	**423,062**	441,063
Other tax payables	**95,076**	113,088
Freight and utilities charges payables	**74,984**	70,562
Construction cost and acquisition of property, plant and equipment payable	**650,525**	678,785
Government grants	**130,788**	109,537
Staff welfare payable	**103,139**	111,950
Selling expense payable	**183,707**	145,430
Others	**71,609**	65,974
	2,759,414	2,488,645

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

	As at 30 June 2016	As at 31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**768,287**	613,893
91 to 180 days	**71,759**	65,471
More than 180 days	**186,478**	72,892
	1,026,524	752,256

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

RESULTS

For the first half of 2016, the Group recorded sales of approximately HK$6,146 million, representing an increase of 7.3% (or increase of 12.7% on a constant currency basis) year-on-year, and profit attributable to shareholders of approximately HK$1,033 million, representing an increase of 25.6% (or increase of 32.1% on a constant currency basis) year-on-year.

FINISHED DRUG BUSINESS

With the promulgation of new policies on drug price, drug tender, medical reimbursement, drug approval and two-invoice system, gradual deepening of the medical reform has asserted high pressure on the entire pharmaceutical industry in China. Under the challenging market conditions, the Group has formulated measures for its products to maximize the benefits with consideration of market share and prices, and has continued to increase its efforts in product promotion, market development and sale channel building. For the current period, the finished drug business continued to achieve satisfactory results. Sales reached approximately HK$4,380 million, representing a growth of 15.3% (or growth of 21.2% on a constant currency basis) year-on-year. The following is a business review of the innovative drugs and common generic drugs within the finished drug business.

Innovative Drug Products

The innovative drug business of the Group has maintained strong growth momentum in recent years, with continuous expansion of market share and increasingly stronger presence and coverage in different market tiers. For the current period, sales of the innovative drug business reached approximately HK$2,268 million, representing a growth of 28.3% (or growth of 34.9% on a constant currency basis) year-on-year.

It is expected that drug tenders of every province and city in China will be completed progressively. 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 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 their respective therapeutic sector.

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

"NBP"

"NBP" series is a new Class I 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.

"NBP" has been awarded the State Science and Technology Progress Award (Second Class), Golden Award for Outstanding Chinese Patented Invention and China Grand Awards for Industry. "NBP" is listed as one of the recommended drugs on the "Guidelines for Acute Ischemic Stroke Treatment in China 2014" (the "New Guidelines") revised last year, which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke and provides a solid basis for the academic-based promotion of "NBP". The New Guidelines also mentions the better efficacy results of the "NBP" sequential treatment group (14 days of "NBP" injection followed by 76 days of "NBP" capsules) against the control group in a study, which provides a sound basis for expanding the market potential of the product. "NBP" also made progress in expanding into new treatment area. The China Food and Drug Administration ("CFDA") has approved the clinical trial application of "NBP" capsules for the treatment of vascular dementia caused by ischemic stroke in April 2016.

In 2016, the Group will continue its work on tenders, ensuring the tender prices of "NBP" are in line with the Group's product pricing strategy and achieving the goal of winning tenders in more provinces and cities for "NBP" injection. On the other hand, apart from achieving sustained 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 way of holding academic conferences and initiating clinical study projects, so as to improve expert network and enhance experts' recognition of the product.

"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). The market competition of oxiracetam injection products has become more intense in 2016. The Group will continuously increase its efforts in academic-based promotion and building its expert network to differentiate "Oulaining" from other competing products in order to capture a bigger market share.

"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 high prevalence rate of hypertension in China, the product has good market potential. After years of academic-based promotion and market development, "Xuanning" has grown into a major brand among hypertension drugs in China, and is well positioned 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. In addition, it can be used in patients who cannot tolerate using a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). "Duomeisu"'s patented nano-membrane extrusion technique can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug. 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 growth factor drug in China. This product is a long-acting white blood cell booster, characterized by its self-regulating and stable white blood cell boosting mechanism. It is used to help reduce the chance of infection due to a low white blood cell count in patients receiving chemotherapy. PEG-rhGCSF injection is a product newly introduced in China and has huge market potentials.

"Ailineng"

"Ailineng" (Elemene injection) is a drug mainly used for the treatment of nerve glioma and brain metastases, and for the adjuvant treatment of malignant pleural and peritoneal effusion. It is a category B product under the national reimbursement drug list in China. The upgraded liquid formulation of this product has obtained patent in China.

"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 for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML) and Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL).

Common Generic Drug Products

In addition to the continuous efforts to promote the sales of its existing products for chronic diseases, the Group also introduced health supplement products for chronic diseases to further diversify its product lines in the first half of 2016. In order to capture higher growth potential for its existing key products (including "Linmeixin（林美欣）" (glimepiride dispersible tablets) and "Zhongnuo Shuluoke（中諾舒羅克）" (meropenem for injection)), the Group has adopted academic-based promotion and brand building strategy, and increased marketing activities with the end-user customers.

For antibiotic products, the Group proactively enhanced product quality and worked on product differentiation in order to strive for better growth in the adversity of restricted use of antibiotics. By adopting these measures, the common generic drug business continued to deliver stable growth with sales reaching approximately HK$2,111 million for the current period, representing a growth of 3.9% (or growth of 9.2% on a constant currency basis) year-on-year.

BULK DRUG BUSINESS

Antibiotics

As affected by the sluggish market demand and increasing market supply, prices of antibiotic products declined in the first half of 2016, resulting in a significant deterioration in the performance of this business for the current period. 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 the first half of 2016 and product prices remained under pressure. The Group placed its emphasis on market development and production technology upgrade during the first half of the year, achieving an increase in sales volume and a continued decrease in production costs for the current period. As a result, the overall business performance improved as compared with the corresponding period of last year.

Caffeine and Others

In the first half of 2016, the market demand for caffeine remained stable while product prices recorded a slight increase. The Group also succeeded in increasing market share and lowering production costs during the current period. The overall business performance showed further improvement.

RESEARCH AND DEVELOPMENT

The Group continued to invest in the research and development of new products, and currently has more than 170 products under research and development, with focus 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 the first half of 2016, the Group has submitted clinical trial applications for 2 products to the CFDA, obtained production approvals for 3 products (namely “cefamandole nafate for injection”, “doxorubicin hydrochloride liposome injection (additional specification)” and “pitavastatin calcium raw material”) and clinical trial approvals for 30 products (including Class 1 new drug “SKLB1028 capsules”).

At present, the Group has 27 products pending for production approval by the CFDA (including 4 Class 3 new drugs) and 19 products undergoing bioequivalence study or clinical trial (including 8 Class 1 new drugs). It is expected that the bioequivalence study for further 8 products can be completed and their applications for production can be submitted within this year.

With regard to the Abbreviated New Drug Application ("ANDA") in the U.S., the Group has submitted application for 2 drugs (namely "montelukast sodium tablets" and "montelukast sodium chewable tablets") and obtained approvals for 2 drugs (namely "metformin hydrochloride tablets" and "metformin hydrochloride extended-release tablets" (change of production site)) during the current period. Currently, the Group has a total of 9 drugs with the ANDA application submitted, and a total of 13 drugs under trial phase. It is expected that 1 ANDA approval will be obtained (namely "clopidogrel hydrogen sulfate tablets") and 3 ANDA applications will be submitted (namely "memantine hydrochloride tablets", "celecoxib capsules" and "benzonatate soft capsules 100 mg") in the second half of the current year.

Meanwhile, the phase II clinical trial of "butylphthalide soft capsules" in the U.S. is in the stage of liaison with hospitals for conducting the clinical trials. It is expected that subjects will be enrolled for the phase II clinical trial by end of this year. 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 current period. 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 current period, the Group entered into an agreement with a leading global pharmaceutical company in relation to the product technology licensing and commercialization of a complex generic oncology drug under development by the Group in the overseas market. According to the agreement, the Group may receive milestone payments of up to an aggregate amount of US$106,000,000, as well as a share of the profit after market launch of the product.

FINANCIAL REVIEW

Results

	For the six months ended 30 June		
	2016	2015	**Change**
Revenue *(HK$'000)*			
Finished drugs	**4,379,798**	3,799,520	+15.3%
Bulk drugs	**1,766,068**	1,930,855	-8.5%
Total	**6,145,866**	5,730,375	+7.3%
Operating profit *(HK$'000)*	**1,310,280**	1,070,967	+22.3%
Operating profit margin	**21.3%**	18.7%	
Profit attributable to shareholders *(HK$'000)*	**1,032,813**	822,014	+25.6%
Net profit margin	**16.8%**	14.3%	
Basic earnings per share *(HK cents)*	**17.47**	13.91	+25.6%

Revenue from the finished drug business remained the major growth driver to our Group. In particular, the innovative drugs of the Group continued to deliver strong growth in the first half of 2016 with aggregate sales revenue reaching approximately HK$2,268 million, representing a growth of 28.3%. Mainly due to the growing contribution from the innovative drugs, operating profit margin and net profit margin of the Group further improved to 21.3% and 16.8% in the first half of 2016, respectively. Profit attributable to shareholders increased by 25.6% to HK$1,033 million with a corresponding 25.6% increase of basic earnings per share to HK17.47 cents in the first half of 2016.

Liquidity and Financial Position

For the first half of 2016, the Group's operating activities generated a cash inflow of HK$951 million (2015: HK$694 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly increased from 49 days in 2015 to 51 days in the current period. Average turnover period of inventories (ratio of balance of inventories to cost of sales) also slightly increased from 108 days in 2015 to 114 days in the current period. Current ratio of the Group was 1.8 as at 30 June 2016 as compared to 2.2 as at 31 December 2015. Capital expenditure in relation to the additions of production facilities amounted to HK$396 million for the current period.

The Group's financial position remained solid. As at 30 June 2016, total bank balances and cash amounted to HK$2,178 million and total borrowings amounted to HK$1,573 million, resulting in a net cash positon of HK$605 million (31 December 2015: HK$843 million). Total borrowings comprise bank loans of HK$1,511 million and loan from a related company of HK$62 million. HK$1,098 million of the total borrowings are repayable within one year and the remaining HK$475

million repayable between two to three years. Gearing ratio (calculated on the basis of the Group's total borrowings over total equity) was 17.4% as at 30 June 2016 as compared to 16.6% as at 31 December 2015.

39.4% of the Group's borrowings are denominated in Hong Kong dollars, 17.7% in United States dollars and 42.9% in Renminbi. The Group's sales are mainly denominated in Renminbi for domestic sales in China and denominated 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 30 June 2016, the Group had about 10,080 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.

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 six months ended 30 June 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.

During the period from 8 January 2016 to 5 June 2016, the composition of the Board comprised nine (9) executive directors, (1) non-executive director and four (4) independent non-executive directors. The independent non-executive directors represented less than one-third of the Board. Following the appointment of Mr. Chen Chuan as an independent non-executive director of the Company 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 represents not less than one-third of the Board as required under rule 3.10A of the Listing Rules.

REVIEW OF INTERIM RESULTS

The interim results have been reviewed by the external auditor and audit committee of the Company.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2016.

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

Hong Kong, 23 August 2016

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