CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	2017 ***HK$'000***	2016 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**6,582,194**	4,773,634	37.9%	39.5%
Common generic drugs	**4,792,219**	4,193,217	14.3%	15.8%
Bulk drugs				
Antibiotics	**1,215,084**	1,333,565	-8.9%	-7.6%
Vitamin C	**1,853,700**	1,308,687	41.6%	43.1%
Caffeine and others	**1,019,332**	759,938	34.1%	36.2%
Total revenue	**15,462,529**	12,369,041	25.0%	26.6%
Gross profit	**9,345,968**	6,308,809	48.1%	49.8%
Operating profit	**3,481,643**	2,649,484	31.4%	33.2%
Profit attributable to shareholders	**2,770,522**	2,100,848	31.9%	33.6%
Basic earnings per share	**HK45.48 cents**	HK35.25 cents	+29.0%	
Final dividend per share	**HK15.00 cents**	HK12.00 cents	+25.0%	
Research and development expenditure	**815,258**	403,140	102.2%	

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

INDUSTRY REVIEW AND OUTLOOK

In 2017, a number of medical reform policies were promulgated covering areas from drug research and development to production and from distribution to usage at end-user markets, having a significant impact on the pharmaceutical industry. In particular, reform of the clinical trials administration, acceleration of drug evaluation and approval, promotion of drugs and medical devices innovation and development of generic drugs provide a more favourable environment for the development of innovative drugs. On the other hand, the progress of the quality consistency evaluation of generic drugs will lead to a higher concentration of the pharmaceutical industry. The medical reform has been progressing steadily. Drugs which are urgently needed clinically and of high degree of innovation will gradually be included into the national reimbursement drug list. Transforming from "generics" to "innovative drugs" has become a necessary development path for the traditional pharmaceutical enterprises.

At the same time, the implementation of "two-invoice policy" and "VAT in lieu of business tax" is favourable to streamlining the distribution channels and strengthening drugs supervision, enhancing the regulatory standard of the industry's operating environment. With increasingly tighter control over drug expenditure proportion and medical insurance budget, growth of antibiotic and adjuvant drugs will be under pressure. Whilst innovative drugs and high-quality generic drugs with proven efficacy, significant clinical benefits, high price setting power will have development potential.

The Group has taken advantage of the historical opportunity of industry upgrade and transformation. Leveraging its strength in research and development, innovation and strategy of internationalization, the Group has performed well in the market. For the year of 2017, the Group recorded a profit attributable to shareholders of HK$2,771 million, representing a growth of 31.9% year-on-year, achieving five consecutive years of high profit growth since its business transformation in 2012. Apart from "NBP", the oncology products of the Group also managed to achieve rapid growth with sales increasing by 72.9% to HK$1,032 million in 2017, becoming a new major growth driver. The growth of oncology products is expected to accelerate in the next three years.

The pharmaceutical industry forms an integral part of the national economy. With strong support by government policies and vigorous progression of the pharmaceutical industry reform under the "13th Five-Year Plan", the pharmaceutical industry has become one of the fastest growing industries of the national economy. In 2018, market demand is expected to maintain a steady growth, while the demand for innovative products would remain exuberant. Biopharmaceutical drugs, drugs for cell-based immunotherapy and high-end chemical generic drugs will be gaining a bigger market share. With the fast advancement of technology, more innovative drugs with new targets, new mechanism of action and breakthrough technologies will emerge. Industry policies will be more favorable to the Group's development. The continuous strengthening of industry regulation and improvement of medical reform policies in particular, will provide strong support for the further consolidation of industry as well as the steady and healthy development of the Group.

Adhering to the strategy of innovation and internationalization, the Group will endeavor to develop the market potential of our major drugs including "NBP"(恩必普), "Jinyouli"(津優力), "Xuanning"(玄寧), "Keaili"(克艾力)(Paclitaxel for injection (albumin-bound)), "Duomeisu"(多美素)and "Oulaining"(歐來寧)and will put more efforts into research and development with focus on the therapeutic areas of cardio-cerebrovascular diseases, oncology, psychiatry and neurology. The Group will also continuously enrich its product line, attract high-caliber talents and strengthen its research and development capability for new drug types.

BUSINESS OUTLOOK

FINISHED DRUG BUSINESS

Innovative Drug Products

With more favourable national innovation environment, innovative drugs will continue to embrace greater development opportunities. The Group will actively follow the adjustments in policies and capture the opportunities to expand the innovative drugs business. Investment in new drug development and team incentives will be further increased. Development progress of key products will also be expedited. Based on the clinical disease spectrum and our strength, the Group will speed up the initiation of research study of drugs with new target and market potential. In order to strengthen our research and development capability and expand the scale of the innovative drug business, the Group will adopt the strategy of in-house development, external acquisition and collaboration with domestic and international research centres. With respect to the marketing of new drugs, increased efforts will be made to expand into the untapped markets and hospitals, and the clinical sales force will be expanded so as to leverage the benefits of medical reimbursement for key drug products such as "NBP" and "Jinyouli". For key new drugs such as "Albumin-bound paclitaxel", more investments will be made in the medical research to strengthen the clinical evidence and professional academic-based promotion in order to enhance the recognition of the products by doctors. At the same time, close attention is paid to policy adjustments in respect of national drug reimbursement and the conditions of drug tenders in various provinces, ensuring that the tender prices of key products are stable and under control. In the area of distribution, the Group will seize the opportunity of increasing market concentration under the "two-invoice policy" to expand extensive cooperation with large pharmaceutical distribution companies, exploring the end-user market with each other's strength.

Common Generic Drug Products

Under the policy reform of drug production and distribution, the concentration of generic drugs industry is expected to increase. For large pharmaceutical companies with an integrated production, marketing and distribution, they will be in a better positon to gain market opportunities given their advantages of having large operation scale, products of high penetration, good market reputation, strong market coverage and stable cost. The Group will leverage its brand name, channel structure, marketing model, as well as distribution and scale advantages to further develop the low-tier medical market. At the same time, the Group will also continue to enrich its varieties of common generic

drugs with new types and formulations, introduce generic drug products such as traditional Chinese medicines and pediatric drugs that are in line with the national policy, nurture and develop well known products with higher growth potential, and establish "branded generic drugs" to ensure the continuous stable growth of this business.

BULK DRUG BUSINESS

The Group's bulk drugs business, in particular vitamin C and caffeine, has achieved outstanding performance in 2017. In 2018, the Group will continue to upgrade its technology, lower its cost, strive for high-end international accreditation and enhance its market expansion, ensuring that the existing business will continue to maintain its leading position in the global industry. The Group will keep abreast of changes in the relevant policies and market conditions of the global bulk drug industry, and will promptly respond through adjustment of short-term and long-term orders, customer development and product price.

2018 marks the beginning of a new five-year period of the Company. I have confidence in the profit growth for the coming three to five years and will continue to lead the management team to fulfill our duties, work diligently and professionally, strive for innovation, keep our passion and drive to succeed, endeavouring to achieve increasing returns to shareholders year after year, such that we can repay the shareholders and contribute to the community.

CAI Dongchen
Chairman

Hong Kong, 19 March 2018

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*2*	**15,462,529**	12,369,041
Cost of sales		**(6,116,561)**	(6,060,232)
Gross profit		**9,345,968**	6,308,809
Other income		**120,478**	106,970
Selling and distribution expenses		**(4,374,637)**	(2,788,160)
Administrative expenses		**(682,011)**	(553,694)
Other expenses		**(928,155)**	(424,441)
Operating profit		**3,481,643**	2,649,484
Finance costs		**(26,631)**	(41,711)
Share of results of joint ventures		**10,277**	27,559
Profit before tax	*3*	**3,465,289**	2,635,332
Income tax expense	*4*	**(685,245)**	(522,107)
Profit for the year		**2,780,044**	2,113,225
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**816,415**	(658,279)
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency		**6,780**	(2,773)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on the available-for-sale investments		**3,177**	—
Other comprehensive income (expense) for the year, net of income tax		**826,372**	(661,052)
Total comprehensive income for the year		**3,606,416**	1,452,173

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**2,770,522**	2,100,848
Non-controlling interests		**9,522**	12,377
		2,780,044	2,113,225
Total comprehensive income attributable to:			
Owners of the Company		**3,591,527**	1,445,017
Non-controlling interests		**14,889**	7,156
		3,606,416	1,452,173
		HK cents	*HK cents*
Earnings per share			
— Basic	*5*	**45.48**	35.25
— Diluted	*5*	**45.48**	35.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**6,662,523**	5,415,032
Prepaid lease payments		**573,080**	526,712
Goodwill		**121,736**	111,785
Other intangible assets		**103,176**	79,232
Interests in joint ventures		**109,978**	80,089
Available-for-sale investments		**316,742**	91,732
Deferred tax assets		**20,721**	27,986
		7,907,956	6,332,568
Current assets			
Inventories		**2,900,781**	1,933,147
Trade and other receivables	*7*	**2,334,279**	1,835,266
Bills receivables	*8*	**1,477,001**	1,215,156
Trade receivables due from related companies		**69,536**	73,570
Amounts due from joint ventures		**276,830**	115,986
Prepaid lease payments		**18,263**	16,419
Held for trading investments		**732**	521
Structured bank deposits		**1,315,789**	—
Restricted bank deposits		**3,480**	2,875
Bank balances and cash		**5,238,033**	3,234,678
		13,634,724	8,427,618
Current liabilities			
Trade and other payables	*9*	**4,513,383**	2,937,893
Bills payables	*10*	**59,809**	100,559
Trade payable due to a joint venture		**9,319**	—
Amounts due to related companies		**43,419**	657
Tax liabilities		**206,685**	147,769
Borrowings		**927,282**	897,777
		5,759,897	4,084,655

	2017	2016
	HK$'000	*HK$'000*
Net current assets	**7,874,827**	4,342,963
Total assets less current liabilities	**15,782,783**	10,675,531
Non-current liabilities		
Deferred tax liabilities	**131,602**	68,865
Borrowings	**59,809**	240,380
Government grants	**183,976**	174,964
	375,387	484,209
Net assets	**15,407,396**	10,191,322
Capital and reserves		
Share capital	**12,922,199**	10,569,620
Reserves	**2,400,174**	(461,994)
Equity attributable to owners of the Company	**15,322,373**	10,107,626
Non-controlling interests	**85,023**	83,696
Total equity	**15,407,396**	10,191,322

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and on the historical cost basis except for certain financial instruments that are measured at fair value at the end of the reporting period.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company's statutory annual consolidated financial statements for those years 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 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Company's auditor has reported on the financial statements of the Group for the years ended 31 December 2017 and 2016. The auditor's reports for both years were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Revenue and Segment Information

	2017	2016
	HK$'000	*HK$'000*
Sale of goods	**15,462,529**	12,369,041

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

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

(a) Finished drugs

(b) Antibiotics (bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

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

Segment revenues and results

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

For the year ended 31 December 2017:

	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	**11,374,413**	**1,215,084**	**1,853,700**	**1,019,332**	**15,462,529**	**—**	**15,462,529**
Inter-segment sales	**—**	**93,437**	**39,624**	**8,060**	**141,121**	**(141,121)**	**—**
TOTAL REVENUE	**11,374,413**	**1,308,521**	**1,893,324**	**1,027,392**	**15,603,650**	**(141,121)**	**15,462,529**
SEGMENT PROFIT	**2,724,406**	**45,336**	**614,164**	**200,109**	**3,584,015**		**3,584,015**
Unallocated income							**25,148**
Unallocated expenses							**(127,520)**
Operating profit							**3,481,643**
Finance costs							**(26,631)**
Share of results of joint ventures							**10,277**
Profit before tax							**3,465,289**

For the year ended 31 December 2016:

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	8,966,851	1,333,565	1,308,687	759,938	12,369,041	—	12,369,041
Inter-segment sales	—	72,689	12,621	7,688	92,998	(92,998)	—
TOTAL REVENUE	8,966,851	1,406,254	1,321,308	767,626	12,462,039	(92,998)	12,369,041
SEGMENT PROFIT	2,554,555	24,493	25,726	175,254	2,780,028		2,780,028
Unallocated income							13,005
Unallocated expenses							(143,549)
Operating profit							2,649,484
Finance costs							(41,711)
Share of results of joint ventures							27,559
Profit before tax							2,635,332

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 resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Geographical information

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

	2017	2016
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC") (country of domicile)	**12,340,123**	9,679,224
Other Asian regions	**1,264,272**	1,228,182
Americas	**851,288**	659,305
Europe	**862,902**	654,555
Others	**143,944**	147,775
	15,462,529	12,369,041

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

3. Profit Before Tax

	2017	2016
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration		
— Salaries, wages and other benefits	**1,015,460**	810,800
— Contributions to retirement benefit schemes	**109,183**	100,533
Total staff costs	**1,124,643**	911,333
Amortisation of intangible assets	**86,186**	17,796
Amortisation of prepaid lease payments	**17,483**	19,218
Depreciation of property, plant and equipment	**612,856**	550,713
Total depreciation and amortisation	**716,525**	587,727
Auditor's remuneration	**3,640**	3,500
Government grant income	**(34,353)**	(24,976)
Interest income	**(25,148)**	(13,005)
Loss on disposal of property, plant and equipment (included in other expenses)	**19,947**	20,572
Net foreign exchange loss (gain)	**36,938**	(10,009)
Research and development expenditure recognised as an expense (included in other expenses)	**815,258**	403,140
Rental expenses	**38,543**	32,791

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016.

4. Income Tax Expense

	2017	2016
	HK$'000	*HK$'000*
Current taxation		
— PRC Enterprise Income Tax	**546,780**	450,233
— PRC withholding tax on dividends distributed by subsidiaries	**59,950**	41,899
— United States of America ("USA") income tax	**14,989**	—
	621,719	492,132
Deferred taxation	**63,526**	29,975
	685,245	522,107

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The Federal and State income tax rate in the USA are calculated at 35% and 5.5%, respectively for the year ended 31 December 2017. The U.S. Tax Cuts and Jobs Act (the "Act") was executed into law on 22 December 2017. The Act includes significant changes to the U.S. corporate income tax system that are effective on 1 January 2018, including a reduction of the U.S. corporate income tax rate from 35% to 21%.

5. Earnings Per Share

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

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**2,770,522**	2,100,848

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,091,481**	5,960,417
Effect of dilutive potential ordinary shares: Share options granted by the Company	**224**	42,275
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,091,705**	6,002,692

6. Dividends

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year: 2016 Final, paid — HK12 cents (2016: 2015 Final, paid — HK11 cents) per share	**726,482**	650,212

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK15 cents (2016: final dividend in respect of the year ended 31 December 2016 of HK12 cents) per ordinary share has been proposed by the directors of the Company. Subject to approval by the shareholders in the forthcoming general meeting, the proposed final dividend will be paid on or around Friday, 15 June 2018 to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 5 June 2018.

7. Trade and Other Receivables

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**1,863,900**	1,492,855
Less: allowance for doubtful debts	**(13,491)**	(10,423)
	1,850,409	1,482,432
Prepayments for purchase of raw materials	**202,499**	150,585
Deposits and prepayment for utilities	**50,733**	51,720
Other tax recoverable	**92,827**	46,891
Others	**137,811**	103,638
	2,334,279	1,835,266

The Group allows a general credit period of up to 90 days (2016: up to 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**1,590,027**	1,357,953
91 to 180 days	**238,594**	114,647
181 to 365 days	**21,788**	9,832
	1,850,409	1,482,432

8. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2016: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

9. Trade and Other Payables

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**1,485,365**	1,113,908
Customers deposits and advance from customers	**909,486**	547,937
Other tax payables	**159,531**	86,518
Freight and utilities charges payable	**60,169**	79,299
Construction cost and acquisition of property, plant and equipment payable	**985,234**	678,108
Government grants	**138,679**	126,114
Staff welfare payable	**188,388**	109,749
Selling expense payable	**443,697**	115,388
Others	**142,834**	80,872
	4,513,383	2,937,893

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

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**1,098,644**	1,008,024
91 to 180 days	**232,799**	45,290
More than 180 days	**153,922**	60,594
	1,485,365	1,113,908

The general credit period on purchases of goods is up to 90 days (2016: up to 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

10. Bills Payables

All bills payables of the Group are aged within 180 days (2016: 180 days) and not yet due at the end of the reporting period.

RESULTS

For the year ended 31 December 2017, the Group recorded turnover of approximately HK$15,463 million, representing a 25.0% growth (or a 26.6% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$2,771 million, representing a 31.9% growth (or a 33.6% growth on a constant currency basis) year-on-year. Both basic earnings per share and diluted earnings per share are HK45.48 cents. The Board of Directors ("The Board") has proposed the payment of a final dividend of HK15 cents per share.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2017, with sales reaching approximately HK$11,374 million, representing a 26.8% growth (or a 28.4% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the year, the Group continued its efforts in expanding its professional sales team, strengthening academic based promotion and endeavouring to expand the hospital network. In addition, more provincial drug tenders were completed. The gradual implementation of the new tender results and the inclusion of "NBP" injection and "Jinyouli" into the new national reimbursement drug list released in 2017 (the "New NRDL") also added growth momentum to the innovative drug products. With these efforts and favourable operating conditions, the innovative drug products managed to continue its robust growth, along with further expansion of market share. Sales of innovative drug products for the year reached approximately HK$6,582 million, representing a 37.9% growth (or a 39.5% 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, and the drug is mainly used for the treatment of acute ischemic stroke. Both its soft capsule and injection formulations have been included into the New NRDL.

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for Outstanding Chinese Patented Invention" and the "China Grand Awards for Industry". "NBP" is also listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2014)", which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke, hence providing a solid basis for its academic-based promotion. As both formulations are reimbursable, it is especially favourable to the promotion

of sequential treatment with injection and soft capsule. "NBP" was also newly included into the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke in China" and "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)" during 2017, further strengthening the clinical evidence of "NBP".

"NBP" also made progress in expanding into new treatment area. In addition to obtaining approval from the China Food and Drug Administration ("CFDA") for conducting clinical study of "NBP" soft capsules for the treatment of vascular dementia caused by ischemic stroke, the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015)" published in 2016 also mentions the effectiveness of "NBP" in improving the cognitive function and ability in managing daily activities of patients with ischemic subcortical non-dementia-type vascular cognitive dysfunction. In 2017, butylphthalide was also listed as category IIb recommendation and category B evidence for treatment of post-stroke cognitive impairment in "Specialists' Consensus on Post-stroke Cognitive Impairment Management".

Apart from vascular dementia, a number of other clinical studies including using "NBP" for the treatment of cerebrovascular disease, mild cognitive impairment and cognitive impairment of middle to late stage of Parkinson's disease after deep brain stimulation have also commenced. In March, 2018, "Butylphthalide soft capsules" was even granted orphan drug designation for the treatment of amyotrophic lateral sclerosis (ALS) by the U.S. Food and Drug Administration ("U.S. FDA"). This indication has also been undergoing a clinical study in China since July 2015. The studies on new indications will bring new market potentials and opportunities to "NBP".

In recent drug tenders, the new tender prices of "NBP" are largely stable. With the implementation of the new tender results and inclusion of "NBP" into the New NRDL, there will be more market opportunities for "NBP" injections. Apart from continuous expansion in the high-end market, the Group will also gradually expand its coverage into the lower-tier medical markets. The Group will also continue to strengthen academic-based promotion by means of organizing academic conferences and initiating clinical study projects, so as to enhance experts' recognition of the product.

"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. "Oulaining" lyophilized powder injection is an exclusive formulation in China, and has been awarded the "Hebei Province Science and Technology Progress Award (First Class)". In the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015)" published in 2016, description and evidence were given on the efficacy of oxiracetam on Alzheimer's disease, vascular dementia and cognitive impairment. In recent drug tenders, products of the "Oulaining" series were able to win at relatively desirable tender prices. Moreover, the new inclusion of "Oulaining" capsule into the drug reimbursement list of Guizhou Province and the new inclusion of "Oulaining" injection into the drug reimbursement list of Jilin Province further enhanced the expansion of the oxiracetam

market. The Group will strengthen the clinical research of oxiracetam and enhance experts' support. In addition, more efforts will be put into professional academic-based promotions to communicate the clinical benefits of the products, ensuring continuous and stable growth.

"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 angina pectoris. The product has been awarded the "State Technological Invention Award (Second Class)" and is included in the new edition of the "Guidelines for the Rational Use of Drugs for Hypertension" in 2017. In 2017, a study of comparing levamlodipine maleate ("Xuanning") and amlodipine besylate in the treatment of hypertension was released. The research study was a major project in the "12th Five-Year Plan", participated by 110 research units in 21 cities in China, with a sample size of over 10,000 cases. The results of the study indicate that "Xuanning" is comparable with the imported amlodipine besylate in terms of efficacy and effectiveness in the prevention of coronary heart disease and stroke, for which hypertension is the leading cause. The compound prevalence for cardio-cerebrovascular events for two years is 5.0% for the imported drug and 4.6% for "Xuanning" ($P > 0.05$). The results of the study also indicate that the occurrence of adverse reaction of "Xuanning" is remarkably lower than that of the imported drug. The occurrence rates of swelling and headache for "Xuanning" are 1.1% and 0.7% respectively; and those of the imported drug are 2.8% and 1.1% respectively. The results of the study will also provide statistical support for the new drug application of "Xuanning" in the U.S.. Leveraging the competitive advantage of product differentiation, the Group is committed to developing "Xuanning" as the leading brand in domestically manufactured amlodipine, and at the same time expanding its coverage in the low-tier end-user market to achieve rapid growth.

"Duomeisu" (多美素)

"Duomeisu" (doxorubicin hydrochloride liposome injection) is used as a chemotherapy drug. The drug has been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines" for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of various cancers such as breast cancer, bone and soft tissue sarcoma and AIDS-related Kaposi sarcoma with improving progress. The patented nano-membrane extrusion technique of "Duomeisu" can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug and significantly minimizing cardiotoxicity, hair loss, nausea, vomiting and other side effects.

Since product launch, the Group has adhered to the marketing strategies of conducting clinical studies and holding academic conferences to enhance the recognition of "Duomeisu" by clinical doctors. The Group also works with experts in initiating large-scale clinical study projects to expand the scope of application and applicable population of "Duomeisu". The Group also cooperates with various clinical societies to support the academic-based promotion of Duomeisu. After years of promotion, "Duomeisu" has become the leading brand of doxorubicin hydrochloride liposome injection in China, and the implementation of new tender results also provides "Duomeisu" with a larger room for market development.

"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 being included in the "Significant New Drug Innovation" major technology project in the 12th Five-Year Plan. It has 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 lung cancer, breast cancer, lymphoma and other type of cancers. The efficacy and safety of "Jinyouli" were clinically proven with domestic and foreign guidelines unanimously recommending its application. The quality of "Jinyouli" is highlighted by the "Golden Award for Outstanding Chinese Patented Invention", the highest government award in the area of patents in China, it received in 2017, further enhancing its competitive advantage. With the implementation of the new tender results and its inclusion into the New NRDL, the market prospect of "Jinyouli" has become more promising.

"Ailineng" (艾利能)

"Ailineng" (elemene injection) is a China-developed anti-tumour drug 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 recognized by the medical market. The upgraded liquid formulation of this product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume, 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", and will continue to strive for annual expansion of market share through marketing strategies of market segmentation and academic-based promotion.

"Nuolining" (諾利寧)

"Nuolining" (imatinib mesylate tablets) was launched in 2015 as the Group's first approved small molecule targeted cancer drug. It 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. According to the recommendation of various domestic and foreign guidelines, imatinib is a first-line drug for the

above diseases. Since product launch, the Group has continued to strengthen the academic-based promotion and team building, and has gradually established its own sales team. The patients using "Nuolining" for its main indications are required to use it on a long-term basis, the accumulation of patients continues to boost the market potentials of imatinib. With the tender prices of "Nuolining" being largely stable and its inclusion into the New NRDL, "Nuolining" is expected to grow continuously.

Common Generic Drug Products

During the year, the Group actively pushed forward with the quality consistency evaluation and took the opportunity to strengthen strategic cooperation with core distributors. Efforts were put into academic-based promotions and enhancement of medical standard in the lower-tier market, reinforcing the good reputation of the Group's common generic drugs. At the same time, the Group also organised the chain pharmacies across the country to launch marketing activities and promote the sales of chronic diseases products.

The Group continued with the strategy of enhancing its sales mix by strengthening the promotion of non-antibiotic drugs. Products with relatively higher sales growth during the year 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). Meanwhile, the Group's high-end antibiotic product "Zhongnuo Shuluoke" (中諾舒羅克) (meropenem for injection) and health supplement product "Guoweikang" (果維康) (vitamin C tablets) have also recorded rapid growth during the year. At present, a number of products of the Group have obtained the U.S. Abbreviated New Drug Application ("ANDA") approvals, and some of them have begun marketing in the U.S., gradually becoming another major growth driver.

In 2017, sales of common generic drug products maintained stable growth with sales reaching approximately HK$4,792 million, representing a 14.3% growth (or a 15.8% growth on a constant currency basis) year-on-year.

BULK DRUG BUSINESS

Antibiotics

Sales volume has declined during the year as market demand has shrunk due to the policies of restricted use of antibiotics in the end-user market. It is expected that the overall sluggish market conditions will not have an obvious recovery in the short term. 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 increase market competitiveness.

Vitamin C

Overcapacity in the vitamin C market still lingered, yet product prices rebounded as market supply was restrained due to environmental protection concern, thus business performance in 2017 significantly improved. 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 product's profitability.

Caffeine and Others

The market conditions of caffeine remained stable with a slight increase in product price during the year. Through promotion of products with new specification, the Group recorded an increase in sales volume during the year and the overall business achieved a satisfactory growth.

The overall growth of this segment is also attributable to the contribution from the glucose business acquired last year.

RESEARCH AND DEVELOPMENT

The Group continued to increase its investment in the research and development of new products. Currently there are approximately 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. Among these product candidates, there are 25 in the areas of new target big molecule biologics, cell-based immunotherapy and stem cell therapy; 12 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system) (48 of which have obtained approval for clinical trials).

The progress of the Group's drug applications in China during the year is as follows:

1. Obtained additional indication approval of gastrointestinal stromal tumour for "Imatinib mesylate tablets"; and production approval for "Paclitaxel for injection (albumin-bound)" in February 2018;

2. Obtained clinical trial approval for 6 drugs with clinical trials commenced, including "Baicalein tablets", "HA121-28 tablets", "CSPCHA115 capsules" and "Alprostadil liposome for injection";

3. Submitted production applications for 11 drugs, including "Ticagrelor tablets", "Sunitinib malate capsules" and "Pramipexole hydrochloride tablets";

4. 26 drugs currently pending production approval, including "Dronedarone hydrochloride tablets", "Bortezomib for injection", "Clopidogrel hydrogen sulfate tablets", "Metformin hydrochloride tablets", "Metformin hydrochloride extended-release tablets", "Montelukast sodium tablets", "Montelukast sodium chewable tablets" and "Doxofylline sodium chloride for injection"; and

5. 20 drugs undergoing bioequivalence studies or clinical trials (including 9 Class 1 new drugs), including "DBPR108 tablets", "SKLB1028 capsules", "Ammuxetine hydrochloride tablets", "Butylphthalide soft capsules (indication: vascular dementia)", "Mitoxantrone hydrochloride liposome for injection", "Istradefylline tablets", "Benzonatate soft capsules" and "Amphotericin B cholesteryl sulfate complex for injection".

The progress of the Group's drug applications in the U.S. during the year is as follows:

1. Obtained ANDA approval for 8 products, namely "Clopidogrel hydrogen sulfate tablets", "Montelukast sodium tablets", "Montelukast sodium chewable tablets", "Gabapentin tablets", "Azithromycin tablets", "Cefadroxil capsules", "Benzonatate soft capsules (100 mg)" and "Celecoxib capsules";

2. 5 drugs currently pending ANDA approval, including "Memantine hydrochloride tablets", "Pregabalin capsules" and "Duloxetine hydrochloride extended-release capsules"; and

3. The phase II clinical trial of "Butylphthalide soft capsules" in the U.S. has passed the ethical evaluation of 3 clinical centres. It is expected that 80 subjects will be enrolled in 2018. "Xuanning", "Mitoxantrone hydrochloride liposome for injection" and "Irinotecan hydrochloride liposome for injection" have also been approved by the U.S. FDA to commence clinical trials. In addition, "Mitoxantrone hydrochloride liposome injection", antibody-drug conjugate (ADC) drug "DP303c" and "butylphthalide soft capsules" (indication: ALS) have been granted the orphan drug designation by the U.S. FDA.

The ANDA approval can give the drugs access to international market (including the U.S.), and can also facilitate the granting of priority review designation and the progress and designation of quality consistency evaluation in China.

During the year, the Group increased investment in biopharmaceuticals. In order to attract overseas talents in high-end research and development for biopharmaceuticals, research and development centres for antibody drugs have been set up in California, Texas and New Jersey in the U.S. respectively, focusing on the research of new target screening for antibody drugs and site-specific antibody conjugate platform. In addition, the Group has acquired certain equity interest in Wuhan YZY Biopharma Co., Ltd. during the year, which is a leading enterprise in research for bispecific antibodies in China. It has obtained clinical trial approval for 2 bispecific antibodies in China and has 8 other products under clinical research. The Group will continue to look for acquisition targets with strong research and development capability in biopharmaceutical field. The future acquisition efforts will mainly focus on drugs of new small or big molecules which are close to product approval and launch so as to supplement the pipeline of product launch in the next three years and leverage the Group's strong marketing and market development capabilities to achieve rapid growth of the new products.

FINANCIAL REVIEW

Results

	2017	2016	Change
Revenue *(HK$'000)*			
Finished drugs	**11,374,413**	8,966,851	26.8%
Bulk drugs	**4,088,116**	3,402,190	20.2%
Total	**15,462,529**	12,369,041	25.0%
Operating profit *(HK$'000)*	**3,481,643**	2,649,484	31.4%
Operating profit margin	**22.5%**	21.4%	
Profit attributable to shareholders *(HK$'000)*	**2,770,522**	2,100,848	31.9%
Net profit margin	**17.9%**	17.0%	
Basic earnings per share *(HK cents)*	**45.48**	35.25	29.0%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 26.8% to HK$11,374 million for the current year. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching approximately HK$6,582 million, representing a growth of 37.9%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 38.6% in 2016 to 42.6% in the current year. Product prices of vitamin C recovered strongly during 2017, as a result the profitability of vitamin C business for the current year greatly increased. With this outstanding business performance, profit attributable to the shareholders increased by 31.9% to HK$2,771 million in 2017.

Liquidity and Financial Position

For the financial year of 2017, the Group's operating activities generated a cash inflow of HK$3,288 million (2016: HK$2,916 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 41 days in 2016 to 40 days. Average turnover period of inventories (ratio of balance of inventories to cost of sales) increased from 116 days in 2016 to 173 days, reflecting the expanding scale of production and a higher inventory level required to meet the increasing market demand. Current ratio of the Group was 2.4 as at 31 December 2017, higher than 2.1 a year ago. Capital expenditure for the year amounted to HK$1,320 million, which were mainly spent to expand production capacities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2017, total bank deposits, balances and cash amounted to HK$6,557 million (2016: HK$3,238 million) and total borrowings amounted to HK$987 million (2016: HK$1,138 million), resulting in a net cash positon of HK$5,570 million (2016: HK$2,100 million). Total borrowings comprised bank loans of HK$978 million and loan from a related company of HK$9 million. HK$927 million of the total borrowings are repayable within one year and the remaining HK$60 million are repayable between one to two years. Gearing ratio further reduced from 11.2% a year earlier to 6.4% as at 31 December 2017.

94% of the Group's borrowings are denominated in Renminbi and 6% 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.

Employees

As at 31 December 2017, the Group had approximately 11,206 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017 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 ANNUAL RESULTS

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Friday, 25 May 2018, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2018.

The register of members of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 31 May 2018.

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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 19 March 2018

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