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CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

FINANCIAL HIGHLIGHTS

	For the nine months ended 30 September		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>	3,506,071	2,728,471	28.5%	35.2%
<i>Common generic drugs</i>	3,126,321	3,014,394	3.7%	9.1%
Bulk drugs				
<i>Antibiotics</i>	1,020,182	1,342,536	-24.0%	-20.0%
<i>Vitamin C</i>	1,020,580	908,569	12.3%	18.2%
<i>Caffeine and others</i>	577,230	508,986	13.4%	19.3%
Total revenue	<u>9,250,384</u>	<u>8,502,956</u>	8.8%	14.5%
Gross profit	4,640,768	3,856,836	20.3%	26.6%
Operating profit	1,985,901	1,620,847	22.5%	28.9%
Profit attributable to shareholders	1,567,758	1,243,093	26.1%	32.7%

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.

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

	For the nine months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	9,250,384	8,502,956
Cost of sales	<u>(4,609,616)</u>	<u>(4,646,120)</u>
Gross profit	4,640,768	3,856,836
Other income	62,502	75,127
Selling and distribution expenses	(2,010,784)	(1,659,165)
Administrative expenses	(419,429)	(403,695)
Other expenses	<u>(287,156)</u>	<u>(248,256)</u>
Operating profit	1,985,901	1,620,847
Finance costs	(33,125)	(42,756)
Loss on disposal of an associate	—	(8,873)
Share of results of		
— a joint venture	20,474	7,028
— an associate	<u>—</u>	<u>141</u>
Profit before tax	1,973,250	1,576,387
Income tax expenses	<u>(395,714)</u>	<u>(321,457)</u>
Profit for the period	<u>1,577,536</u>	<u>1,254,930</u>

	For the nine months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive expense:		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences arising on translation of financial statements to presentation currency	(282,142)	(225,140)
Share of exchange differences of a joint venture	(932)	(572)
	<u> </u>	<u> </u>
Other comprehensive expense for the period, net of income tax	(283,074)	(225,712)
	<u> </u>	<u> </u>
Total comprehensive income for the period	1,294,462	1,029,218
	<u> </u>	<u> </u>
Profit for the period attributable to:		
Owners of the Company	1,567,758	1,243,093
Non-controlling interests	9,778	11,837
	<u> </u>	<u> </u>
	1,577,536	1,254,930
	<u> </u>	<u> </u>
Total comprehensive income for the period attributable to:		
Owners of the Company	1,286,822	1,019,453
Non-controlling interests	7,640	9,765
	<u> </u>	<u> </u>
	1,294,462	1,029,218
	<u> </u>	<u> </u>
	<i>HK cents</i>	<i>HK cents</i>
Earnings per share		
— Basic	26.44	21.04
	<u> </u>	<u> </u>
— Diluted	26.20	20.81
	<u> </u>	<u> </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 2016 are consistent with those followed in the preparation of the Group's interim financial statements for the six months ended 30 June 2016.

2. Profit Before Tax

For the nine months ended 30 September	
2016	2015
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

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

Amortisation of other intangible assets (included in cost of sales)	14,000	15,199
Amortisation of prepaid lease payments	11,080	11,093
Depreciation of property, plant and equipment	412,731	419,398
Research and development expenditure (included in other expenses)	269,690	240,796
Government grant income (included in other income)	(12,781)	(32,658)
	<u>14,000</u>	<u>15,199</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	
2016	2015
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Earnings

Earnings for the purposes of basic and diluted earnings per share	<u>1,567,758</u>	<u>1,243,093</u>
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	For the nine months ended	
	30 September	
	2016	2015
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,929,506	5,908,051
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	<u>53,252</u>	<u>65,265</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,982,758</u>	<u>5,973,316</u>

4. Dividend

The board of directors does not declare the payment of an interim dividend for the nine months ended 30 September 2016 (2015: Nil).

5. Review of Results

The financial data for the nine months ended 30 September 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.

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, for the purpose of resources allocation and assessment of segment performance.

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 2016 (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	6,632,392	1,020,182	1,020,580	577,230	9,250,384	—	9,250,384
Inter-segment sales	—	55,565	10,555	3,354	69,474	(69,474)	—
TOTAL REVENUE	<u>6,632,392</u>	<u>1,075,747</u>	<u>1,031,135</u>	<u>580,584</u>	<u>9,319,858</u>	<u>(69,474)</u>	<u>9,250,384</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	<u>1,927,011</u>	<u>23,553</u>	<u>3,544</u>	<u>130,772</u>			2,084,880
Unallocated income							9,590
Unallocated expenses							<u>(108,569)</u>
Operating profit							1,985,901
Finance costs							(33,125)
Share of results of a joint venture							<u>20,474</u>
Profit before tax							<u>1,973,250</u>

For the nine months ended 30 September 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	5,742,865	1,342,536	908,569	508,986	8,502,956	—	8,502,956
Inter-segment sales	—	38,433	3,548	2,352	44,333	(44,333)	—
TOTAL REVENUE	<u>5,742,865</u>	<u>1,380,969</u>	<u>912,117</u>	<u>511,338</u>	<u>8,547,289</u>	<u>(44,333)</u>	<u>8,502,956</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	<u>1,476,319</u>	<u>164,739</u>	<u>(41,549)</u>	<u>90,349</u>			1,689,858
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Unallocated income							5,578
Unallocated expenses							<u>(74,589)</u>

Operating profit							1,620,847
Finance costs							(42,756)
Loss on disposal of an associate							(8,873)
Share of results of							
— a joint venture							7,028
— an associate							<u>141</u>
Profit before tax							<u>1,576,387</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 a joint venture and an associate. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities are not regularly provided to chief operating decision maker for review.

BUSINESS REVIEW

Results

For the first nine months of 2016, the Group recorded sales of approximately HK\$9,250 million, representing an increase of 8.8% (or increase of 14.5% on a constant currency basis) year-on-year. Profit attributable to shareholders for the period amounted to approximately HK\$1,568 million, representing an increase of 26.1% (or increase of 32.7% on a constant currency basis) year-on-year.

Finished Drug Business

Major innovative drugs of the Group include “NBP” (butylphthalide soft capsules and injections), “Oulaining” (oxiracetam capsules and lyophilized powder injections), “Xuanning” (levamlodipine maleate tablets), “Duomeisu” (doxorubicin hydrochloride liposome injections), “Jinyouli” (PEG-rhGCSF injections), “Ailineng” (elemene injections) and “Nuolining” (imatinib mesylate tablets). These innovative drugs continued to deliver strong growth during the period with aggregate sales reaching approximately HK\$3,506 million, representing a growth of 28.5% (or growth of 35.2% on a constant currency basis) year-on-year. On the other hand, common generic drugs of the Group maintained a stable growth with aggregate sales reaching approximately HK\$3,126 million for the period, representing a growth of 3.7% (or growth of 9.1% on a constant currency basis) year-on-year.

With growing contribution from the innovative drugs and enhancement of product mix of the common generic drugs, operating margin of the finished drug business for the period further improved to 29.1%, an increase of 3.4 percentage point as compared with the same period of last year.

Bulk Drug Business

As affected by the sluggish market demand and increasing market supply, prices of antibiotics, 7-ACA in particular, were under pressure during the period, resulting in a significant deterioration in the operating results of this business for the period.

With decline in production cost through technology enhancement and further expansion of market share, the vitamin C business managed to turnaround amidst overcapacity in the market, with operating profit of approximately HK\$3.5 million recorded for the period.

Market conditions of caffeine remained good with a slight increase in product prices. The Group also succeeded in increasing market share and lowering production costs during the period. As a result, the business recorded a significant improvement in operating results for the period.

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

Hong Kong, 23 November 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, Mr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.