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CORPORATE INFORMATION

Board of Directors

Executive Directors

CAI Dongchen (*Chairman and CEO*)
CHAK Kin Man
PAN Weidong
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo
WANG Jinxu
LU Hua

Non-executive Director

LEE Ka Sze, Carmelo

Independent Non-executive Directors

CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Chuan

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.cspc.com.hk

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change in %	Change in % excluding foreign currency effects (Note)
	2016	2015		
	HK\$'000	HK\$'000		
	(Unaudited)	(Unaudited)		
Revenue by business units:				
Finished drugs				
<i>Innovative drugs</i>	2,268,398	1,767,684	+28.3%	+34.9%
<i>Common generic drugs</i>	2,111,400	2,031,836	+3.9%	+9.2%
Bulk drugs				
<i>Antibiotics</i>	729,020	974,490	-25.2%	-21.4%
<i>Vitamin C</i>	679,027	610,241	+11.3%	+17.0%
<i>Caffeine and others</i>	358,021	346,124	+3.4%	+8.7%
Total revenue	<u>6,145,866</u>	<u>5,730,375</u>	+7.3%	+12.7%
Gross profit	3,036,082	2,576,726	+17.8%	+23.9%
Operating profit	1,310,280	1,070,967	+22.3%	+28.6%
Profit attributable to shareholders	1,032,813	822,014	+25.6%	+32.1%

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first half of 2016, the Group recorded sales of approximately HK\$6,146 million, representing an increase of 7.3% (or increase of 12.7% on a constant currency basis) year-on-year, and profit attributable to shareholders of approximately HK\$1,033 million, representing an increase of 25.6% (or increase of 32.1% on a constant currency basis) year-on-year.

Finished Drug Business

With the promulgation of new policies on drug price, drug tender, medical reimbursement, drug approval and two-invoice system, gradual deepening of the medical reform has asserted high pressure on the entire pharmaceutical industry in China. Under the challenging market conditions, the Group has formulated measures for its products to maximize the benefits with consideration of market share and prices, and has continued to increase its efforts in product promotion, market development and sale channel building. For the current period, the finished drug business continued to achieve satisfactory results. Sales reached approximately HK\$4,380 million, representing a growth of 15.3% (or growth of 21.2% on a constant currency basis) year-on-year. The following is a business review of the innovative drugs and common generic drugs within the finished drug business.

Innovative Drug Products

The innovative drug business of the Group has maintained strong growth momentum in recent years, with continuous expansion of market share and increasingly stronger presence and coverage in different market tiers. For the current period, sales of the innovative drug business reached approximately HK\$2,268 million, representing a growth of 28.3% (or growth of 34.9% on a constant currency basis) year-on-year.

It is expected that drug tenders of every province and city in China will be completed progressively. The Group will strive to ensure that its innovative drug products can win the tenders at reasonable prices in order to expand market coverage and drive rapid and sustainable growth. The Group will also further improve its expert network and increase its efforts in academic-based promotion so as to strengthen the market position of its innovative drug products in their respective therapeutic sector.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Finished Drug Business (Continued)

Innovative Drug Products (Continued)

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

"NBP"

"NBP" series is a new Class I 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.

"NBP" has been awarded the State Science and Technology Progress Award (Second Class), Golden Award for Outstanding Chinese Patented Invention and China Grand Awards for Industry. "NBP" is listed as one of the recommended drugs on the "Guidelines for Acute Ischemic Stroke Treatment in China 2014" (the "New Guidelines") revised last year, which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke and provides a solid basis for the academic-based promotion of "NBP". The New Guidelines also mentions the better efficacy results of the "NBP" sequential treatment group (14 days of "NBP" injection followed by 76 days of "NBP" capsules) against the control group in a study, which provides a sound basis for expanding the market potential of the product. "NBP" also made progress in expanding into new treatment area. The China Food and Drug Administration ("CFDA") has approved the clinical trial application of "NBP" capsules for the treatment of vascular dementia caused by ischemic stroke in April 2016.

In 2016, the Group will continue its work on tenders, ensuring the tender prices of "NBP" are in line with the Group's product pricing strategy and achieving the goal of winning tenders in more provinces and cities for "NBP" injection. On the other hand, apart from achieving sustained growth and vigorous expansion in the high-end market, the Group will gradually expand its coverage into the lower-tier medical markets. The Group will also continue to strengthen academic-based promotion by way of holding academic conferences and initiating clinical study projects, so as to improve expert network and enhance experts' recognition of the product.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Finished Drug Business (Continued)

Innovative Drug Products (Continued)

“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 has been awarded the Hebei Province Science and Technology Progress Award (First Class). The market competition of oxiracetam injection products has become more intense in 2016. The Group will continuously increase its efforts in academic-based promotion and building its expert network to differentiate “Oulaining” from other competing products in order to capture a bigger market share.

“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 and angina pectoris. The product has been awarded the State Technological Invention Award (Second Class). With the aging population and high prevalence rate of hypertension in China, the product has good market potential. After years of academic-based promotion and market development, “Xuanning” has grown into a major brand among hypertension drugs in China, and is well positioned to capture a bigger market share.

“Duomeisu”

“Duomeisu” (Doxorubicin hydrochloride liposome injection) is used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. This product can also be used as a second-line chemotherapy drug for treating patients with improving progress of AIDS-related Kaposi’s sarcoma. In addition, it can be used in patients who cannot tolerate using a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). “Duomeisu”’s patented nano-membrane extrusion technique can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug. The product has good market prospects given that the current market penetration rate of doxorubicin hydrochloride liposome injection in China is relatively low.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Finished Drug Business (Continued)

Innovative Drug Products (Continued)

“Jinyouli”

“Jinyouli” (PEG-rhGCSF injection) is the first long-acting growth factor drug in China. This product is a long-acting white blood cell booster, characterized by its self-regulating and stable white blood cell boosting mechanism. It is used to help reduce the chance of infection due to a low white blood cell count in patients receiving chemotherapy. PEG-rhGCSF injection is a product newly introduced in China and has huge market potentials.

“Ailineng”

“Ailineng” (Elemene injection) is a drug mainly used for the treatment of nerve glioma and brain metastases, and for the adjuvant treatment of malignant pleural and peritoneal effusion. It is a category B product under the national reimbursement drug list in China. The upgraded liquid formulation of this product has obtained patent in China.

“Nuolining”

“Nuolining” (Imatinib mesylate tablets) was launched in 2015 as the Group’s first approved small molecule targeted cancer drug. It is a first-line drug mainly for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML) and Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL).

Common Generic Drug Products

In addition to the continuous efforts to promote the sales of its existing products for chronic diseases, the Group also introduced health supplement products for chronic diseases to further diversify its product lines in the first half of 2016. In order to capture higher growth potential for its existing key products (including “Linmeixin (林美欣)” (glimepiride dispersible tablets) and “Zhongnuo Shuluo (中諾舒羅克)” (meropenem for injection)), the Group has adopted academic-based promotion and brand building strategy, and increased marketing activities with the end-user customers. For antibiotic products, the Group proactively enhanced product quality and worked on product differentiation in order to strive for better growth in the adversity of restricted use of antibiotics. By adopting these measures, the common generic drug business continued to deliver stable growth with sales reaching approximately HK\$2,111 million for the current period, representing a growth of 3.9% (or growth of 9.2% on a constant currency basis) year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Bulk Drug Business

Antibiotics

As affected by the sluggish market demand and increasing market supply, prices of antibiotic products declined in the first half of 2016, resulting in a significant deterioration in the performance of this business for the current period. Difficult market conditions are expected to remain for a certain period of time, the Group will continue to implement a number of measures such as technology upgrade, management reinforcement, energy saving and consumption reduction in order to continuously reduce the production costs and maintain its leading position in the industry.

Vitamin C

Overcapacity of the vitamin C market still lingered in the first half of 2016 and product prices remained under pressure. The Group placed its emphasis on market development and production technology upgrade during the first half of the year, achieving an increase in sales volume and a continued decrease in production costs for the current period. As a result, the overall business performance improved as compared with the corresponding period of last year.

Caffeine and Others

In the first half of 2016, the market demand for caffeine remained stable while product prices recorded a slight increase. The Group also succeeded in increasing market share and lowering production costs during the current period. The overall business performance showed further improvement.

Research and Development

The Group continued to invest in the research and development of new products, and currently has more than 170 products under research and development, with focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infection. Among these products, 15 are Class 1 new drugs and 50 are Class 3 new drugs.

In the first half of 2016, the Group has submitted clinical trial applications for 2 products to the CFDA, obtained production approvals for 3 products (namely “cefamandole nafate for injection”, “doxorubicin hydrochloride liposome injection (additional specification)” and “pitavastatin calcium raw material”) and clinical trial approvals for 30 products (including Class 1 new drug “SKLB1028 capsules”).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Research and Development *(Continued)*

At present, the Group has 27 products pending for production approval by the CFDA (including 4 Class 3 new drugs) and 19 products undergoing bioequivalence study or clinical trial (including 8 Class 1 new drugs). It is expected that the bioequivalence study for further 8 products can be completed and their applications for production can be submitted within this year.

With regard to the Abbreviated New Drug Application (“ANDA”) in the U.S., the Group has submitted application for 2 drugs (namely “montelukast sodium tablets” and “montelukast sodium chewable tablets”) and obtained approvals for 2 drugs (namely “metformin hydrochloride tablets” and “metformin hydrochloride extended-release tablets” (change of production site)) during the current period. Currently, the Group has a total of 9 drugs with the ANDA application submitted, and a total of 13 drugs under trial phase. It is expected that 1 ANDA approval will be obtained (namely “clopidogrel hydrogen sulfate tablets”) and 3 ANDA applications will be submitted (namely “memantine hydrochloride tablets”, “celecoxib capsules” and “benzonatate soft capsules 100 mg”) in the second half of the current year.

Meanwhile, the phase II clinical trial of “butylphthalide soft capsules” in the U.S. is in the stage of liaison with hospitals for conducting the clinical trials. It is expected that subjects will be enrolled for the phase II clinical trial by end of this year. The Investigational New Drug (“IND”) application for “mitoxantrone hydrochloride liposome injection” in the U.S. has also been approved by the U.S. FDA to commence clinical trials during the current period. At present, the protocol for clinical trial has passed the ethical evaluation and has started subject screening.

The Group also proactively explored cooperation opportunities with overseas pharmaceutical enterprises. During the current period, the Group entered into an agreement with a leading global pharmaceutical company in relation to the product technology licensing and commercialization of a complex generic oncology drug under development by the Group in the overseas market. According to the agreement, the Group may receive milestone payments of up to an aggregate amount of US\$106,000,000, as well as a share of the profit after market launch of the product.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review

Results

	For the six months ended 30 June		
	2016	2015	Change
Revenue (HK\$'000)			
Finished drugs	4,379,798	3,799,520	+15.3%
Bulk drugs	1,766,068	1,930,855	-8.5%
Total	6,145,866	5,730,375	+7.3%
Operating profit (HK\$'000)	1,310,280	1,070,967	+22.3%
Operating profit margin	21.3%	18.7%	
Profit attributable to shareholders (HK\$'000)	1,032,813	822,014	+25.6%
Net profit margin	16.8%	14.3%	
Basic earnings per share (HK cents)	17.47	13.91	+25.6%

Revenue from the finished drug business remained the major growth driver to our Group. In particular, the innovative drugs of the Group continued to deliver strong growth in the first half of 2016 with aggregate sales revenue reaching approximately HK\$2,268 million, representing a growth of 28.3%. Mainly due to the growing contribution from the innovative drugs, operating profit margin and net profit margin of the Group further improved to 21.3% and 16.8% in the first half of 2016, respectively. Profit attributable to shareholders increased by 25.6% to HK\$1,033 million with a corresponding 25.6% increase of basic earnings per share to HK17.47 cents in the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Liquidity and Financial Position

For the first half of 2016, the Group's operating activities generated a cash inflow of HK\$951 million (2015: HK\$694 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly increased from 49 days in 2015 to 51 days in the current period. Average turnover period of inventories (ratio of balance of inventories to cost of sales) also slightly increased from 108 days in 2015 to 114 days in the current period. Current ratio of the Group was 1.8 as at 30 June 2016 as compared to 2.2 as at 31 December 2015. Capital expenditure in relation to the additions of production facilities amounted to HK\$396 million for the current period.

The Group's financial position remained solid. As at 30 June 2016, total bank balances and cash amounted to HK\$2,178 million and total borrowings amounted to HK\$1,573 million, resulting in a net cash position of HK\$605 million (31 December 2015: HK\$843 million). Total borrowings comprise bank loans of HK\$1,511 million and loan from a related company of HK\$62 million. HK\$1,098 million of the total borrowings are repayable within one year and the remaining HK\$475 million repayable between two to three years. Gearing ratio (calculated on the basis of the Group's total borrowings over total equity) was 17.4% as at 30 June 2016 as compared to 16.6% as at 31 December 2015.

39.4% of the Group's borrowings are denominated in Hong Kong dollars, 17.7% in United States dollars and 42.9% in Renminbi. The Group's sales are mainly denominated in Renminbi for domestic sales in China and denominated in United States dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Employees

As at 30 June 2016, the Group had about 10,080 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and individual employee.

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 14 to 39, which comprise the condensed consolidated statement of financial position as of 30 June 2016 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 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

23 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		For the six months ended 30 June	
	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	6,145,866	5,730,375
Cost of sales		<u>(3,109,784)</u>	<u>(3,153,649)</u>
Gross profit		3,036,082	2,576,726
Other income		40,158	36,518
Selling and distribution expenses		(1,291,476)	(1,100,322)
Administrative expenses		(278,948)	(265,624)
Other expenses		<u>(195,536)</u>	<u>(176,331)</u>
Operating profit		1,310,280	1,070,967
Finance costs		(22,212)	(27,885)
Share of results of			
— a joint venture		9,009	4,196
— an associate		<u>—</u>	<u>141</u>
Profit before tax	4	1,297,077	1,047,419
Income tax expense	5	<u>(257,275)</u>	<u>(217,399)</u>
Profit for the period		<u>1,039,802</u>	<u>830,020</u>
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		(182,852)	—
Share of exchange differences of a joint venture		<u>(598)</u>	<u>—</u>
Other comprehensive expense for the period, net of income tax		<u>(183,450)</u>	<u>—</u>
Total comprehensive income for the period		<u><u>856,352</u></u>	<u><u>830,020</u></u>

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

For the six months ended 30 June 2016

		For the six months ended 30 June	
	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		1,032,813	822,014
Non-controlling interests		6,989	8,006
		<u>1,039,802</u>	<u>830,020</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		850,880	822,014
Non-controlling interests		5,472	8,006
		<u>856,352</u>	<u>830,020</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	7		
— Basic		<u>17.47</u>	<u>13.91</u>
— Diluted		<u>17.30</u>	<u>13.76</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	5,231,914	5,142,767
Prepaid lease payments		485,008	467,785
Goodwill		117,014	119,388
Other intangible assets		93,029	96,080
Interest in a joint venture		30,052	27,586
Deposit for acquisition of prepaid lease payments		76,374	—
Deferred tax assets		36,387	38,706
		6,069,778	5,892,312
Current assets			
Inventories		1,946,625	1,819,228
Trade and other receivables	9	2,043,734	1,877,617
Bills receivables	9	1,539,469	1,389,493
Trade receivables due from related companies	10	261,289	162,212
Amount due from a joint venture	10	91,259	75,179
Prepaid lease payments		15,583	15,057
Tax recoverable		817	2,477
Other financial assets		12,216	606
Restricted bank deposits	11	4,347	6,202
Bank balances and cash	11	2,173,919	2,299,468
		8,089,258	7,647,539

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2016

	Notes	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Current liabilities			
Trade and other payables	12	2,759,414	2,488,645
Bills payables	12	292,573	392,828
Trade payables due to related companies	10	402	1,108
Trade payable due to a joint venture	10	—	1,591
Amounts due to related companies	10	120,220	3,060
Tax liabilities		119,405	145,063
Borrowings	13	1,098,001	451,966
		<u>4,390,015</u>	<u>3,484,261</u>
Net current assets		<u>3,699,243</u>	<u>4,163,278</u>
Total assets less current liabilities		<u>9,769,021</u>	<u>10,055,590</u>
Non-current liabilities			
Deferred tax liabilities		82,101	46,322
Borrowings	13	474,784	1,010,944
Government grants		177,521	185,717
		<u>734,406</u>	<u>1,242,983</u>
Net assets		<u>9,034,615</u>	<u>8,812,607</u>
Capital and reserves			
Share capital	14	9,835,299	9,835,299
Reserves		(884,697)	(1,097,244)
Equity attributable to owners of the Company		<u>8,950,602</u>	<u>8,738,055</u>
Non-controlling interests		84,013	74,552
Total equity		<u>9,034,615</u>	<u>8,812,607</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital	Other reserve	Statutory reserve	Capital contribution reserve	Share options reserve	Translation reserve	Accumulated profits			
	HK\$'000	HK\$'000 (note i)	HK\$'000 (note ii)	HK\$'000 (note iii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (Audited)	9,819,731	(5,523,729)	514,760	45,564	181,433	35,269	3,006,126	8,079,154	72,374	8,151,528
Profit and total comprehensive income for the period	—	—	—	—	—	—	822,014	822,014	8,006	830,020
Dividends recognised as distribution (note 6)	—	—	—	—	—	—	(590,802)	(590,802)	—	(590,802)
Dividends paid to a non-controlling interest	—	—	—	—	—	—	—	—	(2,500)	(2,500)
Transfer to statutory reserve	—	—	3,923	—	—	—	(3,923)	—	—	—
At 30 June 2015 (Unaudited)	<u>9,819,731</u>	<u>(5,523,729)</u>	<u>518,683</u>	<u>45,564</u>	<u>181,433</u>	<u>35,269</u>	<u>3,233,415</u>	<u>8,310,366</u>	<u>77,880</u>	<u>8,388,246</u>
At 1 January 2016 (Audited)	9,835,299	(5,523,729)	700,636	45,564	174,175	(385,407)	3,891,517	8,738,055	74,552	8,812,607
Profit for the period	—	—	—	—	—	—	1,032,813	1,032,813	6,989	1,039,802
Other comprehensive expense for the period	—	—	—	—	—	(181,933)	—	(181,933)	(1,517)	(183,450)
Total comprehensive (expense) income for the period	—	—	—	—	—	(181,933)	1,032,813	850,880	5,472	856,352
Dividends recognised as distribution (note 6)	—	—	—	—	—	—	(650,212)	(650,212)	—	(650,212)
Transfer to statutory reserve	—	—	41,635	—	—	—	(41,635)	—	—	—
Lapse of share options	—	—	—	—	(1,210)	—	1,210	—	—	—
Acquisition of interest in a subsidiary (note 18)	—	—	—	11,879	—	—	—	11,879	3,989	15,868
At 30 June 2016 (Unaudited)	<u>9,835,299</u>	<u>(5,523,729)</u>	<u>742,271</u>	<u>57,443</u>	<u>172,965</u>	<u>(567,340)</u>	<u>4,233,693</u>	<u>8,950,602</u>	<u>84,013</u>	<u>9,034,615</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2016

Notes:

- (i) The balance in other reserve mainly 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.
- (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 mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL") which comprise (1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; (2) the imputed interest arising on loan from CHL and (3) deemed capital contribution arising as a result of the acquisition set out in note 18.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

		For the six months ended 30 June	
	Note	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash from operating activities		<u>951,206</u>	<u>694,372</u>
Net cash used in investing activities:			
Purchases of property, plant and equipment		(420,214)	(475,789)
Deposit paid for acquisition of prepaid lease payment		(76,374)	—
Acquisition of interest in a subsidiary (Advance to) repayment from a joint venture	18	(25,570)	—
Addition of intangible assets		(11,249)	6,898
Interest received		(6,685)	(7,293)
Proceeds on disposal of property, plant and equipment		6,478	4,670
Proceeds on disposal of available-for-sale investment		5,341	8,607
Other investing cash flows		—	2,063
		<u>(11,059)</u>	<u>1,641</u>
		<u>(539,332)</u>	<u>(459,203)</u>
Net cash (used in) from financing activities:			
Dividend paid		(650,212)	(590,802)
Repayments of borrowings		(111,669)	(680,890)
New borrowings raised		230,906	1,325,000
Advance from related parties		37,659	178,657
Repayment of loans from a related company		—	(58,489)
Dividend paid to non-controlling interests		—	(2,500)
		<u>(493,316)</u>	<u>170,976</u>
Net (decrease) increase in cash and cash equivalents		(81,442)	406,145
Cash and cash equivalents at 1 January		2,299,468	1,468,421
Effect of foreign exchange rate changes		(44,107)	—
Cash and cash equivalents at 30 June, represented by bank balances and cash		<u><u>2,173,919</u></u>	<u><u>1,874,566</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

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 (the "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 financial information relating to the year ended 31 December 2015 that is presented in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are effective during the current period:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle

The application of the above 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, 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 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 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	4,379,798	729,020	679,027	358,021	6,145,866	—	6,145,866
Inter-segment sales	—	26,289	1,881	3,308	31,478	(31,478)	—
TOTAL REVENUE	4,379,798	755,309	680,908	361,329	6,177,344	(31,478)	6,145,866
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT	1,275,454	22,973	1,484	83,089			1,383,000
Unallocated income							2,899
Unallocated expenses							(75,619)
Operating profit							1,310,280
Finance costs							(22,212)
Share of results of a joint venture							9,009
Profit before tax							1,297,077

3. SEGMENT INFORMATION (Continued)
For the six months ended 30 June 2015 (Unaudited)

	Finished Drugs	Antibiotics	Vitamin C	Caffeine and others	Segment total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE							
External sales	3,799,520	974,490	610,241	346,124	5,730,375	—	5,730,375
Inter-segment sales	—	26,797	2,391	2,067	31,255	(31,255)	—
TOTAL REVENUE	3,799,520	1,001,287	612,632	348,191	5,761,630	(31,255)	5,730,375
Inter-segment sales are charged at prevailing market rates.							
SEGMENT PROFIT (LOSS)	944,501	140,016	(32,119)	61,242			1,113,640
Unallocated income							5,028
Unallocated expenses							(47,701)
Operating profit							1,070,967
Finance costs							(27,885)
Share of results of							
— a joint venture							4,196
— an associate							141
Profit before tax							1,047,419

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.

4. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	7,834	10,480
Amortisation of prepaid lease payments	7,051	7,346
Depreciation of property, plant and equipment	<u>270,371</u>	<u>284,398</u>
Total depreciation and amortisation	<u>285,256</u>	<u>302,224</u>
(Gain) loss on disposal of property, plant and equipment (included in other income/other expenses)	(549)	2,400
Government grant income (<i>note ii</i>)	(10,294)	(9,462)
Interest income	(6,478)	(4,670)
Net foreign exchange loss (gain)	4,626	(2,674)
Impairment loss on trade receivables	705	8,199
Research and development expenditure (included in other expenses)	<u>192,164</u>	<u>171,325</u>

Notes:

- (i) For the six months ended 30 June 2015 and 2016, cost of inventories recognised as expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss and other comprehensive income.
- (ii) Government grants include cash subsidies from the PRC government which are specific for (i) the purchase of plant and machineries and are recognised over the useful lives of the related assets and (ii) the development of pharmaceutical products or improvement of production efficiency which are recognised upon compliance with the attached condition.

5. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax	224,023	189,438
Deferred taxation	33,252	27,961
	257,275	217,399

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both 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 regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2018.

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

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK\$3,388,684,000 (31 December 2015: HK\$3,248,175,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDENDS

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Dividends recognised as distribution during the period:		
2015 Final, paid — HK11 cents (2015: 2014 Final, paid — HK10 cents) per share	<u>650,212</u>	<u>590,802</u>

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

7. 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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>1,032,813</u>	<u>822,014</u>

7. EARNINGS PER SHARE (Continued)

	For the six months ended 30 June	
	2016 '000	2015 '000
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	58,957	65,284
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,969,975	5,973,302

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group had addition of property, plant and equipment of approximately HK\$395,618,000 (2015: HK\$401,362,000) 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\$4,792,000 (2015: HK\$11,007,000), resulting in a gain of approximately HK\$549,000 (2015: loss of approximately HK\$2,400,000).

9. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade receivables	1,719,605	1,560,948
Less: allowance for doubtful debts	(13,612)	(13,181)
	1,705,993	1,547,767
Prepayment for purchase of raw materials	147,027	176,527
Deposits and prepayment for utilities	62,373	62,798
Other tax recoverable	36,792	29,325
Others	91,549	61,200
	2,043,734	1,877,617

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 dates at the end of the reporting period which approximated the respective revenue recognition dates:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
0 to 90 days	1,434,249	1,375,675
91 to 180 days	233,715	129,875
181 to 365 days	23,075	42,217
Over 365 days	14,954	—
	1,705,993	1,547,767

9. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES (Continued)

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2015: less than 180 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

10. RELATED PARTIES DISCLOSURES

During the period, the Group had significant transactions and balances with related parties. Other than the acquisition of a subsidiary as disclosed in note 18 and note (iii) of the condensed consolidated statement of changes 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 Companies

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
CHL and its subsidiaries and associates (note i)	Purchase of pharmaceutical products	80,028	93,139
	Sales of pharmaceutical products	207,372	103,528
	Rental expense	7,809	8,207
	Interest expense (note iii)	1,562	2,731
	Purchase of steam	5,879	5,005
	Warehouse service income	2,620	3,904

10. RELATED PARTIES DISCLOSURES (Continued)

(I) Related Companies (Continued)

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Balance due from/to		
— trade receivables		
aged 0-90 days	200,802	146,248
aged 91-180 days	52,860	15,964
aged 181-365 days	6,186	—
aged over 365 days	1,441	—
	<u>261,289</u>	<u>162,212</u>
— trade payables		
aged 0-90 days	<u>402</u>	<u>1,108</u>
— other payables — current (note ii)	<u>120,220</u>	<u>3,060</u>
— borrowings (note iii)		
— current	35,088	35,800
— non-current	26,316	44,749
	<u>61,404</u>	<u>80,549</u>

Notes:

- (i) CHL is owned through a chain of companies as to 40% by True Ally Holdings Limited ("True Ally") and 60% by Beijing Zhongyihe Hezhong Investment Management Center (Limited Partnership) ("Zhongyihe"). True Ally and Zhongyihe are both substantial shareholders of the Company and collectively have significant influence over the Group.
- (ii) Amounts are unsecured, non-interest bearing and repayable on demand.
- (iii) The details of these loans from a related company are set out in note 13 to the condensed consolidated financial statements.

10. **RELATED PARTIES DISCLOSURES** (Continued)

(IV) Compensation of Key Management Personnel

The remuneration of key management personnel, which represents the Company's directors during the period is as follows:

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	5,899	6,046
Post-employment benefits	489	471
	<u>6,388</u>	<u>6,517</u>

11. **BANK BALANCES/RESTRICTED BANK DEPOSITS**

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.35% (31 December 2015: 0.01% to 1.3%) per annum.

As at 30 June 2016 and 31 December 2015, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and other payables and are classified as current assets. The restricted bank deposits will be released upon settlement or discharge of the relevant letters of credit and guarantee.

12. **TRADE AND OTHER PAYABLES/BILLS PAYABLES**

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade payables	1,026,524	752,256
Customer deposits and advance from customers	423,062	441,063
Other tax payables	95,076	113,088
Freight and utilities charges payables	74,984	70,562
Construction cost and acquisition of property, plant and equipment payable	650,525	678,785
Government grants	130,788	109,537
Staff welfare payable	103,139	111,950
Selling expense payable	183,707	145,430
Others	71,609	65,974
	<u>2,759,414</u>	<u>2,488,645</u>

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

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

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
0 to 90 days	768,287	613,893
91 to 180 days	71,759	65,471
More than 180 days	186,478	72,892
	1,026,524	752,256

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

13. BORROWINGS

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Unsecured		
— floating-rate HK\$ bank loans	620,334	648,667
— floating-rate USD bank loans	279,000	232,500
— floating-rate RMB bank loans	612,047	501,194
— fixed-rate RMB loans from a related company (note 10)	61,404	80,549
	1,572,785	1,462,910

13. BORROWINGS (Continued)

The above borrowings are repayable as follows:

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
Within one year	1,098,001	451,966
More than one year, but not more than two years	223,384	791,659
More than two years, but not more than five years	251,400	219,285
	1,572,785	1,462,910
Less: Amounts due within one year shown under current liabilities	(1,098,001)	(451,966)
Amounts shown under non-current liabilities	474,784	1,010,944

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

	As at 30 June 2016	As at 31 December 2015
Effective interest rate:		
Floating-rate HK\$ bank loans	From 2.03% to 2.86% per annum	From 2.19% to 2.82% per annum
Floating-rate USD bank loans	From 2.53% to 2.96% per annum	From 2.45% to 2.75% per annum
Floating-rate RMB bank loans	From 3.15% to 4.085% per annum	3.15% per annum
Fixed-rate RMB loans from a related company	4.60% per annum	4.60% per annum

The floating-rate of HK\$, USD and RMB borrowings are subject to interest at Hong Kong Interbank Offered Rate ("HIBOR") plus a spread, London Interbank Offered Rate ("LIBOR") plus a spread and benchmark interest rate of the PRC plus a spread, respectively.

14. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Issued and fully paid ordinary shares		
At 1 January 2015 and 30 June 2015	5,908,018,403	9,819,731
Exercise of share option (<i>note</i>)	<u>3,000,000</u>	<u>15,568</u>
At 1 January 2016 and 30 June 2016	<u><u>5,911,018,403</u></u>	<u><u>9,835,299</u></u>

Note: In September 2015, the Company issued 3,000,000 shares upon exercise of share options at an exercise price of HK\$3.98 under the 2004 Scheme (as set out in note 15). These new shares ranked *pari passu* in all respects with other shares in issue.

15. SHARE OPTION SCHEME

(I) 2004 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 and has expired on 5 July 2014.

On 17 April 2013, the Company granted a total of 150,000,000 options to its directors and eligible employees. The options granted were fully vested on 17 April 2014.

	Number of Share options outstanding
As at 1 January 2015 and 30 June 2015	150,000,000
Exercised	(3,000,000)
Lapsed	<u>(3,000,000)</u>
As at 1 January 2016	144,000,000
Lapsed	<u>(1,000,000)</u>
As at 30 June 2016	<u><u>143,000,000</u></u>

15. SHARE OPTION SCHEME *(Continued)*

(II) 2015 Share Option Scheme

The shareholders of the Company approved the adoption of a new 2015 share option scheme (the "2015 Scheme") at an extraordinary general meeting on 9 December 2015. No share options has been granted under 2015 Scheme since its adoption.

16. CAPITAL AND OTHER COMMITMENTS

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

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 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	573,833	526,512
Other commitment <i>(note)</i>	135,270	141,296

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

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENT

Some of the Group's financial assets are measured at fair value at the end of each reporting period and the directors consider that the relevant financial assets are insignificant.

There is no transfer between the different levels of the fair value hierarchy during the period.

The directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

18. ACQUISITION OF A SUBSIDIARY

On 14 April 2016, the Group entered into an agreement with CHL to acquire 93.18% equity interest in CSPC Shengxue Glucose Co., Ltd ("Shengxue") for a cash consideration of RMB36,440,000 (equivalent to approximately HK\$42,620,000).

18. ACQUISITION OF A SUBSIDIARY (Continued)

This acquisition was completed on 7 June 2016 and accounted for using the acquisition method of accounting. The amount of deemed capital contribution from this acquisition was approximately HK\$11,879,000. Shengxue is engaged in the manufacture and sale of products processed from corn, such as dextrose, starch, starch sugar, sorbitol and xylitol and was acquired so as to further strengthen the Group's bulk drugs business and its product portfolio.

Consideration transferred

HK\$'000
(Unaudited)

Cash	42,620
------	--------

Acquisition-related costs amounting to approximately HK\$116,000 were excluded from the consideration transferred and were recognised as an expense in the current period and included in the 'other expense' line item in the condensed consolidated statement of profit or loss.

Assets acquired and liabilities recognised at the date of acquisition

HK\$'000
(Unaudited)

Non-current assets

Property, plant and equipment	72,894
Prepaid lease payments	34,285

Current assets

Inventories	43,103
Trade and other receivables	28,728
Bills receivables	1,346
Bank balances and cash	17,050

Current liabilities

Trade and other payables	(49,501)
Amount due to a related company	(80,178)
Bank borrowings	(3,860)

Non-current liability

Deferred tax liabilities	(5,379)
	<u>58,488</u>

The fair values of trade and other receivables at the date of acquisition amounted to approximately HK\$28,728,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK\$40,287,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK\$11,559,000.

18. ACQUISITION OF A SUBSIDIARY (Continued)

The fair values of property, plant and equipment and prepaid lease payments were estimated by applying depreciated replacement cost approach and cost approximation approach respectively.

Deemed capital contribution arising on acquisition

	<i>HK\$'000</i> (Unaudited)
Consideration transferred	42,620
Plus: non-controlling interests (6.82% in Shengxue)	3,989
Less: recognised amount of identifiable net assets acquired	<u>(58,488)</u>
Deemed capital contribution arising on acquisition	<u><u>(11,879)</u></u>

Since the consideration is reference to carrying amount of assets of Shengxue, the deemed capital contribution arose in the acquisition mainly due to the fair value adjustments on operating land lease held by Shengxue at the date of completion of the acquisition and was recognised as capital contribution from CHL during the period in the consolidated statement of changes in equity.

Non-controlling interests

The non-controlling interests in Shengxue recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Shengxue and amounted to approximately HK\$3,989,000.

Net cash outflow on acquisition of Shengxue

	<i>HK\$'000</i>
Cash consideration paid	42,620
Less: bank balances and cash acquired	<u>(17,050)</u>
	<u><u>25,570</u></u>

Impact of acquisition on the results of the Group

Shengxue did not have any significant contribution to the Group's revenue or results for the six months period ended 30 June 2016.

Had the acquisition of Shengxue been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2016 would have been HK\$6,206,809,000, and the amount of the profit for the interim period would have been HK\$1,040,137,000.

OTHER INFORMATION

Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2016, 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 shares in issue of the Company
Cai Dongchen	Beneficial owner	6,538,000	80,000,000	86,538,000	1.46%
	Interest of controlled corporation	1,765,825,534 (Note ii)	—	1,765,825,534	29.87%
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%
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%
Lu Hua	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. Cai Dongchen is deemed to be interested in 1,765,825,534 shares, comprising (i) 493,880,000 shares directly held by True Ally Holdings Limited ("True Ally"), a direct wholly-owned subsidiary of Mr. Cai Dongchen; (ii) 213,929,500 shares directly held by Key Honesty Limited, an indirect wholly-owned subsidiary of Mr. Cai Dongchen; and (iii) 1,058,016,034 shares directly held by Massive Giant Group Limited by virtue of his interests in a chain of corporations holding Massive Giant Group Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

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 2016.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme disclosed below, at no time during the period was the Company, or 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.

Substantial Shareholders

As at 30 June 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than interests disclosed under the section "Directors' interests in shares, underlying shares and debentures" above) had notified the Company of relevant interests in the shares in issue of the Company.

OTHER INFORMATION (Continued)

Substantial Shareholders (Continued)

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	1,271,945,534	
		<u>1,765,825,534</u>	(Note (i)) 29.87%
Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)	Interest in controlled corporation	1,058,016,034	(Note (ii)) 17.90%
March Rise Limited	Interest in controlled corporation	1,058,016,034	(Note (ii)) 17.90%
Massive Top Limited	Interest in controlled corporation	1,058,016,034	(Note (ii)) 17.90%
Massive Giant Group Limited	Beneficial owner	1,058,016,034	(Note (ii)) 17.90%
JPMorgan Chase & Co.	Beneficial owner	12,989,221	
	Investment manager	116,890,000	
	Custodian/approved lending agent	220,677,864	
		<u>350,557,085</u>	5.93%
UBS Group AG	Persons having a security interest in shares	311,860,551	
	Interest in controlled corporation	55,321,893	
		<u>367,182,444</u>	6.21%
Commonwealth Bank of Australia	Interest in controlled corporation	295,852,000	5.01%

Note:

- (i) The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally") and 1,058,016,034 shares directly held by Massive Giant Group Limited described in Note (ii) below.
- (ii) The interests represent 1,058,016,034 shares directly held by Massive Giant Group Limited, of which Massive Top Limited owns 100%. Massive Top Limited in turn is owned as to 75% by March Rise Limited, 15% by Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and 10% by True Ally. March Rise Limited is owned as to 40% by True Ally and 60% by Zhongyihe.

OTHER INFORMATION *(Continued)*

Substantial Shareholders *(Continued)*

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
JPMorgan Chase & Co.	Beneficial owner	30,000	0.00%
UBS Group AG	Interest in controlled corporation	1,218,162	0.02%

Lending Pool

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
JPMorgan Chase & Co.	Custodian/approved lending agent	220,677,864	3.73%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares in issue of the Company or any other interests representing 5% or more of the shares in issue of the Company as at 30 June 2016.

OTHER INFORMATION (Continued)

Share Option Scheme

(i) 2004 share option scheme

The share option scheme was adopted on 6 July 2004 (the “2004 Scheme”) 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 granted under the 2004 Scheme during the period:

Category	Date of grant	Exercise price (HK\$)	Exercisable period	Number of Share Options					As at 30 June 2016
				As at 1 January 2016	Granted	Exercised	Cancelled	Lapsed	
Directors									
Cai Dongchen	17 April 2013	3.98	17 April 2014 — 16 April 2023	80,000,000	—	—	—	—	80,000,000
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
Lu Hua	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	17,000,000	—	—	—	(1,000,000)	16,000,000
Total				144,000,000	—	—	—	(1,000,000)	143,000,000

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

As at 30 June 2016, options to subscribe for an aggregate of 143,000,000 shares of the Company were outstanding, representing 2.42% of the shares in issue of the Company as at the date of this report.

OTHER INFORMATION *(Continued)*

Share Option Scheme *(Continued)*

(ii) 2015 share option scheme

Following the expiration of the “2004 Scheme”, the shareholders of the Company approved the adoption of a new share option scheme on 9 December 2015 (the “2015 Scheme”). The purpose of 2015 Scheme is to provide the Company with a flexible means of giving 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 2015 Scheme shall be valid and effective for a period of 10 years from its adoption. Further information of the 2015 Scheme has been disclosed in the Company’s 2015 annual report.

No options have been granted under 2015 Scheme since its adoption.

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 2016 except the deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company’s Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

During the period from 8 January 2016 to 5 June 2016, the composition of the Board comprised nine (9) executive directors, (1) non-executive director and four (4) independent non-executive directors. The independent non-executive directors represented less than one-third of the Board. Following the appointment of Mr. Chen Chuan as an independent non-executive director of the Company on 6 June 2016, the composition of the Board comprises nine (9) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The independent non-executive directors represents not less than one-third of the Board as required under rule 3.10A of the Listing Rules.



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 2016.

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 2016.

Update on Director's Information under Rule 13.51b(1) of the Listing Rules

Mr. LEE Ka Sze, Carmelo, a non-executive director of the Company, was appointed as convenor cum member of the Financial Reporting Review Panel of the Financial Reporting Council for a term of 3 years from 16 July 2016 to 15 July 2019.

By Order of Board
CSPC Pharmaceutical Group Limited
CAI Dongchen
Chairman

Hong Kong, 23 August 2016