CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

2018 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			Change in % excluding foreign currency effects *(Note)*
	2018 ***HK$'000*** **(Unaudited)**	2017 *HK$'000* (Unaudited)	Change in %	
Revenue by business units:				
Finished drugs				
Innovative drugs	**4,874,411**	2,948,765	**65.3%**	**51.9%**
Common generic drugs	**3,307,401**	2,324,616	**42.3%**	**30.7%**
Bulk drugs				
Vitamin C	**1,294,749**	760,497	**70.3%**	**56.5%**
Antibiotics	**771,830**	619,611	**24.6%**	**14.4%**
Caffeine and others	**539,081**	548,086	**-1.6%**	**-9.7%**
Total revenue	**10,787,472**	7,201,575	**49.8%**	**37.6%**
Gross profit	**6,891,026**	4,124,857	**67.1%**	**53.5%**
Research and development expenses	**688,374**	324,656	**112.0%**	**94.8%**
Operating profit	**2,323,097**	1,675,884	**38.6%**	**27.3%**
Profit attributable to shareholders	**1,853,130**	1,312,930	**41.1%**	**29.7%**
Basic earnings per share	**HK29.68 cents**	HK21.69 cents	**36.8%**	**25.7%**

Note: Majority of the Group's sales are conducted in the People's Republic of China (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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**10,787,472**	7,201,575
Cost of sales		**(3,896,446)**	(3,076,718)
Gross profit		**6,891,026**	4,124,857
Other income		**82,547**	47,438
Other gains or losses		**53,455**	(16,214)
Selling and distribution expenses		**(3,597,875)**	(1,858,606)
Administrative expenses		**(404,500)**	(296,326)
Research and development expenses		**(688,374)**	(324,656)
Other expenses		**(13,182)**	(609)
Operating profit		**2,323,097**	1,675,884
Finance costs		**(36,143)**	(15,489)
Share of results of joint ventures		**23,609**	4,861
Profit before tax	*4*	**2,310,563**	1,665,256
Income tax expense	*5*	**(468,906)**	(346,614)
Profit for the period		**1,841,657**	1,318,642
Profit for the period attributable to:			
Owners of the Company		**1,853,130**	1,312,930
Non-controlling interests		**(11,473)**	5,712
		1,841,657	1,318,642
		HK cents	*HK cents*
Earnings per share	*7*		
— Basic		**29.68**	21.69
— Diluted		**N/A**	21.69

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**1,841,657**	1,318,642
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation of financial statements to presentation currency	**(226,688)**	350,992
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency	**(1,329)**	2,489
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**81,463**	—
Other comprehensive (expense) income for the period	**(146,554)**	353,481
Total comprehensive income for the period	**1,695,103**	1,672,123
Total comprehensive income for the period attributable to:		
Owners of the Company	**1,727,467**	1,664,032
Non-controlling interests	**(32,364)**	8,091
	1,695,103	1,672,123

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**As at 30 June 2018** ***HK$'000*** **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**7,289,980**	6,662,523
Prepaid lease payments		**571,024**	573,080
Goodwill		**166,966**	121,736
Other intangible assets		**846,309**	103,176
Interests in joint ventures		**119,943**	109,978
Financial assets measured at fair value through other comprehensive income/available-for-sale investments		**607,694**	316,742
Deferred tax assets		**20,929**	20,721
		9,622,845	7,907,956
Current assets			
Inventories		**3,232,545**	2,900,781
Trade and other receivables	*8*	**2,947,322**	2,334,279
Bills receivables	*9*	**2,121,471**	1,477,001
Trade receivables due from related companies	*10*	**58,039**	69,536
Amounts due from joint ventures		**345,707**	276,830
Prepaid lease payments		**18,358**	18,263
Other financial assets		**580**	732
Structured bank deposits	*11*	**3,113,895**	1,315,789
Restricted bank deposits		**10,744**	3,480
Bank balances and cash		**4,399,824**	5,238,033
		16,248,485	13,634,724

	Notes	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Current liabilities			
Trade, other payables and contract liabilities	*12*	**5,815,736**	4,513,383
Bills payables	*13*	**1,690,817**	59,809
Trade payable due to a joint venture	*14*	**6,994**	9,319
Amounts due to related companies		**29,867**	43,419
Tax liabilities		**192,794**	206,685
Borrowings		**879,974**	927,282
		8,616,182	5,759,897
Net current assets		**7,632,303**	7,874,827
Total assets less current liabilities		**17,255,148**	15,782,783
Non-current liabilities			
Other payables	*12*	**199,526**	183,976
Deferred tax liabilities		**304,579**	131,602
Borrowings		**59,312**	59,809
		563,417	375,387
Net assets		**16,691,731**	15,407,396
Capital and reserves			
Share capital		**12,922,199**	12,922,199
Reserves		**3,191,188**	2,400,174
Equity attributable to owners of the Company		**16,113,387**	15,322,373
Non-controlling interests		**578,344**	85,023
Total equity		**16,691,731**	15,407,396

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 functional currency of the Company is Renminbi ("RMB"), the condensed consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

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 2017 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. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2017 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 2018 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers and the related Amendments

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the manufacture and sales of pharmaceutical products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, advance payments from customers included in other payables of HK$664,435,000 were reclassified to contract liabilities.

As at 30 June 2018, advance payments from customers of HK$591,414,000 were classified as contract liabilities and the amount shall remain as it is and included in other payables without application of HKFRS 15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

(b) Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Summary of effects arising from initial application of HKFRS 9

Available-for-sale investments

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale investments, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$316,742,000 were reclassified from available-for-sale investments to financial assets measured at fair value through other comprehensive income, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$3,177,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

The application of the other new and 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. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors, being chief operating decision makers ("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) Vitamin C (bulk drugs)

(c) Antibiotics (bulk drugs)

(d) Caffeine (bulk drugs) and others

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products. Under HKFRS 15, revenue from manufacture and sales of pharmaceutical products is recognised at a point in time when the customer obtains control of the distinct goods.

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

For the six months ended 30 June 2018 (Unaudited)

	Finished drugs	Vitamin C	Antibiotics	Caffeine and others	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	**8,181,812**	**1,294,749**	**771,830**	**539,081**	**10,787,472**	**—**	**10,787,472**
Inter-segment sales	**—**	**33,323**	**41,340**	**2,600**	**77,263**	**(77,263)**	**—**
TOTAL REVENUE	**8,181,812**	**1,328,072**	**813,170**	**541,681**	**10,864,735**	**(77,263)**	**10,787,472**
SEGMENT PROFIT	**1,668,425**	**497,433**	**59,646**	**107,246**	**2,332,750**		**2,332,750**
Unallocated income							**84,109**
Unallocated expenses							**(93,762)**
Operating profit							**2,323,097**
Finance costs							**(36,143)**
Share of results of joint ventures							**23,609**
Profit before tax							**2,310,563**

For the six months ended 30 June 2017 (Unaudited)

	Finished drugs *HK$'000*	Vitamin C *HK$'000*	Antibiotics *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	5,273,381	760,497	619,611	548,086	7,201,575	—	7,201,575
Inter-segment sales	—	11,515	41,754	4,723	57,992	(57,992)	—
TOTAL REVENUE	5,273,381	772,012	661,365	552,809	7,259,567	(57,992)	7,201,575
SEGMENT PROFIT	1,391,525	192,395	24,608	113,089	1,721,617		1,721,617
Unallocated income							7,906
Unallocated expenses							(53,639)
Operating profit							1,675,884
Finance costs							(15,489)
Share of results of joint ventures							4,861
Profit before tax							1,665,256

Segment profit represents the profit earned by each segment without allocation of interest income, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities are not regularly provided to the CODM for review.

4. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets	**10,377**	11,494
Amortisation of prepaid lease payments	**9,397**	8,532
Depreciation of property, plant and equipment	**345,711**	290,945
Total depreciation and amortisation	**365,485**	310,971
Government grant income *(note ii)*	**(9,860)**	(8,091)
Interest income on bank balances	**(27,316)**	(7,906)
Interest income on structured bank deposits	**(42,948)**	—
Loss on disposal of property, plant and equipment	**9,194**	7,248
Net foreign exchange (gain) loss	**(18,814)**	8,198

Notes:

(i) For the six months ended 30 June 2017 and 2018, cost of inventories recognised as an 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 (a) the purchase of plant and machineries and are recognised over the useful lives of the related assets; and (b) 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	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation		
— PRC Enterprise Income Tax	**405,457**	290,198
— United States of America ("USA") Federal and State Income Tax	**6,984**	—
Deferred taxation	**56,465**	56,416
	468,906	346,614

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 2020.

The calculation of the USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

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$5,918,266,000 (31 December 2017: HK$5,054,129,000) 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	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
2017 Final, paid — HK15 cents (2017: 2016 Final, paid — HK12 cents) per share	**936,453**	726,482

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil).

7. EARNINGS PER SHARE

No dilutive earnings per share is presented for the six months ended 30 June 2018 as there was no potential ordinary shares in issue during the period.

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,853,130**	1,312,930

	For the six months ended 30 June	
	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,243,018**	6,053,338
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	**N/A**	414
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	6,053,752

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**2,452,524**	1,863,900
Less: loss allowance	**(12,673)**	(13,491)
	2,439,851	1,850,409
Prepayment for purchase of raw materials	**187,689**	202,499
Deposits and prepayment for utilities	**59,381**	50,733
Other tax recoverable	**97,909**	92,827
Others	**162,492**	137,811
	2,947,322	2,334,279

The Group allows a general credit period of up to 90 days (31 December 2017: 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**2,208,674**	1,590,027
91 to 180 days	**216,625**	238,594
181 to 365 days	**14,552**	21,788
	2,439,851	1,850,409

9. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (31 December 2017: 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.

During the period, bills receivables issued by group companies for settlement of intra-group transactions were discounted to bank without recourse for proceeds of approximately HK$1,469,416,000, and the related liabilities were included in bills payables as at 30 June 2018.

10. TRADE RECEIVABLES DUE FROM RELATED COMPANIES

The Group allows a general credit period of up to 90 days (31 December 2017: 90 days) to its related companies. The following is an aged analysis of trade receivables due from related companies at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**58,039**	64,167
91 to 180 days	**—**	5,389
	58,039	69,536

11. STRUCTURED BANK DEPOSITS

As at 30 June 2018, the structured bank deposits of HK$3,113,895,000 (31 December 2017: HK$1,315,789,000) were placed with banks in the PRC. Structured bank deposits amounting to HK$2,359,431,000 (31 December 2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

12. TRADE, OTHER PAYABLES AND CONTRACT LIABILITIES

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**2,151,781**	1,485,365
Customers' deposits	**292,834**	245,051
Advance payments from customers *(note)*	**591,414**	664,435
Other tax payables	**195,779**	159,531
Selling expense payable and other accrued charges	**949,391**	503,866
Payables arising from construction and acquisition of property, plant and equipment	**964,150**	985,234
Government grants	**323,006**	322,655
Staff welfare payable	**180,962**	188,388
Contingent consideration payable	**38,287**	—
Others	**327,658**	142,834
	6,015,262	4,697,359
Analysed as:		
Current	**5,815,736**	4,513,383
Non-current	**199,526**	183,976
	6,015,262	4,697,359

Note: Upon the adoption of HKFRS 15, advance payments from customers are classified as contract liabilities as at 1 January 2018 and at 30 June 2018.

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

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,756,669**	1,098,644
91 to 180 days	**134,241**	232,799
More than 180 days	**260,871**	153,922
	2,151,781	1,485,365

13. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (31 December 2017: 180 days) and not yet due at the end of the reporting period.

14. TRADE PAYABLE DUE TO A JOINT VENTURE

Trade payable due to a joint venture are aged within 90 days.

Results

For the first half of 2018, the Group reported sales of approximately HK$10,787 million, representing a 49.8% growth (or a 37.6% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$1,853 million, representing a 41.1% growth (or a 29.7% growth on a constant currency basis) year-on-year. Basic earnings per share amounted to HK29.68 cents.

Finished Drug Business

The finished drug business continued to achieve satisfactory growth in the first half of 2018, with sales reaching approximately HK$8,182 million, representing a 55.2% growth (or a 42.5% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the period, the gradual deepening of the medical reform and full implementation of the new reimbursement drug list have created more market expansion opportunities for the Group's innovative drug products. Under the favourable business environment, the Group endeavored to expand its dedicated sales force of each product and strengthened academic-based promotion, accelerating the market development in major cities and hospitals. Moreover, the Group leveraged on the policies on national hierarchical medical system and medical treatment combination to penetrate into county-level hospitals and community medical institutions for end-user market development, adding new growth driver to the innovative drug products. With these efforts and the launch of major product "Keaili"(克艾力)(paclitaxel for injection (albumin-bound)) during the period, innovative drug products continued the strong growth, with sales for the period reaching approximately HK$4,874 million, representing a 65.3% growth (or a 51.9% growth on a constant currency basis) year-on-year.

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

"NBP"(恩必普)

"NBP" is a Class 1 new drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide. The drug is mainly used for the treatment of acute ischemic stroke and currently available in the forms of soft capsule and injection.

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for China Patent" and the "China Grand Awards for Industry". "NBP" is listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2014)" and is also included in the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke in China" and the "Guidelines for the Assessment and Treatment of Cerebral Collateral

Circulation in Ischemic Stroke (2017)", which serves to recognise the clinical efficacy of "NBP" for treating acute ischemic stroke and provide a solid basis for its academic-based promotion. The inclusion of both forms of "NBP" into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsules for recovery use).

"NBP" was also making good progress in expanding into new treatment areas. In addition to vascular dementia (currently under phase II-III clinical trial), "NBP" also participated in six studies under the "13th Five-Year Plan", including the studies of butylphthalide's clinical benefits for new treatment areas such as cerebral small vessel disease, aortic atherosclerotic cerebral infarction and acute ischemic intravenous thrombolysis or endovascular treatment. Initiating these studies will enhance the academic influence of China's originator drugs in neurology field and advance the standard regarding stroke treatment and chronic diseases prevention in China. In March 2018, "Butylphthalide Soft Capsules" was granted orphan drug designation for the treatment of amyotrophic lateral sclerosis ("ALS") by the U.S. Food and Drug Administration. This indication has also been undergoing a multi-centre, randomized, double-blind and placebo-controlled clinical study in China since July 2015, which was the first clinical study on ALS in China. The study is currently under the follow-up period with all subjects enrolment completed. In addition, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with subjects enrolled. The development of new indications and markets as mentioned above will bring new growth opportunities to "NBP".

During the period, the Group further expanded its dedicated sales force of "NBP" and gradually developed the lower-tier medical market of county-level hospitals and community medical centres. The number of hospitals with sales access has increased quickly and sales has maintained a high rate of growth.

"Oulaining"(歐來寧)

"Oulaining" 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. At present, "Oulaining" is included in the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China", the "Guidelines for Diagnosis and Treatment of Carbon Monoxide Poisoning" and the "Interpretation of Clinical Pathway and Therapeutic Drugs". With the gradual completion of the drug reimbursement list supplementary additions in various provinces in China, the injection form has been newly included into the reimbursement list of Jilin Province and the capsule form included into the list of Guizhou Province and Shandong Province on top of the existing provinces reimbursing "Oulaining", further expanding the market potential. Besides, fundamental and clinical studies of oxiracetam for the treatment of dementia led by authoritative experts of neurology in China have been initiated to further enhance the evidence-based medical proof of the product.

During the period, the Group progressively changed the sales model of "Oulaining" to internal sales force and strengthened the promotion of the capsule form, maintaining sustainable growth of the product.

"Xuanning"(玄寧)

"Xuanning" 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 chronic stable angina and variant angina. The product has been awarded the "State Technological Invention Award (Second Class)" and "National Invention Exhibition Gold Award" and is included in the "Guidelines for the Rational Use of Drugs for Hypertension". The results of the research study for the comparison of levamlodipine maleate ("Xuanning") and amlodipine besylate for the treatment of hypertension (a major project in the "12th Five-Year Plan") released last year fully demonstrated the better clinical efficacy and lower side effects of "Xuanning". The conclusion of the study will also provide solid data support for the new drug application of "Xuanning" in the U.S..

During the period, the Group progressively changed the sales model of "Xuanning" to internal sales force and stepped up efforts in exploring lower-tier market below the county level, successfully speeding up the growth of sales.

"Duomeisu"(多美素)

"Duomeisu" (doxorubicin hydrochloride liposome injection) is a chemotherapy drug. The drug has been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines" of the U.S. for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of cancers such as breast cancer, bone and soft tissue sarcoma and AIDS-related Kaposi sarcoma with improving progress. Since product launch, the Group has adhered to the marketing strategies of conducting clinical studies and holding academic conferences to enhance the clinical recognition of "Duomeisu". The Group has also worked with domestic well-known experts and top-notch medical teams in initiating various large-scale clinical study projects to expand the scope of application of "Duomeisu". With all these efforts, "Duomeisu" has become the leading brand of doxorubicin hydrochloride liposome injection in China.

During the period, the implementation of new tender results and critical illness insurance coverage in certain provinces provided "Duomeisu" with a higher market potential. Meanwhile, the Group continued its efforts in expanding its sales team and endeavoring market development so as to achieve an accelerated sales growth.

"Jinyouli"(津優力)

"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 low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. "Jinyouli" is well supported by evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China. The study has involved 1,537 cases, covering tumors including lung cancer, breast cancer and lymphoma, winning unanimous recommendations from domestic and foreign guidelines.

During the period, the implementation of new tender results and the national reimbursement drug list provided "Jinyouli" with a larger room for market expansion. The Group also continued its efforts in expanding its sales force and endeavoring market development so as to achieve an accelerated sales growth.

"Ailineng"(艾利能)

"Ailineng" (elemene injection) is an anti-tumour drug developed in China and mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy of oncology therapies. After years of clinical use, it has been widely recognised by the medical market. The new and upgraded liquid formulation of the product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume, and thus the rate of adverse clinical reaction is significantly reduced. The Group is now cooperating with oncologists in China to strengthen the development of clinical evidence of "Ailineng".

During the period, the Group put more efforts into professional market promotion and adhered to its market strategies of market segmentation and academic-based promotion, maintaining a stable growth of sales.

"Nuolining"(諾利寧)

"Nuolining" (imatinib mesylate tablets) is the Group's first approved small molecule targeted cancer drug, which is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumour. As recommended by various domestic and foreign guidelines, "Nuolining" is a first-line drug for the above diseases. Patients using "Nuolining" for its main indications are required to use it on a long-term basis, thus the accumulation of patients enables imatinib to have a huge market potential.

With the change of the sales model to internal sales force, coupled with the continuous market promotion and hospital expansion, sales realised faster growth in the period.

"Keaili"(克艾力)

"Keaili" (paclitaxel for injection (albumin-bound)) is a first-to-market generic of chemotherapy drug for targeted therapy in China. The drug was listed as a major project of new drug innovation technology in the "12th Five-Year Plan" during its research and development stage and passed the drug consistency evaluation after launch this year. Compared with paclitaxel drug of the conventional form, paclitaxel for injection (albumin-bound) has obvious clinical advantages, including higher efficacy, better safety and tolerance, as well as greater convenience for clinical use. It is recommended by a number of guidelines/consensus for the treatment of solid tumors, including breast cancer, non-small-cell lung cancer, pancreatic cancer, ovarian cancer, melanoma, gastric

cancer and bladder cancer. As compared with the imported originator drug, the price of "Keaili" is significantly lower, enabling patients to use drug with comparable efficacy more economically and greatly relieving their financial burden. The Group is now conducting joint clinical studies with domestic experts for the application of "Keaili" in different tumours and the development of clinical application evidence, further enhancing the competitiveness of the product. The Group will also continue its marketing strategies of clinical study and academic conference in order to gain greater market recognition of "Keaili" and increase its market share.

After the launch of "Keaili" during the period, the Group swiftly established a dedicated sales force and actively rolled out marketing campaigns and hospital development with an outstanding sales performance achieved.

Common Generic Drug Products

During the period, the Group continued with the strategy of enhancing its sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Among which, products with relatively higher sales growth included "Ouyi"(歐意) (aspirin enteric-coated tablets), "Ouyi"(歐意) (omeprazole capsules/injections), "Linmeixin"(林美欣) (glimepiride dispersible tablets) and "Ouwei"(歐維) (mecobalamin tablets). The Group's high-end antibiotic product "Zhongnuo Shuluoke"(中諾舒羅克) (meropenem for injection) and healthcare supplement product "Guoweikang"(果維康) (vitamin C tablets) have also maintained rapid growth during the period. Furthermore, the Group actively pushed forward with the quality and efficacy consistency evaluation of generic drugs. Currently, products which have passed the consistency evaluation included "Xinweihong"(新維宏) (azithromycin tablets), "Qimaite"(奇邁特) (tramadol hydrochloride tablets) and "Zuoshuxi"(左舒喜) (captopril tablets). Products passing consistency evaluation are expected to significantly lower the financial burden of patients, reduce medical insurance expense and boost the efficiency in the use of health insurance funds. The Group will fully utilize opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products, and will also establish strategic cooperation with core distributors to expand and penetrate into the low-tier medical institutions for the end-user market.

During the period, sales of common generic drug products maintained stable growth in general, with sales reaching approximately HK$3,307 million, representing a 42.3% growth (or a 30.7% growth on a constant currency basis) year-on-year.

Bulk Drug Business

Vitamin C

Overcapacity in the vitamin C market still lingered. The market was also impacted by supply from new competitors during the first half of the year. Nevertheless, due to the increased market uncertainty created by the continued tightening of national environmental policies, product prices

still maintained at a relatively high level during the period. Apart from the efforts to attain quality improvement and production cost reduction, the Group will also develop high-quality and high-end customers, adjust customer structure and expand end-user market share in order to improve products' profitability.

Antibiotics

During the period, the overall market supply and demand in the antibiotics market maintained a balance, with both sales volume and price of major products being stable. Nevertheless, as affected by the ongoing policy of restricted use of antibiotics, preparation products have limited room for growth in end-user markets. The Group will continue to proactively implement various measures for technology advancement, management enhancement and customer structure optimization to strive for continuous improvement in product quality and market competitiveness.

Caffeine and Others

During the period, caffeine market maintained a stable competitive landscape with stable product prices.

Research and Development

The Group continued to increase its investment in the research and development of products. Currently there are more than 200 new products in the pipeline, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, metabolic diseases (such as diabetes), oncology, psychiatry and neurology, as well as anti-infection. Among these product candidates, there are 25 in the areas of new target macromolecule biologics, cell-based immunotherapy and stem cell therapy; 30 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system).

1. 9 small molecule new drugs are under clinical trials in China, including "DBPR108 tablets", "SKLB1028 capsules", "Ammuxetine hydrochloride tablets", "Butylphthalate soft capsules" (indication: vascular dementia) and "CSPCHA115 capsules".

2. 3 small molecule new drugs are under clinical trials in the U.S., namely "Levamlodipine maleate tablets", "Butylphthalide soft capsules" (indication: acute ischemic stroke) (15 clinical centres initiated with subjects enrolled) and "CSPCHA115 capsules".

3. 5 macromolecule new drugs are under clinical trials in China, including "Pegylated recombinant human interferon-α2a for injection", "HER2/CD3 bispecific antibody", "EpCAM/CD3 bispecific antibody" and "Combo of PD-1 monoclonal antibody and albumin-bound paclitaxel".

4. 5 products of new preparation are under clinical trials, namely "Mitoxantrone liposome for injection" (clinical trials in both China and the U.S.), "Amphotericin B cholesterol sulfate complex for injection", "Vinorelbine tartrate liposome for injection", "Alprostadil liposome for injection" and "Irinotecan liposome for injection" (clinical trials in the U.S.).

5. 24 early-to-market generic drugs are currently pending production approval, including "Dronedarone hydrochloride tablets", "Bortezomib for injection", "Clopidogrel hydrogen sulfate tablets", "Metformin hydrochloride extended-release tablets", "Ticagrelor tablets", "Sunitinib malate capsule" and "Pramexole hydrochloride tablets".

6. 15 early-to-market generic drugs are under bioequivalence tests, including "Rivaroxaban original tablets", "Linagliptin tablets", "Nintedanib esilate soft capsules" and "Benzonatate soft capsules".

7. 6 drugs are currently pending the U.S. ANDA approval, including "Pregabalin capsules", "Pramipexole hydrochloride tablets" and "Duloxetine hydrochloride extended-release capsules". Besides, "Celecoxib capsules" and "Memantine hydrochloride tablets" have obtained ANDA approval during the period.

8. "Mitoxantrone hydrochloride liposome injection", antibody-drug conjugate drug "DP303c" and "Butylphthalide soft capsules" (indication: ALS) have been granted the orphan drug designation in the U.S..

The Group has been increasing its investment in strengthening the pipeline of biologics. Apart from investment in in-house research and development, the Group has also been proactively seeking for external cooperation and acquisition opportunities. In January of this year, the Group has acquired certain equity interests in Wuhan YZY Biopharma Co., Ltd., which is a leading enterprise in research for bispecific antibodies in China. Later in June of this year, the Group has entered into a product co-development and strategic collaboration agreement with Shanghai Junshi Biosciences Co., Ltd. in relation to the clinical development, registration and commercialization of the PD-1 monoclonal antibody in combination with albumin-bound paclitaxel for the treatment of breast cancer.

The Group will continue to look for acquisition targets with strong research and development capability and product candidates under development. The future acquisition efforts will mainly focus on drugs of new small molecule and macromolecule which are close to product approval and launch so as to supplement the pipeline of product launch in the next few years and leverage the Group's strong marketing and market development capabilities to achieve rapid sales growth of new products.

FINANCIAL REVIEW

Results

	For the six months ended 30 June		
	2018 (Unaudited)	2017 (Unaudited)	Change in %
Revenue *(HK$'000)*			
Finished drugs	**8,181,812**	5,273,381	55.2%
Bulk drugs	**2,605,660**	1,928,194	35.1%
Total	**10,787,472**	7,201,575	49.8%
Operating profit *(HK$'000)*	**2,323,097**	1,675,884	38.6%
Operating profit margin	**21.5%**	23.3%	
Profit attributable to shareholders *(HK$'000)*	**1,853,130**	1,312,930	41.1%
Basic earnings per share *(HK cents)*	**29.68**	21.69	36.8%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 55.2% to HK$8,182 million for the current period. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching approximately HK$4,874 million, representing a growth of 65.3%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 40.9% in the first half of 2017 to 45.2% in the current period. Product prices of vitamin C remained at high level in the current period, as a result the profitability of vitamin C business greatly increased. With this outstanding business performance, profit attributable to the shareholders for the first half of 2018 increased by 41.1% to HK$1,853 million.

Liquidity and Financial Position

For the first half of 2018, the Group's operating activities generated a cash inflow of HK$2,018 million (2017: HK$1,271 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 decreased from 40 days in 2017 to 37 days. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 173 days in 2017 to 150 days. Current ratio of the Group was 1.9 as at 30 June 2018, slightly lower than 2.4 half year earlier. Capital expenditure for the current period amounted to HK$967 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 30 June 2018, bank balances and cash amounted to HK$4,400 million (2017: HK$5,238 million) and total borrowings amounted to HK$939 million (2017: HK$987 million), resulting in a net cash position of HK$3,461 million (2017: HK$4,251 million). Total borrowings represented bank loans of HK$939 million, of which HK$880 million are repayable within one year and HK$59 million are repayable between one to two years. Gearing ratio slightly decreased from 6.4% half year earlier to 5.6% as at 30 June 2018.

97.5% of the Group's borrowings are denominated in Renminbi and 2.5% in United States dollars. 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.

Pledge of Assets

As at 30 June 2018, structured bank deposits amounting to HK$2,359,431,000 (31 December 2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

Employees

As at 30 June 2018, the Group had approximately 17,100 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.

USE OF PROCEEDS FROM PLACING OF NEW SHARES

On 20 October 2017, the Company completed the placing of 189,000,000 new shares of the Company pursuant to a placing agreement dated 12 October 2017. Net proceeds, after deducting the relevant expenses, of approximately HK$2,345 million raised were intended to be applied for general working capital purposes and capital expenditure and to fund future investment opportunities as may be identified from time to time as mentioned in the Company's announcements dated 12 and 20 October 2017. As at 30 June 2018, the net proceeds of approximately HK$2,345 million have been fully utilized by the Group in the following manners:

Actual use of proceeds	**Amount used (approx.)**
Investments (including acquisition of various equity interests and limited partnership interests)	HK$622 million
Capital expenditure in respect of construction and acquisition of manufacturing facilities	HK$680 million
Replenishment of working capital	HK$270 million
Repayment of bank loans *(note)*	HK$773 million

Note: part of the net proceeds was used to repay certain bank loans for the financial benefits of the Group given that there was no immediate funding requirement for other purposes.

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 2018 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.

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 2018.

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

Hong Kong, 20 August 2018

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. WANG Jinxu, Mr. LU Hua, Mr. LI Chunlei, Mr. ZHANG Cuilong 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.