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CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

**UNAUDITED RESULTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014**

HIGHLIGHTS

	For the nine months ended 30 September		Change
	2014	2013	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
	(Unaudited)	(Unaudited)	
Revenue <i>(Note 1)</i>	<u>8,138,631</u>	<u>7,432,810</u>	+9.5%
Profit attributable to shareholders before gain on disposal of subsidiaries and share-based payment expense	973,558	687,418	+41.6%
Gain on disposal of subsidiaries <i>(Note 2)</i>	—	154,228	
Share-based payment expense <i>(Note 3)</i>	<u>(53,187)</u>	<u>(82,515)</u>	
Profit attributable to shareholders	<u>920,371</u>	<u>759,131</u>	+21.2%
Earnings per share			
— Basic	<u>HK15.58 cents</u>	HK13.67 cents	+14.0%
— Diluted	<u>HK15.42 cents</u>	<u>HK12.93 cents</u>	+19.3%

Notes:

1. The 2013 comparative comprises sales revenue of approximately HK\$410.85 million attributable to CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. (“NMG Zhongrun”), CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. (“Tianjin Cenway”) and their subsidiaries, which were principally engaged in the manufacture of bulk antibiotic products. The equity interests in NMG Zhongrun and Tianjin Cenway have been disposed of by the Company in June 2013 and September 2013 respectively. The 2013 comparative will become approximately HK\$7,021.96 million if revenue attributable to these companies which have been disposed of in 2013 is not accounted for. On this basis, revenue of the current period has increased 15.9%.
2. The 2013 comparative comprises the one-time gain of HK\$154.23 million arising from the disposal of the Company’s equity interests in NMG Zhongrun in June 2013 and Tianjin Cenway in September 2013.
3. The share-based payment expense of HK\$53,187,000 (2013: HK\$82,515,000) represents the amount of expense recognised for the period in connection with the share options granted by the Company in April 2013.

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 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2014

	For the nine months ended	
	30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	8,138,631	7,432,810
Cost of sales	(5,063,115)	(5,152,539)
Gross profit	3,075,516	2,280,271
Other income	111,897	166,723
Selling and distribution expenses	(1,287,418)	(960,971)
Administrative expenses	(430,849)	(466,622)
Other expenses	(241,867)	(151,574)
Operating profit	1,227,279	867,827
Finance costs	(43,359)	(55,408)
Gain on disposal of subsidiaries	—	154,228
Share of results of a joint venture	312	(13,919)
Profit before taxation	1,184,232	952,728
Income tax expenses	(251,541)	(180,650)
Profit for the period	<u>932,691</u>	<u>772,078</u>

	For the nine months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other comprehensive (expense) income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences on translation of financial statements to presentation currency	(118,042)	96,889
Share of exchange differences of a joint venture	(228)	143
	<u>(118,270)</u>	<u>97,032</u>
Other comprehensive (expense) income for the period		
	<u>(118,270)</u>	<u>97,032</u>
Total comprehensive income for the period	<u>814,421</u>	<u>869,110</u>
Profit for the period attributable to:		
Owners of the Company	920,371	759,131
Non-controlling interests	12,320	12,947
	<u>932,691</u>	<u>772,078</u>
	<u>932,691</u>	<u>772,078</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	803,129	853,615
Non-controlling interests	11,292	15,495
	<u>814,421</u>	<u>869,110</u>
	<u>814,421</u>	<u>869,110</u>
	<i>HK cents</i>	<i>HK cents</i>
Earnings per share		
— Basic	<u>15.58</u>	<u>13.67</u>
	<u>15.58</u>	<u>13.67</u>
— Diluted	<u>15.42</u>	<u>12.93</u>
	<u>15.42</u>	<u>12.93</u>

Notes:

1. Principal Accounting Policies

The principal accounting policies used in the preparation of the financial date for the nine months ended 30 September 2014 are consistent with those followed in the preparation of the Group's interim financial statements for the six months ended 30 June 2014.

2. Profit Before Taxation

	For the nine months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting) the following items:		
Amortisation of other intangible assets (included in cost of sales)	14,740	7,155
Amortisation of prepaid lease payments	11,555	10,544
Depreciation of property, plant and equipment	439,129	493,992
Research and development expense (included in other expenses)	233,424	138,756
Share-based payment expense (included in administrative expenses)	53,187	82,515
Government grant income (included in other income)	<u>(75,372)</u>	<u>(136,470)</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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>920,371</u>	<u>759,131</u>

	For the nine months ended	
	30 September	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,908,018	5,554,041
Effect of dilutive potential ordinary shares:		
Tranche II Convertible Bonds as if converted (<i>Note</i>)	—	315,759
Share options granted by the Company	<u>58,760</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,966,778</u>	<u>5,869,800</u>

The computation of diluted earnings per share in 2013 does not assume the exercise of the Company's share options because the adjusted exercise price of those options was higher than the average market price for shares from the date of grant of the options to the end of that reporting period.

Note: On 29 October 2012, the Company issued two tranches of convertible bonds with respective principal amount of US\$774,029,472.70 (equivalent to HK\$6,037,429,887.06) and US\$86,003,274.70 (equivalent to HK\$670,825,542.66) ("Tranche II Convertible Bonds"). Details of the convertible bonds are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

4. Dividend

The board of directors does not declare the payment of an interim dividend for the nine months ended 30 September 2014 (2013: Nil).

5. Review of Results

The financial data for the nine months ended 30 September 2014 is based on the internal records and management accounts of the Group and has not been reviewed or audited by the external auditor of the Company.

SEGMENT INFORMATION

The Group's reportable and operating segments for financial reporting purposes are as follows:

- (a) Finished Drugs
- (b) Antibiotics (intermediates and bulk drugs)
- (c) Vitamin C (bulk drugs)
- (d) Caffeine and others (bulk drugs)

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

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

For the nine months ended 30 September 2014 (Unaudited):

	Finished Drugs <i>HK\$'000</i>	Antibiotics <i>HK\$'000</i>	Vitamin C <i>HK\$'000</i>	Caffeine and others <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE							
External sales	4,891,660	1,818,603	950,458	477,910	8,138,631	—	8,138,631
Inter-segment sales	—	37,673	5,189	5,187	48,049	(48,049)	—
TOTAL REVENUE	<u>4,891,660</u>	<u>1,856,276</u>	<u>955,647</u>	<u>483,097</u>	<u>8,186,680</u>	<u>(48,049)</u>	<u>8,138,631</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>1,195,651</u>	<u>108,570</u>	<u>(45,979)</u>	<u>89,886</u>			1,348,128
Unallocated income							5,037
Unallocated expenses							<u>(125,886)</u>
Operating profit							1,227,279
Finance costs							(43,359)
Share of results of a joint venture							<u>312</u>
Profit before taxation							<u>1,184,232</u>

For the nine months ended 30 September 2013 (Unaudited):

	Finished Drugs HK\$'000	Antibiotics HK\$'000	Vitamin C HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	4,201,929	1,921,049	829,122	480,710	7,432,810	—	7,432,810
Inter-segment sales	—	95,832	2,706	3,919	102,457	(102,457)	—
TOTAL REVENUE	<u>4,201,929</u>	<u>2,016,881</u>	<u>831,828</u>	<u>484,629</u>	<u>7,535,267</u>	<u>(102,457)</u>	<u>7,432,810</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	<u>953,864</u>	<u>37,916</u>	<u>(106,296)</u>	<u>119,184</u>			1,004,668
Unallocated income							4,179
Unallocated expenses							<u>(141,020)</u>
Operating profit							867,827
Finance costs							(55,408)
Gain on disposal of subsidiaries							154,228
Share of results of a joint venture							<u>(13,919)</u>
Profit before taxation							<u>952,728</u>

Segment profit (loss) represents the profit (loss) generated by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of a joint venture, gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

BUSINESS REVIEW

Results

For the period under review, the Group recorded sales revenue of approximately HK\$8,139 million and profit attributable to shareholders of approximately HK\$920 million.

Finished Drug Business

During the period, the innovative drugs continued to maintain a strong growth momentum, with continuous expansion of market share and a stronger presence in the high-end market. Sales revenue of the whole innovative drug portfolio for the period reached HK\$2,019 million, representing a 47.8% growth over the same period of last year. Among the innovative drugs, the oncology drugs achieved a sales revenue of HK\$181 million.

The common generic drugs of the Group maintained a stable growth during the period, with sales revenue reaching HK\$2,872 million.

Bulk Drug Business

The performance of the caffeine business and antibiotics business remained stable; while the vitamin C business remained relatively weak with overcapacity persisting. Product prices of vitamin C weakened in the third quarter following a modest increase in the first half of the year.

Research and Development

The Group continued to capitalise on its technological advantages in the realm of drug research and development. Currently, the Group has over 170 products under research and development, with focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infective. Among those products, 14 are Class I new drugs and 41 are Class III new drugs (of which 29 products are among the first three applications).

During the third quarter of current year, the Group had the following major developments in research and development.

- In October, oncology drug “Imatinib Mesylate Tablet” developed by the Group was granted the Drug Registration Approval by the China Food and Drug Administration (“CFDA”). This is the third oncology drug of the Group approved for production. The approval will further expand the product portfolio and enhance the Group’s development in the oncology area.
- Pre-clinical study for the chronic hepatitis C drug “Sofosbuvir Tablet” developed by the Group has been completed and application for clinical study has been submitted to the Center for Drug Evaluation of the CFDA in November. The Group will strive to become the first company obtaining the approval for selling this blockbuster drug in China.

- In November, the Group received the report from the U.S. Food and Drug Administration (“U.S.FDA”) confirming that the Group’s production workshops for cephalosporin products “Cefotaxime Sodium for Injection” and “Cefixime Tablet” have passed the U.S. FDA onsite inspection. Passing of the onsite inspection lays a solid foundation for the Group’s cephalosporin injection and oral products expanding into the international markets.

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

Hong Kong, 25 November 2014

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. FENG Zhenying, Mr. CHAK Kin Man, Mr. PAN Weidong, Mr. ZHAO John Huan, Mr. WANG Shunlong, Mr. WANG Huaiyu, Mr. LU Jianmin, Mr. WANG Zhenguo and Mr. WANG Jinxu as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Mr. LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Shilin as independent non-executive directors.