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CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

**QUARTERLY RESULTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018**

FINANCIAL HIGHLIGHTS	For the nine months ended 30 September		Change in %	Change in % excluding foreign currency effects (Note)
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)		
Revenue by business units:				
Finished drugs				
<i>Innovative drugs</i>	7,543,453	4,654,599	62.1%	54.4%
<i>Common generic drugs</i>	4,810,845	3,521,486	36.6%	29.6%
Bulk drugs				
<i>Vitamin C</i>	1,679,335	1,334,217	25.9%	19.2%
<i>Antibiotics</i>	1,045,646	914,358	14.4%	8.1%
<i>Caffeine and others</i>	769,527	783,201	-1.7%	-7.0%
Total revenue	<u>15,848,806</u>	<u>11,207,861</u>	41.4%	34.3%
Gross profit	10,325,083	6,551,834	57.6%	49.9%
Research and development expenses	1,100,250	481,522	128.5%	117.6%
Operating profit	3,435,238	2,600,077	32.1%	25.5%
Profit attributable to shareholders	2,733,843	2,043,700	33.8%	27.1%
Basic earnings per share	HK\$43.79 cents	HK\$33.76 cents	29.7%	23.3%

Note: Majority of the Group's sales are conducted in China 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 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2018

	For the nine months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	15,848,806	11,207,861
Cost of sales	(5,523,723)	(4,656,027)
Gross profit	10,325,083	6,551,834
Other income	134,570	89,213
Other gains or losses, net	112,409	(10,100)
Selling and distribution expenses	(5,416,391)	(3,005,252)
Administrative expenses	(601,439)	(487,906)
Research and development expenses	(1,100,250)	(481,522)
Other expenses	(18,744)	(56,190)
Operating profit	3,435,238	2,600,077
Finance costs	(60,478)	(23,767)
Share of results of joint ventures	35,356	1,454
Profit before tax	3,410,116	2,577,764
Income tax expense	(692,360)	(525,865)
Profit for the period	2,717,756	2,051,899
Profit (loss) for the period attributable to:		
Owners of the Company	2,733,843	2,043,700
Non-controlling interests	(16,087)	8,199
	2,717,756	2,051,899
	HK cents	HK cents
Earnings per share		
— Basic	43.79	33.76
— Diluted	N/A	33.76

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2018

	For the nine months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>2,717,756</u>	<u>2,051,899</u>
Other comprehensive (expense) income		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences arising on translation of financial statements to presentation currency	(910,927)	578,640
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency	(6,179)	4,209
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	<u>59,674</u>	<u>—</u>
Other comprehensive (expense) income for the period	<u>(857,432)</u>	<u>582,849</u>
Total comprehensive income for the period	<u>1,860,324</u>	<u>2,634,748</u>
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	1,921,322	2,622,502
Non-controlling interests	<u>(60,998)</u>	<u>12,246</u>
	<u>1,860,324</u>	<u>2,634,748</u>

Notes:

1. Principal Accounting Policies

The principal accounting policies used in the preparation of the financial data for the nine months ended 30 September 2018 are consistent with those followed in the preparation of the Group's interim financial statements for the six months ended 30 June 2018.

2. Profit Before Tax

	For the nine months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of other intangible assets	15,351	58,965
Amortisation of prepaid lease payments	13,951	11,684
Depreciation of property, plant and equipment	512,442	450,605
Total depreciation and amortisation	541,744	521,254
Government grant income	(26,706)	(22,438)
Interest income on bank balances	(36,296)	(12,957)
Interest income on structured bank deposits	(94,693)	—
Net foreign exchange (gain) loss	(32,679)	3,040

3. Earnings Per Share

No dilutive earnings per share is presented for the nine months ended 30 September 2018 as there was no potential ordinary shares in issue during the period.

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

	For the nine months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	2,733,843	2,043,700

	For the nine months ended 30 September	
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,243,018	6,053,567
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	<u>N/A</u>	<u>286</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>N/A</u></u>	<u><u>6,053,853</u></u>

4. Dividend

The board of directors does not declare the payment of an interim dividend for the nine months ended 30 September 2018 (2017: Nil).

SEGMENT INFORMATION

Information reported to the board of directors, being chief operating decision makers (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group’s reportable segments under HKFRS 8 *Operating Segments* are as follows:

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

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products. Under HKFRS 15, revenue from manufacture and sales of pharmaceutical products is recognised at a point in time when the customer obtains control of the distinct goods.

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

For the nine months ended 30 September 2018 (Unaudited):

	Finished Drugs HK\$'000	Vitamin C HK\$'000	Antibiotics HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	12,354,298	1,679,335	1,045,646	769,527	15,848,806	—	15,848,806
Inter-segment sales	—	41,422	72,142	4,369	117,933	(117,933)	—
TOTAL REVENUE	<u>12,354,298</u>	<u>1,720,757</u>	<u>1,117,788</u>	<u>773,896</u>	<u>15,966,739</u>	<u>(117,933)</u>	<u>15,848,806</u>
SEGMENT PROFIT	<u>2,606,913</u>	<u>627,803</u>	<u>40,630</u>	<u>146,843</u>			3,422,189
Unallocated income							152,716
Unallocated expenses							<u>(139,667)</u>
Operating profit							3,435,238
Finance costs							(60,478)
Share of results of joint ventures							<u>35,356</u>
Profit before tax							<u>3,410,116</u>

For the nine months ended 30 September 2017 (Unaudited):

	Finished Drugs HK\$'000	Vitamin C HK\$'000	Antibiotics HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	8,176,085	1,334,217	914,358	783,201	11,207,861	—	11,207,861
Inter-segment sales	—	26,251	71,207	5,433	102,891	(102,891)	—
TOTAL REVENUE	<u>8,176,085</u>	<u>1,360,468</u>	<u>985,565</u>	<u>788,634</u>	<u>11,310,752</u>	<u>(102,891)</u>	<u>11,207,861</u>
SEGMENT PROFIT	<u>2,061,157</u>	<u>407,828</u>	<u>43,045</u>	<u>157,174</u>			2,669,204
Unallocated income							12,955
Unallocated expenses							<u>(82,082)</u>
Operating profit							2,600,077
Finance costs							(23,767)
Share of results of joint ventures							<u>1,454</u>
Profit before tax							<u>2,577,764</u>

Segment profit represents the profit earned by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities are not regularly provided to the CODM for review.

BUSINESS REVIEW

Results

For the first nine months of 2018, the Group reported sales of approximately HK\$15,849 million, representing a 41.4% growth (or a 34.3% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK\$2,734 million, representing a 33.8% growth (or a 27.1% growth on a constant currency basis) year-on-year.

Finished Drug Business

The finished drug business maintained strong growth momentum, with sales for the period reaching approximately HK\$12,354 million, representing a 51.1% growth (or a 43.7% growth on a constant currency basis) year-on-year. Of which the innovative drugs, including “NBP” (butylphthalide soft capsules and injections), “Oulaining” (oxiracetam capsules and lyophilized powder injections), “Xuanning” (levamlodipine maleate tablets), “Duomeisu” (doxorubicin hydrochloride liposome injections), “Jinyouli” (PEGrhGCSF injections), “Keaili” (paclitaxel for injection (albumin-bound)), “Ailineng” (elemene injections) and “Nuolining” (imatinib mesylate tablets) recorded sales of approximately HK\$7,543 million, representing a growth of 62.1% (or a growth of 54.4% on a constant currency basis) year-on-year, and the common generic drugs recorded sales of approximately HK\$4,811 million, representing a growth of 36.6% (or a growth of 29.6% on a constant currency basis) year-on-year.

Bulk Drug Business

Benefitted from the market recovery since last year, the average selling prices of vitamin C products during the period remained at a relatively high level. However, market prices began to decline in the third quarter due to increase in market capacity and supply. The overall market supply and demand maintained a balance for the antibiotics market in general, business performance for the period also remained stable. For the caffeine business, both the business environment and performance remained stable during the period.

REVIEW OF RESULTS

The financial data for the nine months ended 30 September 2018 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, 19 November 2018

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. LU Hua, Dr. LI Chunlei, Mr. ZHANG Cuilong, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Professor LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.