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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2016

FINANCIAL HIGHLIGHTS				
	For the three months ended 31 March		Change in %	Change in % excluding foreign currency effects (Note)
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)		
Revenue by business units:				
Finished drugs				
<i>Innovative drugs</i>	1,095,470	857,357	+27.8%	+34.0%
<i>Common generic drugs</i>	1,020,886	1,007,024	+1.4%	+6.3%
Bulk drugs				
<i>Antibiotics</i>	390,315	455,977	-14.4%	-10.2%
<i>Vitamin C</i>	315,960	288,248	+9.6%	+15.0%
<i>Caffeine and others</i>	170,705	173,530	-1.6%	+3.2%
Total revenue	<u>2,993,336</u>	<u>2,782,136</u>	+7.6%	+12.8%
Gross profit	1,459,717	1,237,066	+18.0%	+23.8%
Operating profit	636,954	517,419	+23.1%	+29.1%
Profit attributable to shareholders	505,622	400,326	+26.3%	+32.5%

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 same period in the prior year to current period local currency results.

The Board of Directors of CSPC Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2016

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	2,993,336	2,782,136
Cost of sales	(1,533,619)	<u>(1,545,070)</u>
Gross profit	1,459,717	1,237,066
Other income	26,670	22,093
Selling and distribution expenses	(617,872)	(524,049)
Administrative expenses	(141,699)	(130,826)
Other expenses	(89,862)	<u>(86,865)</u>
Operating profit	636,954	517,419
Finance costs	(10,923)	(11,681)
Share of results of		
— an associate	—	(350)
— a joint venture	3,690	<u>1,515</u>
Profit before tax	629,721	506,903
Income tax expenses	(120,516)	<u>(102,568)</u>
Profit for the period	<u>509,205</u>	<u>404,335</u>

**For the three months ended
31 March**

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)

Other comprehensive income:

Items that will not be reclassified to profit or loss:

Exchange differences arising on translation of financial statements to presentation currency	56,336	—
Share of exchange differences of an associate and a joint venture	193	—
	<hr/>	<hr/>
Other comprehensive income for the period, net of income tax	56,529	—
	<hr/>	<hr/>
Total comprehensive income for the period	<u>565,734</u>	<u>404,335</u>
Profit for the period attributable to:		
Owners of the Company	505,622	400,326
Non-controlling interests	3,583	4,009
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	<u>509,205</u>	<u>404,335</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	561,725	400,326
Non-controlling interests	4,009	4,009
	<hr/>	<hr/>
	<u>565,734</u>	<u>404,335</u>
	<i>HK cents</i>	<i>HK cents</i>
Earnings per share		
— Basic	8.55	6.78
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— Diluted	8.47	6.71
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Notes:

1. Principal Accounting Policies

The principal accounting policies used in the preparation of the financial data for the three months ended 31 March 2016 are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2015.

2. Profit Before Tax

**For the three months ended
31 March**

2016	2015
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Profit before tax has been arrived at after charging (crediting):

Amortisation of intangible assets (included in cost of sales)	3,901	4,997
Amortisation of prepaid lease payments	3,502	3,673
Depreciation of property, plant and equipment	134,934	141,887
Research and development expenditure recognized as expense (included in other expenses)	87,670	86,128
Government grant income	(5,095)	(6,366)

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 three months ended
31 March**

2016	2015
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Earnings

Earnings for the purpose of basic and diluted earnings per share	505,622	400,326
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	For the three months ended	
	31 March	
	2016	2015
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,911,018	5,908,018
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	<u>57,980</u>	<u>57,691</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,968,998</u>	<u>5,965,709</u>

4. Dividend

The board of directors does not declare the payment of an interim dividend for the three months ended 31 March 2016 (2015: Nil).

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

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

For the three months ended 31 March 2016 (Unaudited):

	Finished Drugs HK\$'000	Antibiotics HK\$'000	Vitamin C HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	2,116,356	390,315	315,960	170,705	2,993,336	—	2,993,336
Inter-segment sales	—	9,708	842	1,527	12,077	(12,077)	—
TOTAL REVENUE	<u>2,116,356</u>	<u>400,023</u>	<u>316,802</u>	<u>172,232</u>	<u>3,005,413</u>	<u>(12,077)</u>	<u>2,993,336</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	<u>609,385</u>	<u>14,287</u>	<u>(3,377)</u>	<u>36,012</u>			656,307
Unallocated income							8,561
Unallocated expenses							<u>(27,914)</u>
Operating profit							636,954
Finance costs							(10,923)
Share of results of a joint venture							<u>3,690</u>
Profit before tax							<u>629,721</u>

For the three months ended 31 March 2015 (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	1,864,381	455,977	288,248	173,530	2,782,136	—	2,782,136
Inter-segment sales	—	13,230	1,087	590	14,907	(14,907)	—
TOTAL REVENUE	<u>1,864,381</u>	<u>469,207</u>	<u>289,335</u>	<u>174,120</u>	<u>2,797,043</u>	<u>(14,907)</u>	<u>2,782,136</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	<u>467,627</u>	<u>61,500</u>	<u>(24,026)</u>	<u>30,576</u>			535,677
Unallocated income							1,968
Unallocated expenses							<u>(20,226)</u>
Operating profit							517,419
Finance costs							(11,681)
Share of results of							
— an associate							(350)
— a joint venture							<u>1,515</u>
Profit before tax							<u>506,903</u>

Segment profit (loss) represents the profit earned/loss recognised by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of an associate and a joint venture. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

BUSINESS REVIEW

Results

For the first three months of 2016, the Group recorded sale revenue of approximately HK\$2,993 million, representing an increase of 7.6% (or increase of 12.8% on a constant currency basis) year-on-year. Profit attributable to shareholders for the period amounted to approximately HK\$506 million, representing an increase of 26.3% (or increase of 32.5% on a constant currency basis) year-on-year.

Finished Drug Business

Innovative drugs continued to be the major growth driver. Aggregate sale revenue of the Group's innovative drugs reached approximately HK\$1,095 million for the period, representing a growth of 27.8% (or growth of 34.0% on a constant currency basis) year-on-year. Common generic drugs of the Group continued to deliver a stable growth with sale revenue reaching approximately HK\$1,021 million for the period, representing a growth of 1.4% (or growth of 6.3% on a constant currency basis) year-on-year.

Bulk Drug Business

With decline in production cost through technology enhancement, the vitamin C business managed to reduce its operating loss for the period. Market conditions of the caffeine business showed a positive momentum with a modest increase in product price, contributing to the growth in operating profit for the period. However, the improvement in the vitamin C and caffeine business was offset by the decline in performance of the antibiotics business. With a weaker product price, the antibiotics business reported a significant decline in operating profit for the period.

Research and Development

Major developments during the period were as follows:

- Obtained production approval for chemical drug “cefamandole nafate for injection”;
- Obtained clinical trial/bioequivalence study approval for 25 products under development, including “SKLB1028 capsules”, “sunitinib malate capsules”, “ticagrelor tablets”, “sorafenib tosylate tablets”, “desvenlafaxine succinate extended-release tablets”, “rivaroxaban tablets”, “afatinib dimaleate tablets”, “amlodipine besilate, valsartan and hydrochlorothiazide tablets”, “ceritinib capsules” and “sofosbuvir tablets”;
- Submitted Investigational New Drug (IND) application for “mitoxantrone hydrochloride liposome injection” to the U.S. FDA and was granted approval to commence clinical trials in April 2016;

- “Butylphthalide soft capsules” was granted clinical trial approval from the China Food and Drug Administration in relation to a new indication for vascular dementia; and
- Entered into an agreement with a leading global pharmaceutical company in relation to product technology licensing and commercialization of a complex generic oncology drug under development by the Group in the overseas market with milestone payments to the Group of up to an aggregate amount of US\$106,000,000.

REVIEW OF RESULTS

The financial data for the three months ended 31 March 2016 is based on the internal records and management accounts of the Group and has not been reviewed or audited by the external auditor of the Company.

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

Hong Kong, 18 May 2016

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. CHAK Kin Man, Mr. PAN Weidong, Mr. WANG Shunlong, Mr. WANG Huaiyu, Mr. LU Jianmin, Mr. WANG Zhenguo, Mr. WANG Jinxu and Mr. LU Hua 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 and Mr. YU Jinming as independent non-executive directors.