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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)

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

FINANCIAL HIGHLIGHTS

	For the nine months ended 30 September		Change in %	Change in % excluding foreign currency effects (Note)
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)		
Revenue by business units:				
Finished drugs				
<i>Innovative drugs</i>	4,654,599	3,506,071	32.8%	36.8%
<i>Common generic drugs</i>	3,521,486	3,126,321	12.6%	16.2%
Bulk drugs				
<i>Antibiotics</i>	914,358	1,020,182	-10.4%	-7.5%
<i>Vitamin C</i>	1,334,217	1,020,580	30.7%	34.3%
<i>Caffeine and others</i>	783,201	577,230	35.7%	40.1%
Total revenue	<u>11,207,861</u>	<u>9,250,384</u>	21.2%	24.9%
Gross profit	6,551,834	4,640,768	41.2%	45.4%
Operating profit	2,600,077	1,985,901	30.9%	34.9%
Profit attributable to shareholders	2,043,700	1,567,758	30.4%	34.3%

Note: Majority of the Group's sales are conducted in China 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 nine months ended 30 September 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

	For the nine months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	11,207,861	9,250,384
Cost of sales	(4,656,027)	(4,609,616)
Gross profit	6,551,834	4,640,768
Other income	90,462	62,502
Selling and distribution expenses	(3,005,252)	(2,010,784)
Administrative expenses	(491,371)	(419,429)
Other expenses	(545,596)	(287,156)
Operating profit	2,600,077	1,985,901
Finance costs	(23,767)	(33,125)
Share of results of joint ventures	1,454	20,474
Profit before tax	2,577,764	1,973,250
Income tax expenses	(525,865)	(395,714)
Profit for the period	2,051,899	1,577,536

	For the nine months ended	
	30 September	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive income (expense):		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences arising on translation of financial statements to presentation currency	578,640	(282,142)
Share of exchange differences of joint ventures	4,209	(932)
	<hr/>	<hr/>
Other comprehensive income (expense) for the period, net of income tax	582,849	(283,074)
	<hr/>	<hr/>
Total comprehensive income for the period	2,634,748	1,294,462
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Profit for the period attributable to:		
Owners of the Company	2,043,700	1,567,758
Non-controlling interests	8,199	9,778
	<hr/>	<hr/>
	2,051,899	1,577,536
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period attributable to:		
Owners of the Company	2,622,502	1,286,822
Non-controlling interests	12,246	7,640
	<hr/>	<hr/>
	2,634,748	1,294,462
	<hr/> <hr/>	<hr/> <hr/>
	<i>HK cents</i>	<i>HK cents</i>
Earnings per share		
— Basic	33.76	26.44
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— Diluted	33.76	26.20
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Notes:

1. Principal Accounting Policies

The principal accounting policies used in the preparation of the financial data for the nine months ended 30 September 2017 are consistent with those followed in the preparation of the Group's interim financial statements for the six months ended 30 June 2017.

2. Profit Before Tax

	For the nine months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of other intangible assets (included in cost of sales and other expenses)	58,965	14,000
Amortisation of prepaid lease payments	11,684	11,080
Depreciation of property, plant and equipment	450,605	412,731
Research and development expenditure (included in other expenses)	481,522	269,690
Government grant income (included in other income)	<u>(22,438)</u>	<u>(12,781)</u>

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:

	For the nine months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>2,043,700</u>	<u>1,567,758</u>

	For the nine months ended	
	30 September	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,053,567	5,929,506
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	<u>286</u>	<u>53,252</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>6,053,853</u>	<u>5,982,758</u>

4. Dividend

The board of directors does not declare the payment of an interim dividend for the nine months ended 30 September 2017 (2016: Nil).

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) Antibiotics (bulk drugs)
- (c) Vitamin C (bulk drugs)
- (d) Caffeine and others (bulk drugs)

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

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

For the nine months ended 30 September 2017 (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>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE							
External sales	8,176,085	914,358	1,334,217	783,201	11,207,861	—	11,207,861
Inter-segment sales	—	71,207	26,251	5,433	102,891	(102,891)	—
TOTAL REVENUE	<u>8,176,085</u>	<u>985,565</u>	<u>1,360,468</u>	<u>788,634</u>	<u>11,310,752</u>	<u>(102,891)</u>	<u>11,207,861</u>
SEGMENT PROFIT	<u>2,061,157</u>	<u>43,045</u>	<u>407,828</u>	<u>157,174</u>			2,669,204
Unallocated income							12,955
Unallocated expenses							<u>(82,082)</u>
Operating profit							2,600,077
Finance costs							(23,767)
Share of results of joint ventures							<u>1,454</u>
Profit before tax							<u>2,577,764</u>

For the nine months ended 30 September 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	6,632,392	1,020,182	1,020,580	577,230	9,250,384	—	9,250,384
Inter-segment sales	—	55,565	10,555	3,354	69,474	(69,474)	—
TOTAL REVENUE	<u>6,632,392</u>	<u>1,075,747</u>	<u>1,031,135</u>	<u>580,584</u>	<u>9,319,858</u>	<u>(69,474)</u>	<u>9,250,384</u>
SEGMENT PROFIT	<u>1,927,011</u>	<u>23,553</u>	<u>3,544</u>	<u>130,772</u>			2,084,880
Unallocated income							9,590
Unallocated expenses							<u>(108,569)</u>
Operating profit							1,985,901
Finance costs							(33,125)
Share of results of a joint venture							<u>20,474</u>
Profit before tax							<u>1,973,250</u>

Segment profit represents the profit earned by each segment without allocation of interest income, finance costs, central administrative expenses, 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.

BUSINESS REVIEW

Results

For the first nine months of 2017, the Group recorded sales of approximately HK\$11,208 million, representing an increase of 21.2% (or 24.9% increase on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK\$2,044 million, representing an increase of 30.4% (or 34.3% increase on a constant currency basis) year-on-year.

Finished Drug Business

Major innovative drugs of the Group, namely “NBP” (butylphthalide soft capsules and injections), “Oulaining” (oxiracetam capsules and lyophilized powder injections), “Xuanning” (levamlodipine maleate tablets), “Duomeisu” (doxorubicin hydrochloride liposome injections), “Jinyouli” (PEG-rhGCSF injections), “Ailineng” (elemene injections) and “Nuolining” (imatinib mesylate tablets) continued to deliver strong growth during the period. Their aggregate sales reached approximately HK\$4,655 million, representing a growth of 32.8% (or growth of 36.8% on a constant currency basis) year-on-year. On the other hand, common generic drugs of the Group maintained a stable growth with aggregate sales reaching approximately HK\$3,521 million, representing a growth of 12.6% (or growth of 16.2% on a constant currency basis) year-on-year.

Bulk Drug Business

Driven by a decrease in market supply, prices of vitamin C products have been showing a strong recovery since the beginning of the year. Significant increase in profit contribution from the vitamin C business for the period was achieved accordingly.

Market conditions of caffeine products remained stable and the Group has succeeded in further increasing its market share during the period. The strong growth of the segment was also attributable to the contribution from the glucose business which was acquired by the Group in June 2016.

Market conditions of antibiotic products remained challenging. With enhanced product mix and improvement in product price, the performance of this business has slightly improved during the period.

REVIEW OF RESULTS

The financial data for the nine months ended 30 September 2017 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.

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

Hong Kong, 15 November 2017

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