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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)

2014 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

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

Notes:

1. The 2013 comparative comprises sales revenue of approximately HK$381.20 million attributable to CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. ("NMG Zhongrun"), CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd. ("Tianjin Cenway") and their subsidiaries, which were principally engaged in the manufacture of bulk antibiotic products. The equity interests in NMG Zhongrun and Tianjin Cenway have been disposed of by the Company in June 2013 and September 2013 respectively. The 2013 comparative will become approximately HK$4,694.47 million if revenue attributable to these companies which have been disposed of in 2013 is not accounted for. On this basis, revenue of the current period has increased 13.8%.

2. The 2013 comparative comprises the one-time gain of HK$117.33 million arising from the disposal of the Company's equity interests in NMG Zhongrun in June 2013.

3. The share-based payment expense of HK$53,187,000 (2013: HK$36,784,000) represents the amount of expense recognised for the period in connection with the share options granted by the Company in April 2013.

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 six months ended 30 June 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		For the six months ended 30 June	
		2014	2013
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**5,342,470**	5,075,665
Cost of sales		**(3,321,420)**	(3,534,056)
Gross profit		**2,021,050**	1,541,609
Other income		**90,530**	92,997
Selling and distribution expenses		**(846,327)**	(659,707)
Administrative expenses		**(302,889)**	(308,628)
Other expenses		**(160,918)**	(83,901)
Operating profit		**801,446**	582,370
Finance costs		**(29,231)**	(36,636)
Share of results of a joint venture		**(526)**	(11,420)
Gain on disposal of subsidiaries		**—**	117,330
Profit before taxation	*4*	**771,689**	651,644
Income tax expenses	*5*	**(162,263)**	(123,814)
Profit for the period		**609,426**	527,830

	Notes	For the six months ended 30 June **2014** ***HK$'000*** **(Unaudited)**	2013 *HK$'000* (Unaudited)
Other comprehensive (expense) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements to presentation currency		**(216,076)**	76,642
Share of exchange differences of a joint venture		**(444)**	175
Other comprehensive (expense) income for the period		**(216,520)**	76,817
Total comprehensive income for the period		**392,906**	604,647
Profit for the period attributable to:			
Owners of the Company		**600,665**	515,201
Non-controlling interests		**8,761**	12,629
		609,426	527,830
Total comprehensive income for the period attributable to:			
Owners of the Company		**386,683**	589,598
Non-controlling interests		**6,223**	15,049
		392,906	604,647
		HK cents	*HK cents*
Earnings per share	*7*		
— Basic		**10.17**	9.30
— Diluted		**10.07**	8.81

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	As at 30 June 2014 HK$'000 (Unaudited)	As at 31 December 2013 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**4,934,087**	4,961,171
Prepaid lease payments		**527,489**	547,754
Goodwill		**125,232**	128,438
Other intangible assets		**116,863**	127,597
Interest in a joint venture		**17,067**	18,038
Available-for-sale investments		**1,705**	1,705
Deferred tax assets		**34,456**	43,071
		5,756,899	5,827,774
Current assets			
Inventories		**2,032,478**	1,855,188
Trade and other receivables	*8*	**2,105,510**	2,029,961
Bills receivables	*8*	**935,524**	982,437
Trade receivables due from related companies		**114,491**	122,137
Amount due from a joint venture		**99,518**	91,519
Prepaid lease payments		**15,451**	16,909
Tax recoverable		**388**	226
Held for trading investments		**405**	438
Derivative financial instruments		**—**	3,428
Restricted bank deposits		**90,081**	82,779
Bank balances and cash		**998,984**	1,187,751
		6,392,830	6,372,773
Current liabilities			
Trade and other payables	*9*	**2,507,867**	2,303,199
Bills payables	*9*	**345,105**	273,397
Trade payables due to related companies		**12,628**	47,607
Trade payable due to a joint venture		**3,166**	2,007
Amounts due to related companies		**195,856**	475,179
Tax liabilities		**87,046**	77,116
Bank loans		**751,504**	659,946
		3,903,172	3,838,451
Net current assets		**2,489,658**	2,534,322
Total assets less current liabilities		**8,246,557**	8,362,096

	Notes	As at 30 June 2014 HK$'000 (Unaudited)	As at 31 December 2013 HK$'000 (Audited)
Non-current liabilities			
Bank loans		**554,380**	680,120
Deferred tax liabilities		**42,148**	33,117
Government grants		**104,014**	52,059
		700,542	765,296
Net assets		**7,546,015**	7,596,800
Capital and reserves			
Share capital		**9,819,731**	558,636
Reserves		**(2,399,068)**	6,893,984
Equity attributable to owners of the Company		**7,420,663**	7,452,620
Non-controlling interests		**125,352**	144,180
Total equity		**7,546,015**	7,596,800

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

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

The application of the above new Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

Information reported to the directors is based upon which the Group is organised. The Group has changed its internal reporting structure to improve operational efficiency during 2013 and subsequent to the change, the Group's reportable and operating segments for financial reporting purposes are as follows:

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

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

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

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

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

	Finished Drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	3,189,617	1,173,402	656,137	323,314	5,342,470	—	5,342,470
Inter-segment sales	—	23,676	4,273	3,627	31,576	(31,576)	—
TOTAL	3,189,617	1,197,078	660,410	326,941	5,374,046	(31,576)	5,342,470

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT (LOSS)	789,265	75,250	(18,464)	58,100			904,151
Unallocated income							2,873
Unallocated expenses							(105,578)
Operating profit							801,446
Finance costs							(29,231)
Share of results of a joint venture							(526)
Profit before taxation							771,689

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

	Finished Drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	2,761,971	1,437,602	553,446	322,646	5,075,665	—	5,075,665
Inter-segment sales	—	94,185	1,549	2,834	98,568	(98,568)	—
TOTAL	2,761,971	1,531,787	554,995	325,480	5,174,233	(98,568)	5,075,665

Inter-segment sales are charged at prevailing market rates.

	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 PROFIT (LOSS)	633,997	23,110	(86,847)	86,084			656,344
Unallocated income							23,124
Unallocated expenses							(97,098)
Operating profit							582,370
Finance costs							(36,636)
Share of results of a joint venture							(11,420)
Gain on disposal of subsidiaries							117,330
Profit before taxation							651,644

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, finance costs, central administrative expenses, share of results of a joint venture, gain on disposal of subsidiaries. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAXATION

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

Notes:

(i) For the six months ended 30 June 2013 and 2014, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss and other comprehensive income.

(ii) Government grant income includes cash subsidies received from the PRC government in relation to development of pharmaceutical products or improvement of the production efficiency or enhancement of environmental protection. Those costs related to these activities have been expended when they were incurred.

5. INCOME TAX EXPENSES

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

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profit under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable income for both periods.

The basic tax rate of the Company's PRC subsidiaries is 25% under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate to be at a reduced rate of 15% for a period of 3 years up to 2016.

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

Under the EIT Law of PRC, withholding tax is imposed on dividends distributed in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

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

6. DIVIDENDS

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

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

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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**600,665**	515,201

	For the six months ended 30 June	
	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,908,018**	5,537,570
Effect of dilutive potential ordinary shares:		
Tranche II Convertible Bonds as if converted *(note)*	**—**	312,750
Share options granted by the Company	**59,249**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,967,267**	5,850,320

The computation of diluted earnings per share in 2013 does not assume the exercise of the Company's share options because the adjusted exercise price of those options was higher than the average market price for shares from the date of grant of the options to the end of that reporting period.

Note: On 29 October 2012, the Company issued two tranches of convertible bonds with respective principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) and US$86,003,274.70 (equivalent to HK$670,825,542.66) ("Tranche II Convertible Bonds"). Details of the convertible bonds are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

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

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

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

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2013: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

Finished Drug Business

Innovative Drug Products

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

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

"NBP"

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

"Oulaining"

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

"Xuanning"

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

"Duomeisu", "Jinyouli" and "Ailineng"

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

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

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

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

Common Generic Drug Products

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

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

Bulk Drug Business

Antibiotics

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

Vitamin C

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

Caffeine and Others

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

Research and Development

The Group continued to capitalise on its technological advantages in the realm of drug research and development. Currently, the Group has over 170 products under research and development, with focus on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infective. Among those products, 14 are Class I new drugs and 41 are Class III new drugs (of which 29 products are among the first three applications).

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

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

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

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

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

Outlook

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

FINANCIAL REVIEW

Liquidity and Financial Position

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

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

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

Contingent Liabilities

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

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

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

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

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

Employees

As at 30 June 2014, the Group had about 10,391 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2014 except the deviations from code provisions A.2.1 and A.5.1 as set out below.

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

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

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

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

REVIEW OF INTERIM RESULTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2014.

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

Hong Kong, 26 August 2014

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. FENG Zhenying, Mr. CHAK Kin Man, Mr. PAN Weidong, Mr. ZHAO John Huan, Mr. WANG Shunlong, Mr. WANG Huaiyu, Mr. LU Jianmin, Mr. WANG Zhenguo and Mr. WANG Jinxu 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 Shilin as independent non-executive Directors.