



石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code: 1093)

2014

INTERIM REPORT





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CORPORATE INFORMATION

Board of Directors

Executive Directors

CAI Dongchen (*Chairman and CEO*)
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo
WANG Jinxu

Non-executive Director

LEE Ka Sze, Carmelo

Independent Non-executive Directors

HUO Zhenxing (retired on 20 May 2014)
QI Moujia (retired on 20 May 2014)
GUO Shichang (resigned on 19 March 2014)
CHAN Siu Keung, Leonard
WANG Bo
ZHANG Fawang (resigned on 1 June 2014)
LO Yuk Lam (appointed on 1 June 2014)
YU Jinming (appointed on 1 June 2014)
CHEN Shilin (appointed on 1 June 2014)

Committees

Audit Committee

CHAN Siu Keung, Leonard (*Chairman*)
LEE Ka Sze, Carmelo
WANG Bo

Nomination Committee

CAI Dongchen (*Chairman*)
CHAN Siu Keung, Leonard
LO Yuk Lam

Remuneration Committee

CHAN Siu Keung, Leonard (*Chairman*)
LEE Ka Sze, Carmelo
WANG Bo

Legal Advisers

Woo, Kwan, Lee & Lo

Auditor

Deloitte Touche Tohmatsu

Company Secretary

LEE Ka Sze, Carmelo

Authorised Representatives

CHAK Kin Man
PAN Weidong

Registered Office

Suite 3206
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.irasia.com/listco/hk/cspc

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	
Revenue (Note 1)	5,342,470	5,075,665	+5.3%
Profit attributable to shareholders before gain on disposal of subsidiaries and share-based payment expense	653,852	434,655	+50.4%
Gain on disposal of subsidiaries (Note 2)	—	117,330	
Share-based payment expense (Note 3)	(53,187)	(36,784)	
Profit attributable to shareholders	600,665	515,201	+16.6%
Earnings per share			
— Basic	HK10.17 cents	HK9.30 cents	+9.4%
— Diluted	HK10.07 cents	HK8.81 cents	+14.3%

Notes:

1. The 2013 comparative comprises sales revenue of approximately HK\$381.20 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\$4,694.47 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 13.8%.
2. The 2013 comparative comprises the one-time gain of HK\$117.33 million arising from the disposal of the Company's equity interests in NMG Zhongrun in June 2013.
3. The share-based payment expense of HK\$53,187,000 (2013: HK\$36,784,000) represents the amount of expense recognised for the period in connection with the share options granted by the Company in April 2013.



MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first half of 2014, the Group recorded sales revenue of approximately HK\$5,342 million and profit attributable to shareholders of approximately HK\$601 million.

Finished Drug Business

Innovative Drug Products

During the period, the innovative drug business maintained strong growth momentum, with continuous expansion of market share and a stronger presence in the high-end market. Sales revenue of the innovative drug business for the period reached HK\$1,299 million, representing a 49.3% growth over the same period of last year.

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

"NBP"

"NBP" series is a Class I new drug in China and is also a patent-protected exclusive product. Its major ingredient is butylphthalide, and the drug is mainly used for the treatment of acute ischemic stroke. Its soft capsule and injection forms were launched in 2005 and 2010, respectively. This product has been awarded the State Science and Technology Progress Award (Second Class) and Golden Award for Outstanding Chinese Patented Invention. It was also awarded the China Grand Awards for Industry in 2014.

"Oulaining"

"Oulaining" series is available in the forms of capsule and lyophilized powder injection. Its major ingredient is oxiracetam, and the drug is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. "Oulaining" lyophilized powder injection is currently an exclusive preparation form in China, and was awarded the Hebei Province Science and Technology Progress Award (First Class) in 2013.

"Xuanning"

"Xuanning" series is available in the forms of tablet and dispersible tablet. Its major ingredient is maleate levamlodipine, and the drug is mainly used for the treatment of hypertension. The product was awarded the State Technological Invention Award (Second Class) in 2013.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Finished Drug Business (Continued)

Innovative Drug Products (Continued)

“Duomeisu”, “Jinyouli” and “Ailineng”

The oncology new drugs portfolio of the Group is currently at market introduction phase, with the existing portfolio including “Duomeisu”, “Jinyouli” and “Ailineng”. “Duomeisu” (Doxorubicin hydrochloride liposome injection) is a new anthracycline used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. “Jinyouli” (PEG-rhG-CSF injection) is the first long-acting growth factor drug in China and is used for the prevention of leucopenia and infection induced by chemotherapy. “Ailineng” (Elemene injection) is a drug mainly used for the treatment of nerve glioma and brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. Its unique liquid injection form has obtained patent in China.

As the academic-based promotion made progress and market recognition was enhanced, “Duomeisu”, “Jinyouli” and “Ailineng” effectively expanded their market coverage and achieved satisfying growth. For the first half of 2014, the oncology drug products contributed a sales revenue of HK\$112 million in total.

With the expected commencement of the tendering process in various provinces and cities across the country, the Group will endeavour to ensure that the three oncology drugs will win the tenders with reasonable price in order to expand its market and boost the continuous growth of the products.

In addition, the Group has some other oncology drugs under research and development, among which “imatinib mesylate tablet” has passed technology assessment and on-site inspection of the China Food and Drug Administration (“CFDA”). It is expected that the production approval will soon be granted. In addition, “bortezomib injection” has already applied for production approval and “paclitaxel injection (albumin-bound)” has applied for clinical trial with technical information being assessed.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Finished Drug Business *(Continued)*

Common Generic Drug Products

In order to boost the performance of common generic drug products, the Group has signed strategic cooperation agreements with hundreds of medium-to-large chain enterprises in China to promote its branded drugs such as “Ouyi” and “Weihong” as highlight products. The Group’s Chinese medicine soft capsule product series (including “Qingre Jiedu soft capsule (清熱解毒軟膠囊)”, “Ganmao Qingre soft capsule (感冒清熱軟膠囊)”, “Yin Huang soft capsule (銀黃軟膠囊)”, “Xiangsha Yangwei soft capsule (香砂養胃軟膠囊)” and “Huoxiang Qushu soft capsule (藿香祛暑軟膠囊)”) have formed a brand portfolio and become another strong growth momentum of the Group.

During the first half of 2014, new essential drug tenders, new GMP and GSP authorization in China brought opportunities and challenges to the Group’s production and operation. The Group rigorously fought against the unfavourable impact of the policies of restricted use of antibiotics and essential drug tenders. The Group further enhanced its sales strategies for common generic drugs, refined its product portfolio and expanded its sales channels. Both the lower-tier medical market and non-prescription drug market recorded a satisfactory growth and a continuous improvement on its return.

Bulk Drug Business

Antibiotics

During the first half of 2014, the demand for antibiotics was relatively stable and the market price showed a stabilized trend. In addition, the Group attained continuous decline in the production costs through technological upgrades, reinforced internal management and energy-saving measures, which enabled the Group to maintain its leading position in the industry and achieve earnings improvement.

Vitamin C

During the first half of 2014, the market environment for vitamin C remained relatively weak, overcapacity lingered and competition in the market continued to be intense. Leveraging on its advantages in scale, quality and production costs, the Group continued to maintain its absolute competitiveness in the industry. However, this business still recorded a loss for the first half of 2014 due to fluctuation in price rebound.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Bulk Drug Business *(Continued)*

Caffeine and Others

During the first half of 2014, demand for caffeine was stable and the market price remained steady, this business continued to contribute stable earnings to the Group.

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).

5 of the 14 Class I new drugs are under clinical trial. Of which, “recombinant glucagon-like peptide-1 receptor agonist for injection (rE4)” has completed phase II clinical trial. The supplemental application for changing into an injection pen form is being evaluated by the Center for Drug Evaluation (CDE) and shall commence phase III clinical trial upon approval of the application. Phase III clinical trial protocol of “compound amlodipine and atorvastatin calcium tablet” is under ethical evaluation. “Pinocebrin injection” is under phase II clinical trial. “Baicalein tablet” is applying for phase II and III clinical trial. In addition, application for phase II and III clinical trial of “mitoxantrone hydrochloride liposome injection” has been submitted to the CDE.

During the first half of the year, applications for the clinical trial of 2 Class 1.1 new drugs (“SKLB1028” and “DBPR-108”) have been submitted to the CDE. “SKLB1028” is a new drug to treat drug-resistant leukemia and non-small cell lung cancer, whilst “DBPR-108” is a new drug to treat type II diabetes. “DBPR-108” has completed the evaluation by CDE and obtained technical evaluation opinion. The Group is currently providing supplemental information in accordance with the requirement of the CDE. Apart from these, the Group has submitted applications for 23 drugs with the CFDA during the first half of the year (of which, 8 are production applications and 15 are clinical trial applications). 12 of the 23 drugs are among the first three applications.

In the overseas, the Group has submitted 2 Abbreviated New Drug Application (“ANDA”) in the U.S. during the first half of the year. Currently, the Group has a total of 9 drugs applying for ANDA of the U.S. FDA. Meanwhile, the application for phase II clinical trial protocol of “butylphthalide soft capsule” has been approved by the U.S. FDA and is currently undergoing pharmacokinetic research in human subjects as requested by the U.S. FDA.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Research and Development *(Continued)*

In addition, three production lines of the Group used to manufacture “menatetrenone capsule”, “cefotaxime sodium injection” and “cefixime tablet” have passed the U.S. FDA on-site inspection. “Imatinib mesylate raw material and tablet” has also passed the technology assessment and on-site inspection of CFDA.

The Group also continued to increase its efforts in research and development, registration and obtaining approval. During the period, 4 products of the Group have obtained approval for production in China. It is expected that by the end of 2014, 4 drug applications in China (“imatinib mesylate raw material and tablet”, “cefcapene pivoxil hydrochloride raw material and tablet”, “Qinggan Huayu soft capsule (清肝化癥膠囊)”, “cefoselis sulfate raw material and injection”) and 4 drug applications for ANDA in the U.S. (“menatetrenone capsule”, “cefixime tablet”, “cefotaxime sodium for injection” and “clopidogrel hydrogen sulfate tablet”) will receive approval.

Outlook

With the further ageing of population, progress of national urbanisation and increase in people’s income level in China, the demand for pharmaceutical products in China is expected to further increase over the coming decade. In view of that, the Group believes that its core products will have huge market potential prospect. The Group will continue to actively develop the new drug business, promote product internationalisation and consolidate the competitiveness of its bulk drug business, with the objective of ensuring sustainable growth of the Group.

FINANCIAL REVIEW

Liquidity and Financial Position

For the first half of 2014, the Group’s operating activities generated a net cash inflow of HK\$1,010 million. Debtor turnover period (ratio of the balance of trade receivables to sales, inclusive of value added tax for sales in China) decreased from 63 days in 2013 to 57 days. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 105 days in 2013 to 111 days. As at 30 June 2014, current ratio of the Group slightly decreased to 1.6 as compared with 1.7 as at the end of 2013. Capital expenditure in relation to the additions of production facilities amounted to HK\$397 million for the current period.



FINANCIAL REVIEW *(Continued)*

Liquidity and Financial Position *(Continued)*

The financial position of the Group remained healthy. As at 30 June 2014, total bank balances and cash amounted to HK\$1,089 million (31 December 2013: HK\$1,271 million) and total bank borrowings amounted to HK\$1,306 million (31 December 2013: HK\$1,340 million). Of the total bank borrowings, HK\$752 million will be repayable with one year and the remaining HK\$554 million repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total bank borrowings net of bank balances and cash over total equity) was 2.9% as compared with 1% at the end of 2013.

34% of the Group's bank borrowings are denominated in Hong Kong dollars, 19% in US dollars and the remaining 47% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

Contingent Liabilities

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly-owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints filed in the United States of America ("United States"). These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. The plaintiffs brought these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes, seeking damages and other relief.

Details of development of the complaints in prior years are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement for US\$22.5 million to resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. On 16 October 2013, the court granted approval of the settlement and dismissed the Company and Weisheng as to the direct purchaser action. The first instalment of the settlement amounting to US\$20 million has been paid by the Company and Weisheng on 13 April 2013 and the remaining US\$2.5 million will be due for payment on 16 October 2014.



FINANCIAL REVIEW *(Continued)*

Contingent Liabilities *(Continued)*

On 13 November 2013, the Company, Weisheng and the putative indirect purchaser class in the indirect purchaser actions entered into a settlement agreement for US\$2.2 million to fully and finally resolve all the claims in the indirect purchaser actions. On 16 May 2014, the Court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the indirect purchase actions. The settlement amount of US\$2.2 million has been paid by the Company and Weisheng on 9 January 2014.

Adequate provision for the above remaining settlement amount and the related legal costs has been made in the Company's condensed consolidated financial statements for the six months ended 30 June 2014.

Employees

As at 30 June 2014, the Group had about 10,391 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 the individual employee.

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF
CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of CSPC Pharmaceutical Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 13 to 38, which comprises the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		For the six months ended 30 June	
	Notes	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	5,342,470	5,075,665
Cost of sales		(3,321,420)	(3,534,056)
Gross profit		2,021,050	1,541,609
Other income		90,530	92,997
Selling and distribution expenses		(846,327)	(659,707)
Administrative expenses		(302,889)	(308,628)
Other expenses		(160,918)	(83,901)
Operating profit		801,446	582,370
Finance costs		(29,231)	(36,636)
Share of results of a joint venture		(526)	(11,420)
Gain on disposal of subsidiaries	5	—	117,330
Profit before taxation	4	771,689	651,644
Income tax expenses	6	(162,263)	(123,814)
Profit for the period		609,426	527,830
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements to presentation currency		(216,076)	76,642
Share of exchange differences of a joint venture		(444)	175
Other comprehensive (expense) income for the period		(216,520)	76,817
Total comprehensive income for the period		392,906	604,647

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2014

		For the six months ended 30 June	
	Note	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		600,665	515,201
Non-controlling interests		<u>8,761</u>	<u>12,629</u>
		<u>609,426</u>	<u>527,830</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		386,683	589,598
Non-controlling interests		<u>6,223</u>	<u>15,049</u>
		<u>392,906</u>	<u>604,647</u>
		HK cents	HK cents
Earnings per share			
— Basic	8	<u>10.17</u>	<u>9.30</u>
— Diluted		<u>10.07</u>	<u>8.81</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	4,934,087	4,961,171
Prepaid lease payments		527,489	547,754
Goodwill		125,232	128,438
Other intangible assets		116,863	127,597
Interest in a joint venture		17,067	18,038
Available-for-sale investments		1,705	1,705
Deferred tax assets		34,456	43,071
		5,756,899	5,827,774
Current assets			
Inventories		2,032,478	1,855,188
Trade and other receivables	10	2,105,510	2,029,961
Bills receivables	10	935,524	982,437
Trade receivables due from related companies	11	114,491	122,137
Amount due from a joint venture	11	99,518	91,519
Prepaid lease payments		15,451	16,909
Tax recoverable		388	226
Held for trading investments		405	438
Derivative financial instruments		—	3,428
Restricted bank deposits	12	90,081	82,779
Bank balances and cash		998,984	1,187,751
		6,392,830	6,372,773

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2014

	Notes	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Current liabilities			
Trade and other payables	13	2,507,867	2,303,199
Bills payables	13	345,105	273,397
Trade payables due to related companies	11	12,628	47,607
Trade payable due to a joint venture	11	3,166	2,007
Amounts due to related companies	11	195,856	475,179
Tax liabilities		87,046	77,116
Bank loans	14	751,504	659,946
		<u>3,903,172</u>	<u>3,838,451</u>
Net current assets		<u>2,489,658</u>	<u>2,534,322</u>
Total assets less current liabilities		<u>8,246,557</u>	<u>8,362,096</u>
Non-current liabilities			
Bank loans	14	554,380	680,120
Deferred tax liabilities		42,148	33,117
Government grants		104,014	52,059
		<u>700,542</u>	<u>765,296</u>
Net assets		<u>7,546,015</u>	<u>7,596,800</u>
Capital and reserves			
Share capital	15	9,819,731	558,636
Reserves		<u>(2,399,068)</u>	<u>6,893,984</u>
Equity attributable to owners of the Company		7,420,663	7,452,620
Non-controlling interests		125,352	144,180
Total equity		<u>7,546,015</u>	<u>7,596,800</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Equity attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note i)	Statutory reserve HK\$'000 (note ii)	Capital contribution reserve HK\$'000 (note iii)	Convertible bonds HK\$'000 (note iv)	Share options reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2013 (Audited)	272,542	3,268,906	(5,523,729)	114,006	45,564	6,278,283	—	117,677	2,013,511	6,586,760	176,985	6,763,745
Profit for the period	—	—	—	—	—	—	—	—	515,201	515,201	12,629	527,830
Other comprehensive income for the period	—	—	—	—	—	—	—	74,397	—	74,397	2,420	76,817
Total comprehensive income for the period	—	—	—	—	—	—	—	74,397	515,201	589,598	15,049	604,647
Dividends recognised as distribution	—	—	—	—	—	—	—	—	(382,542)	(382,542)	(15,111)	(397,653)
Transfer to statutory reserve	—	—	—	4,198	—	—	—	—	(4,198)	—	—	—
Conversion of convertible bonds	110,000	2,129,575	—	—	—	(2,239,575)	—	—	—	—	—	—
Recognition of equity-settled share-based payments expenses	—	—	—	—	—	—	36,784	—	—	36,784	—	36,784
Disposal of subsidiaries (note 5)	—	—	—	—	—	—	—	1,935	(1,935)	—	(8,939)	(8,939)
At 30 June 2013 (Unaudited)	382,542	5,398,481	(5,523,729)	118,204	45,564	4,038,708	36,784	194,009	2,140,037	6,830,600	167,984	6,998,584
At 1 January 2014 (Audited)	558,636	8,700,054	(5,523,729)	244,994	45,564	561,041	128,246	263,637	2,474,177	7,452,620	144,180	7,596,800
Profit for the period	—	—	—	—	—	—	—	—	600,665	600,665	8,761	609,426
Other comprehensive expense for the period	—	—	—	—	—	—	—	(213,982)	—	(213,982)	(2,538)	(216,520)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	(213,982)	600,665	386,683	6,223	392,906
Dividends recognised as distribution (note 7)	—	—	—	—	—	—	—	—	(472,641)	(472,641)	(17,997)	(490,638)
Transfer to statutory reserve	—	—	—	6,397	—	—	—	—	(6,397)	—	—	—
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014 (note v)	8,700,054	(8,700,054)	—	—	—	—	—	—	—	—	—	—
Conversion of convertible bonds	561,041	—	—	—	—	(561,041)	—	—	—	—	—	—
Recognition of equity-settled share-based payments expenses	—	—	—	—	—	—	53,187	—	—	53,187	—	53,187
Acquisition of additional interest in a subsidiary (note vi)	—	—	—	—	—	—	—	—	814	814	(7,054)	(6,240)
At 30 June 2014 (Unaudited)	9,819,731	—	(5,523,729)	251,391	45,564	—	181,433	49,655	2,596,618	7,420,663	125,352	7,546,015



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

Notes:

- (i) The balance in other reserve included an amount of HK\$5,038,291,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK\$3,288,998,000 and the fair value of the consideration paid by the Company of HK\$8,327,289,000 in the reverse acquisition on 29 October 2012. Details are set out in the Company's consolidated financial statements for the year ended 31 December 2013.
- (ii) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.
- (iii) The balance in capital contribution reserve represents the deemed contribution by Shijiazhuang Pharmaceutical Group Company Limited ("SPG") which comprise (1) the difference between the carrying amount of the net assets of entities comprising the Robust Sun Holdings Limited and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to SPG and its subsidiaries during group reorganisation under Robust Sun Group and (2) the imputed interest arising on loan from SPG (see note 11 for details).
- (iv) Details of the convertible bonds are set out in note 34 to the Company's consolidated financial statements for the year ended 31 December 2013. During the period, the convertible bonds holder exercised the remaining part of its conversion rights and converted the convertible bonds of HK\$561,041,000 (2013: HK\$2,239,575,000) into 321,661,732 (2013: 1,100,000,000) shares of the Company.
- (v) On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (the "new CO") came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.
- (vi) On 29 January 2014, the Company entered into an equity transfer arrangement with China Charmaine Pharmaceutical Company Limited in relation to acquisition of additional 21.43% equity interest in Unigene Biotechnology Company Limited ("Unigene") for consideration of US\$800,000 (equivalent to approximately HK\$6,240,000). The transaction was completed on 19 March 2014. The consideration was settled during the period. Unigene became a wholly-owned subsidiary of the Company after the completion of transaction.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Net cash from operating activities	<u>1,009,912</u>	<u>505,376</u>
Net cash used in investing activities:		
Purchases of property, plant and equipment	(370,847)	(322,859)
(Advance to) repayment from related parties	(9,849)	14,388
Acquisition of additional interest in a subsidiary	(6,240)	—
Purchases of intangible assets	(2,130)	(9,505)
Interest received	2,873	3,175
Proceeds on disposal of property, plant and equipment	7,316	7,529
Disposal of subsidiaries (<i>note 5</i>)	—	275,765
Other investing cash flows	(9,490)	(16,870)
	<u>(388,367)</u>	<u>(48,377)</u>
Net cash used in financing activities:		
Dividend paid	(472,641)	(382,542)
(Repayment to) advance from related parties	(273,955)	74,444
Repayments of bank loans	(249,988)	(1,497,828)
Dividend paid to non-controlling interests	(17,997)	(15,111)
New bank loans raised	231,949	859,750
	<u>(782,632)</u>	<u>(961,287)</u>
Net decrease in cash and cash equivalents	(161,087)	(504,288)
Cash and cash equivalents at 1 January	1,187,751	1,449,977
Effect of foreign exchange rate changes	(27,680)	8,299
Cash and cash equivalents at 30 June	<u><u>998,984</u></u>	<u><u>953,988</u></u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

As at 30 June 2014, Hony Capital Fund III, L.P., through its subsidiaries, indirectly controls more than 50% of the Company’s shares.

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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Company’s condensed consolidated financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*;
- Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*;
- and
- HK(IFRIC) — Int 21 *Levies*

The application of the above new Interpretation 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. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors, being chief operating decision makers (the "CODM"), in order to allocate resources to the segments and to assess their performance.

Information reported to the directors is based upon which the Group is organised. The Group has changed its internal reporting structure to improve operational efficiency during 2013 and subsequent to the changes, 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)

Accordingly, the comparative figures have been restated as a result of the change of segment information presented.

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

3. SEGMENT INFORMATION (Continued)

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

For the six months ended 30 June 2014 (Unaudited):

	Finished Drugs HK\$'000	Antibiotics HK\$'000	Vitamin C HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	3,189,617	1,173,402	656,137	323,314	5,342,470	—	5,342,470
Inter-segment sales	—	23,676	4,273	3,627	31,576	(31,576)	—
TOTAL	<u>3,189,617</u>	<u>1,197,078</u>	<u>660,410</u>	<u>326,941</u>	<u>5,374,046</u>	<u>(31,576)</u>	<u>5,342,470</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>789,265</u>	<u>75,250</u>	<u>(18,464)</u>	<u>58,100</u>			904,151
Unallocated income							2,873
Unallocated expenses							(105,578)
Operating profit							801,446
Finance costs							(29,231)
Share of results of a joint venture							(526)
Profit before taxation							<u>771,689</u>

3. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2013 (Unaudited) (restated):

	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	2,761,971	1,437,602	553,446	322,646	5,075,665	—	5,075,665
Inter-segment sales	—	94,185	1,549	2,834	98,568	(98,568)	—
TOTAL	2,761,971	1,531,787	554,995	325,480	5,174,233	(98,568)	5,075,665
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	633,997	23,110	(86,847)	86,084			656,344
Unallocated income							23,124
Unallocated expenses							(97,098)
Operating profit							582,370
Finance costs							(36,636)
Share of results of a joint venture							(11,420)
Gain on disposal of subsidiaries							117,330
Profit before taxation							651,644

Segment profit (loss) represents the profit (loss) earned 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 CODM for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting) the following items:		
Amortisation of intangible assets (included in cost of sales)	9,790	4,167
Amortisation of prepaid lease payments	7,704	6,873
Depreciation of property, plant and equipment	294,000	353,695
(Reversal of) allowance for inventories (included in cost of sales)	(9,873)	17,649
Gain on disposal of property, plant and equipment (included in other income)	(2,828)	(672)
Net foreign exchange losses	1,344	2,455
Research and development expenses (included in other expenses)	155,631	83,847
Share-based payment expense (included in administrative expenses) (note 16)	53,187	36,784
Government grant income (note ii)	(67,150)	(63,212)
Interest income	(2,873)	(3,175)
	<u> </u>	<u> </u>

Notes:

- (i) For the six months ended 30 June 2013 and 2014, 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 grant income includes cash subsidies received from the PRC government in relation to development of pharmaceutical products or improvement of the production efficiency or enhancement of environmental protection. Those costs related to these activities have been expended when they were incurred.



5. DISPOSAL OF SUBSIDIARIES

On 4 June 2013, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. and its subsidiaries (collectively referred to as the "Disposal Group") for a consideration of RMB288,000,000 (equivalent to approximately HK\$364,557,000) to be satisfied in cash. The disposal was completed on 18 June 2013 on which date the Group lost control over the Disposal Group.

The Disposal Group is principally engaged in the manufacture and sales of penicillin intermediates and bulk drugs, which is included in Antibiotics segment as disclosed in Note 3. Subsequent to this disposal, the Group still continues to carry out the manufacture and sale of penicillin intermediates and bulk drugs in other subsidiaries, which was hence not classified as discontinued operations within the scope of HKFRS 5 *Non-current Assets Held for Sales and Discontinued Operations*.

The net assets of the Disposal Group at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	1,059,463
Prepaid lease payments	11,790
Deferred tax assets	6,407
Inventories	191,383
Trade and other receivables	523,878
Bills receivables	77,171
Restricted bank deposits	6,329
Bank balances and cash	88,792
Trade and other payables (<i>Note</i>)	(1,632,986)
Bills payable	(37,721)
Tax liabilities	(365)
Bank loans	(37,975)
	<hr/>
Net assets disposed of	256,166
	<hr/> <hr/>
Gain on disposal of subsidiaries:	
Cash consideration received	364,557
Net asset disposal	(256,166)
Non-controlling interests	8,939
	<hr/>
Gain on disposal	117,330
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	364,557
Less: bank balances and cash disposed of	(88,792)
	<hr/>
	275,765
	<hr/> <hr/>

Note: Intragroup balance due from the Disposal Group to the Group amounting to approximately HK\$887,845,000 was included in trade and other payables and settled in December 2013.

6. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
The tax charge comprises:		
PRC Enterprise Income Tax		
— Current period	141,093	109,342
— Underprovision in prior periods	3,268	3,405
	144,361	112,747
Deferred taxation	17,902	11,067
	162,263	123,814

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profit 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 income 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 Regulation 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 to be at a reduced rate of 15% for a period of 3 years up to 2016.

Capital gain tax was determined based on the applicable PRC withholding tax rate of 10% applied on the surplus of sales proceeds from disposal of subsidiaries as set out in note 5 over investment cost of those disposed subsidiaries according to the relevant tax rule in the PRC.



6. INCOME TAX EXPENSES *(Continued)*

Under the EIT Law of 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 group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

In respect of the withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders, deferred taxation of approximately HK\$13,475,000 (2013: HK\$9,724,000) has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

7. DIVIDENDS

During the six months ended 30 June 2014, final dividend of HK8 cents (2013: HK10 cents) per share was distributed to shareholders in respect of the year ended 31 December 2013. The aggregate amount of final dividend distributed and paid in the current period amounted to approximately HK\$472,641,000 (2013: HK\$382,542,000).

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2014 (2013: nil).

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>600,665</u>	<u>515,201</u>
	For the six months ended 30 June	
	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>5,908,018</u>	5,537,570
Effect of dilutive potential ordinary shares:		
Tranche II Convertible Bonds as if converted (<i>note</i>)	—	312,750
Share options granted by the Company	<u>59,249</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,967,267</u>	<u>5,850,320</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.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group had addition of property, plant and equipment of approximately HK\$396,660,000 (2013: HK\$236,859,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK\$4,488,000 (2013: HK\$6,857,000), resulting in a gain of approximately HK\$2,828,000 (2013: HK\$672,000).

10. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Trade receivables	1,773,084	1,720,828
Less: allowance for doubtful debts	(2,525)	(1,588)
	1,770,559	1,719,240
Prepayment for purchase of raw materials	165,200	126,911
Utility deposits	20,479	12,846
Other tax recoverable	50,961	62,879
Others	98,311	108,085
	2,105,510	2,029,961

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
0 to 90 days	1,577,955	1,484,861
91 to 180 days	160,794	174,391
181 to 365 days	26,178	11,377
Over 365 days	5,632	48,611
	1,770,559	1,719,240

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2013: 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.

11. RELATED PARTY DISCLOSURES

During the period, the Group had significant transactions and balances with related parties. Apart from acquisition of additional interest in a subsidiary as set out in note (vi) to condensed consolidated statement of change in equity, the Group had also entered into the following transactions. The significant transactions with these companies during the period, and balances with them at the end of the reporting period, are as follows:

(I) Related Parties

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), its subsidiaries and associates	Purchase of finished drugs	6,808	—
	Purchase of raw materials	93,596	145,939
	Rental expense	7,865	1,035
	Sales of finished drugs	93,952	156,675
	Purchase of steam	7,481	—
		2014	2013
		As at 30 June	As at 31 December
		2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
	Balance due from/to the SPG Group		
	— trade receivables aged 0-90 days	74,697	77,284
	— trade payables aged 0-90 days	12,628	47,607
	— other payables (note ii)	195,856	468,425
	— dividend payable	—	6,754
		2014	2013
		As at 30 June	As at 31 December
		2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)



11. RELATED PARTY DISCLOSURES (Continued)

(I) Related Parties (Continued)

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Guangdong Titan Pharmaceutical Co., Ltd., a wholly-owned subsidiary by a non-controlling interest of a subsidiary	Sales of finished goods	119,450	50,722
		As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
	Balance due from Guangdong Titan — trade receivables aged 0-90 days	39,794	44,853
Total		As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
	Balance due from/to		
	— trade receivables	114,491	122,137
	— trade payables	12,628	47,607
	— other payables	195,856	468,425
	— dividend payable	—	6,754

As at 30 June 2014, SPG has also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK\$318,750,000 (31 December 2013: HK\$346,154,000) granted to the Group. As at 30 June 2014, the extent of utilisation by the Group amounted to approximately HK\$318,750,000 (31 December 2013: HK\$346,154,000).

11. RELATED PARTY DISCLOSURES (Continued)
(II) A Joint Venture

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Purchase of raw materials	7,754	4,266
	Sales of raw materials	4,352	2,879
	Sales of consumables	—	195
	Provision of utility services	20,930	16,976
		99,518	As at 31 December 2013 HK\$'000 (Audited)
		3,166	2,007

Notes:

- (i) Amounts are unsecured, non-interest bearing and repayable on demand.
- (ii) Amounts are unsecured, non-interest bearing and repayable on demand except that on 31 May 2012, SPG agreed to change the maturity of a balance of RMB97,705,193 (equivalent to approximately HK\$104,503,000) to 31 May 2014. Accordingly, such balance was presented as amount due to a related party under current liabilities as at 31 December 2013. Imputed interest is computed using the prevailing market interest rate of 6.56% per annum for comparable long term borrowings on 31 May 2012. The discount at 31 May 2012 amounting to approximately HK\$14,649,000 was recorded as capital contribution in the condensed consolidated statement of changes in equity.

During the six month ended 30 June 2014, the balance was fully repaid and imputed interest arising on loan from SPG of approximately HK\$3,126,000 (2013: HK\$3,611,000) is recorded as finance costs in the condensed consolidated statement of profit or loss and other comprehensive income.



11. RELATED PARTY DISCLOSURES (Continued)

(III) Compensation of Key Management Personnel

The remuneration of key management personnel of the Group during the period is as follows:

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	5,814	4,008
Post-employment benefits	468	439
Share-based payments expenses	45,032	31,143
	51,314	35,590

12. RESTRICTED BANK DEPOSITS

As at 30 June 2014, the Group had restricted bank deposits of approximately HK\$90,081,000 (31 December 2013: HK\$82,779,000) placed in banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

13. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2014	As at 31 December 2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade payables	1,124,121	935,534
Other tax payables	80,206	37,313
Freight and utilities charges payables	4,363	27,727
Construction cost and acquisition of property, plant and equipment payable	560,157	548,376
Government grants	87,221	182,235
Customer deposits and advance from customers	377,662	280,999
Staff welfare payable	145,600	141,077
Selling expense payable	52,672	73,000
Provision for litigation (note 18)	23,739	45,999
Others	52,126	30,939
	2,507,867	2,303,199

13. TRADE AND OTHER PAYABLES/BILLS PAYABLES (Continued)

The following is an aged analysis of trade payables presented based on the invoice date.

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
0 to 90 days	811,807	658,963
91 to 180 days	111,728	78,391
Over 180 days	200,586	198,180
	1,124,121	935,534

All bills payables of the Group are aged within 180 days at the end of the reporting period.

14. BANK LOANS

An analysis of bank loans of the Group is as follows:

	2014 HK\$'000	2013 HK\$'000
Current portion		
— Unsecured bank loans (note a)	714,004	659,946
— Secured bank loan (note b)	37,500	—
	751,504	659,946
Non-current portion		
— Unsecured bank loans (note a)	554,380	680,120
Total	1,305,884	1,340,066

Notes:

- (a) During the period, the Group obtained various new unsecured bank loans of approximately HK\$194,449,000 (2013: HK\$859,750,000) with maturity dates ranging from 22 April 2015 to 9 October 2016.

In addition, the Group repaid unsecured bank loans of approximately HK\$249,988,000 (2013: HK\$1,497,828,000) during the period.



14. BANK LOANS (Continued)

Notes:

- (b) During the period, the Group obtained new secured bank loan of approximately HK\$37,500,000 with the maturity date on 22 April 2015. The Group pledged certain of its buildings and prepaid lease payments with aggregate carrying amounts of approximately HK\$40,045,000 to secure the bank loan.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

	As at 30 June 2014	As at 31 December 2013
Effective interest rate:		
Floating-rate HK\$ bank loans	1.8% to 2.96% per annum	1.78% to 3.13% per annum
Floating-rate US\$ bank loans	2.65% to 3.17% per annum	2.98% to 3.23% per annum
Floating-rate RMB bank loans	4.2% to 6% per annum	4.2% to 6.56% per annum
Fixed-rate RMB bank loans	3.25% to 6.6% per annum	3.25% to 5.70% per annum

The floating-rate of HK\$, US\$ and RMB bank loans are subject to interest at HIBOR plus a spread, LIBOR plus a spread and PRC Base Rate plus a spread, respectively.

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares		
Authorised		
At 1 January 2013, 30 June 2013, 31 December 2013 and 1 January 2014		
— Ordinary shares of HK\$0.1 each	30,000,000,000	3,000,000
At 30 June 2014 (<i>note a</i>)	N/A	N/A
Issued and fully paid		
At 1 January 2013		
— Ordinary shares of HK\$0.1 each	2,725,421,698	272,542
Conversion of convertible bonds on 13 May 2013 (<i>note b</i>)	1,100,000,000	110,000
At 30 June 2013	3,825,421,698	382,542
Conversion of convertible bonds on 17 October 2013 (<i>note b</i>)	1,760,934,973	176,094
At 31 December 2013 and 1 January 2014	5,586,356,671	558,636
Transfer pursuant to the new Hong Kong Companies Ordinance on 3 March 2014 (<i>note a</i>)	—	8,700,054
Conversion of convertible bonds on 9 May 2014 (<i>note b</i>)	321,661,732	561,041
At 30 June 2014	5,908,018,403	9,819,731

Notes:

- (a) On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (the “new CO”) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.
- (b) Details of the convertible bonds and movement of convertible bonds in 2013 are set out in note 34 to the Company’s consolidated financial statements for the year ended 31 December 2013. On 9 May 2014, the convertible bonds holder exercised the remaining part of its conversion rights and the convertible bonds with carrying amount of HK\$561,041,000 was converted into 321,661,732 shares of the Company.



16. SHARE OPTION SCHEME

The Company's share option scheme was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The scheme shall be valid and effective for a period of 10 years from its adoption.

On 17 April 2013, the Company granted a total of 150,000,000 options to its directors and eligible employees. The options granted will fully vest on the 1st anniversary of the date of grant.

The closing price of the Company's shares on 17 April 2013, the date of grant, was HK\$3.98.

The fair values of the options determined at the date of grant using the Binomial model were approximately HK\$181,433,000.

The following assumptions were used to calculate the fair values of share options:

Date of grant	17 April 2013
Grant date share price	HK\$3.98
Exercise price	HK\$3.98
Expected life	7.5 years
Expected volatility	35.392%
Dividend yield	2.57%
Risk-free interest rate	0.905%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting period, the Group shall revise its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, would be recognised in profit and loss, with a corresponding adjustment to the share options reserve. On 17 April 2014, the share options granted were fully vested and there is no exercise of share option during the period after vesting date.

During the period, HK\$53,187,000 (2013: HK\$36,784,000) share-based payment expense is recognised in profit and loss and included in administrative expenses, with a corresponding increase in the share options reserve.

17. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	316,924	312,326
Other commitment (<i>note</i>)	101,758	104,367

Note: Amount refers to commitment arising from research and development projects.

18. CONTINGENT LIABILITIES

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly-owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints filed in the United States of America ("United States"). These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. The plaintiffs brought these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes, seeking damages and other relief.

Details of development of the complaints in prior years are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

On 15 March 2013, the Company, Weisheng, the direct purchaser class and injunctive class in the direct purchaser action entered into a settlement agreement for US\$22.5 million to resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. On 16 October 2013, the court granted approval of the settlement and dismissed the Company and Weisheng as to the direct purchaser action. The first instalment of the settlement amounting to US\$20 million has been paid by the Company and Weisheng on 13 April 2013 and the remaining US\$2.5 million will be due for payment on 16 October 2014.

On 13 November 2013, the Company, Weisheng and the putative indirect purchaser class in the indirect purchaser actions entered into a settlement agreement for US\$2.2 million to fully and finally resolve all the claims in the indirect purchaser actions. On 16 May 2014, the Court granted approval of the settlement agreement and dismissed the Company and Weisheng as to the indirect purchase actions. The settlement amount of US\$2.2 million has been paid by the Company and Weisheng on 9 January 2014.

Adequate provision for the above remaining settlement amount and the related legal costs has been made in the Company's condensed consolidated financial statements for the six months ended 30 June 2014.

OTHER INFORMATION

Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2014, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares of share options held (Note i)	Total	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	7,438,000	80,000,000	87,438,000	1.48%
	Interest of controlled corporation	105,880,000	—	105,880,000	1.79%
Feng Zhenying	Beneficial owner	—	3,000,000	3,000,000	0.05%
Chak Kin Man	Beneficial owner	4,000	3,000,000	3,004,000	0.05%
Pan Weidong	Beneficial owner	—	10,000,000	10,000,000	0.17%
Zhao John Huan	Interest of controlled corporation	3,678,090,135 (Note ii)	—	3,678,090,135	62.26%
Wang Huaiyu	Beneficial owner	—	15,000,000	15,000,000	0.25%
Lu Jianmin	Beneficial owner	—	10,000,000	10,000,000	0.17%
Wang Zhenguo	Beneficial owner	—	3,000,000	3,000,000	0.05%
Wang Jinxu	Beneficial owner	—	3,000,000	3,000,000	0.05%



OTHER INFORMATION *(Continued)*

Directors' Interest in Shares, Underlying Shares and Debentures *(Continued)*

Long Positions *(Continued)*

Notes:

- (i) The share options were granted pursuant to the share option scheme of the Company as set out in the section below headed "Share Option Scheme".
- (ii) Mr. Zhao John Huan is deemed to be interested in 3,678,090,135 shares through Hony Managing Partners Limited ("HMPL"), which is wholly-owned by Mr. Zhao John Huan. HMPL owns 80% of Hony Capital Management Limited, which wholly owns Hony Capital Fund III, G.P. Limited ("HCFL"). HCFL controls Hony Capital Fund III, G.P. L.P., which controls Hony Capital Fund III, L.P. ("HCFLP"). HCFLP wholly owns March Rise Limited, which owns 75% of Massive Top Limited ("MTL"). MTL wholly owns Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), Massive Giant Group Limited ("MGGL") and Joyful Horizon Limited ("JHL"). SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 3,678,090,135 shares.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 30 June 2014.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of the Company, at no time during the period was the Company, any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER INFORMATION *(Continued)*

Substantial Shareholders

As at 30 June 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued Ordinary shares held	Approximate percentage of the issued share capital of the Company
Zhao John Huan	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Hony Managing Partners Limited	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Hony Capital Management Limited	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Hony Capital Fund III, G.P. Limited	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Hony Capital Fund III, G.P. L.P.	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Hony Capital Fund III, L.P.	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
March Rise Limited	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Massive Top Limited	Interest in controlled corporation	3,678,090,135 <i>(Note)</i>	62.26%
Joyful Horizon Limited	Beneficial owner	2,468,168,101 <i>(Note)</i>	41.78%
Massive Giant Group Limited	Beneficial owner	1,058,016,034 <i>(Note)</i>	17.91%

Note:

Mr. Zhao John Huan is deemed to be interested in 3,678,090,135 shares through Hony Managing Partners Limited ("HMPL"), which is wholly-owned by Mr. Zhao John Huan. HMPL owns 80% of Hony Capital Management Limited, which wholly owns Hony Capital Fund III, G.P. Limited ("HCFL"). HCFL controls Hony Capital Fund III, G.P. L.P., which controls Hony Capital Fund III, L.P. ("HCFLP"). HCFLP wholly owns March Rise Limited, which owns 75% of Massive Top Limited ("MTL"). MTL wholly owns Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), Massive Giant Group Limited ("MGGL") and Joyful Horizon Limited ("JHL"). SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 3,678,090,135 shares.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 30 June 2014.

OTHER INFORMATION (Continued)

Share Option Scheme

The Company's share option scheme was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group, eligible business consultants, professionals and other advisers who have rendered services or will render service to the Group as determined by the board of directors. The scheme is valid and effective for a period of 10 years since its adoption and has expired on 5 July 2014.

The following table discloses movements in the Company's shares options during the period:

Category	Date of grant	Exercise price (HK\$)	Exercisable period	Number of Share Options					As at 30 June 2014
				As at 1 January 2014	Granted	Exercised	Cancelled	Lapsed	
Directors									
Cai Dongchen	17 April 2013	3.98	17 April 2014 — 16 April 2023	80,000,000	—	—	—	—	80,000,000
Feng Zhenying	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	—	—	—	3,000,000
Chak Kin Man	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	—	—	—	3,000,000
Pan Weidong	17 April 2013	3.98	17 April 2014 — 16 April 2023	10,000,000	—	—	—	—	10,000,000
Wang Huaiyu	17 April 2013	3.98	17 April 2014 — 16 April 2023	15,000,000	—	—	—	—	15,000,000
Lu Jianmin	17 April 2013	3.98	17 April 2014 — 16 April 2023	10,000,000	—	—	—	—	10,000,000
Wang Zhenguo	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	—	—	—	3,000,000
Wang Jinxu	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	—	—	—	3,000,000
Employees									
In aggregate	17 April 2013	3.98	17 April 2014 — 16 April 2023	23,000,000	—	—	—	—	23,000,000
Total				150,000,000	—	—	—	—	150,000,000

The closing price of the Company's shares immediately before the date of grant of the options was HK\$3.98.



OTHER INFORMATION *(Continued)*

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 2014 except the deviations from code provisions A.2.1 and A.5.1 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.

Code provision A.5.1 of the Code stipulates that the nomination committee should comprise a majority of independent non-executive directors. Since the retirement of Mr. Qi Moujia as an independent non-executive director on 20 May 2014, the number of independent non-executive directors of the nomination committee of the Company has fallen below a majority required by code provision A.5.1 of the Code. Following the appointment of Mr. LO Yuk Lam as a new independent non-executive director and a member of the nomination committee of the Company with effect from 1 June 2014, the Company has complied with the code provision A.5.1 of the Code from the same date.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the changes of independent non-executive directors on 19 March 2014, 20 May 2014 and 1 June 2014, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules.

The composition of the Board currently comprises ten (10) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The Company is endeavoring to identify a suitable candidate to act as an independent non-executive director to meet the requirement set out in rule 3.10A of the Listing Rules as soon as practicable and will make further announcements as and when appropriate.



Review of Interim Results

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

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

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 2014.

By Order of Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 26 August 2014