CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

2017 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			
	2017	2016	Change in %	Change in % excluding foreign currency effects
	HK$'000	*HK$'000*		*(Note)*
	(Unaudited)	(Unaudited)		
Revenue by business units:				
Finished drugs				
Innovative drugs	**2,948,765**	2,268,398	**30.0%**	**36.6%**
Common generic drugs	**2,324,616**	2,111,400	**10.1%**	**15.7%**
Bulk drugs				
Antibiotics	**619,611**	729,020	**-15.0%**	**-10.7%**
Vitamin C	**760,497**	679,027	**12.0%**	**17.7%**
Caffeine and others	**548,086**	358,021	**53.1%**	**60.9%**
Total revenue	**7,201,575**	6,145,866	**17.2%**	**23.2%**
Gross profit	**4,124,857**	3,036,082	**35.9%**	**42.8%**
Operating profit	**1,675,884**	1,310,280	**27.9%**	**34.4%**
Profit attributable to shareholders	**1,312,930**	1,032,813	**27.1%**	**33.6%**

Note: Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the same period in the prior year to current period local currency results.

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**7,201,575**	6,145,866
Cost of sales		**(3,076,718)**	(3,109,784)
Gross profit		**4,124,857**	3,036,082
Other income		**47,804**	40,158
Selling and distribution expenses		**(1,858,606)**	(1,291,476)
Administrative expenses		**(305,658)**	(278,948)
Other expenses		**(332,513)**	(195,536)
Operating profit		**1,675,884**	1,310,280
Finance costs		**(15,489)**	(22,212)
Share of results of joint ventures		**4,861**	9,009
Profit before tax	*4*	**1,665,256**	1,297,077
Income tax expense	*5*	**(346,614)**	(257,275)
Profit for the period		**1,318,642**	1,039,802
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**350,992**	(182,852)
Share of exchange differences of joint ventures		**2,489**	(598)
Other comprehensive income (expense) for the period, net of income tax		**353,481**	(183,450)
Total comprehensive income for the period		**1,672,123**	856,352

	Notes	For the six months ended 30 June	
		2017	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		**1,312,930**	1,032,813
Non-controlling interests		**5,712**	6,989
		1,318,642	1,039,802
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,664,032**	850,880
Non-controlling interests		**8,091**	5,472
		1,672,123	856,352
		HK cents	*HK cents*
Earnings per share	*7*		
— Basic		**21.69**	17.47
— Diluted		**21.69**	17.30

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	**As at 30 June 2017** ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**5,814,961**	5,415,032
Prepaid lease payments		**553,927**	526,712
Goodwill		**117,248**	111,785
Other intangible assets		**140,599**	79,232
Interests in joint ventures		**81,802**	80,089
Available-for-sale investments		**230,198**	91,732
Deferred tax assets		**22,491**	27,986
		6,961,226	6,332,568
Current assets			
Inventories		**2,534,483**	1,933,147
Trade and other receivables	*8*	**2,183,588**	1,835,266
Bills receivables	*8*	**1,551,220**	1,215,156
Trade receivables due from related companies		**74,571**	73,570
Amounts due from joint ventures		**250,110**	115,986
Prepaid lease payments		**17,451**	16,419
Tax recoverable		**474**	—
Held-for-trading investments		**607**	521
Restricted bank deposits		**7,961**	2,875
Bank balances and cash		**3,116,357**	3,234,678
		9,736,822	8,427,618

	Notes	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Current liabilities			
Trade and other payables	*9*	**3,815,264**	2,937,893
Bills payables	*9*	**104,263**	100,559
Amounts due to related companies		**132,289**	657
Tax liabilities		**119,853**	147,769
Borrowings		**833,938**	897,777
		5,005,607	4,084,655
Net current assets		**4,731,215**	4,342,963
Total assets less current liabilities		**11,692,441**	10,675,531
Non-current liabilities			
Deferred tax liabilities		**122,025**	68,865
Borrowings		**250,600**	240,380
Government grants		**178,446**	174,964
		551,071	484,209
Net assets		**11,141,370**	10,191,322
Capital and reserves			
Share capital		**10,577,404**	10,569,620
Reserves		**475,739**	(461,994)
Equity attributable to owners of the Company		**11,053,143**	10,107,626
Non-controlling interests		**88,227**	83,696
Total equity		**11,141,370**	10,191,322

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 functional currency of the Company is Renminbi ("RMB"), the condensed consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

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 2016 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. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 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

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) Antibiotics (bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

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

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

For the six months ended 30 June 2017 (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	**5,273,381**	**619,611**	**760,497**	**548,086**	**7,201,575**	**—**	**7,201,575**
Inter-segment sales	**—**	**41,754**	**11,515**	**4,723**	**57,992**	**(57,992)**	**—**
TOTAL REVENUE	**5,273,381**	**661,365**	**772,012**	**552,809**	**7,259,567**	**(57,992)**	**7,201,575**
SEGMENT PROFIT	**1,391,525**	**24,608**	**192,395**	**113,089**			**1,721,617**
Unallocated income							**7,906**
Unallocated expenses							**(53,639)**
Operating profit							**1,675,884**
Finance costs							**(15,489)**
Share of results of joint ventures							**4,861**
Profit before tax							**1,665,256**

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
SEGMENT PROFIT	1,275,454	22,973	1,484	83,089			1,383,000
Unallocated income							6,478
Unallocated expenses							(79,198)
Operating profit							1,310,280
Finance costs							(22,212)
Share of results of a joint venture							9,009
Profit before tax							1,297,077

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.

4. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	**11,494**	7,834
Amortisation of prepaid lease payments	**8,532**	7,051
Depreciation of property, plant and equipment	**290,945**	270,371
Total depreciation and amortisation	**310,971**	285,256
Government grant income *(note ii)*	**(8,091)**	(10,294)
Impairment loss on trade receivables	**768**	705
Interest income	**(7,906)**	(6,478)
Loss (gain) on disposal of property, plant and equipment (included in other expenses/other income)	**7,248**	(549)
Net foreign exchange loss	**8,198**	4,626
Research and development expenditure (included in other expenses)	**324,656**	192,164

Notes:

(i) For the six months ended 30 June 2016 and 2017, 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax	**290,198**	224,023
Deferred taxation	**56,416**	33,252
	346,614	257,275

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%.

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$4,495,361,000 (31 December 2016: HK$3,876,285,000) 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
2016 Final, paid — HK12 cents (2016: 2015 Final, paid — HK11 cents) per share	**726,482**	650,212

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2017 (2016: 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,312,930**	1,032,813

	For the six months ended 30 June	
	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,053,338**	5,911,018
Effect of dilutive potential ordinary shares: Share options granted by the Company	**414**	58,957
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,053,752**	5,969,975

8. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**1,821,042**	1,492,855
Less: allowance for doubtful debts	**(10,943)**	(10,423)
	1,810,099	1,482,432
Prepayment for purchase of raw materials	**160,150**	150,585
Deposits and prepayment for utilities	**60,089**	51,720
Other tax recoverable	**61,545**	46,891
Others	**91,705**	103,638
	2,183,588	1,835,266

The Group allows a general credit period of up to 90 days (31 December 2016: 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 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,589,711**	1,357,953
91 to 180 days	**203,058**	114,647
181 to 365 days	**17,330**	9,832
	1,810,099	1,482,432

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2016: 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.

9. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**1,677,985**	1,113,908
Customer deposits and advance from customers	**544,509**	547,937
Other tax payables	**63,836**	86,518
Freight and utilities charges payables	**76,778**	79,299
Construction cost and acquisition of property, plant and equipment payable	**801,929**	678,108
Government grants	**136,416**	126,114
Staff welfare payable	**126,592**	109,749
Selling expense payable	**227,033**	115,388
Others	**160,186**	80,872
	3,815,264	2,937,893

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 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,461,714**	1,008,024
91 to 180 days	**156,071**	45,290
More than 180 days	**60,200**	60,594
	1,677,985	1,113,908

All bills payables of the Group are aged within 180 days (31 December 2016: 180 days) and not yet due at the end of the reporting period.

Results

For the first half of 2017, the Group recorded sales of approximately HK$7,202 million, representing a 17.2% growth (or a 23.2% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$1,313 million, representing a 27.1% growth (or a 33.6% growth on a constant currency basis) year-on-year.

Finished Drug Business

The finished drug business continued to achieve satisfactory growth during the first half of 2017, with sales reaching approximately HK$5,273 million, representing a 20.4% growth (or a 26.5% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the period, the Group continued its efforts in expanding its professional sales team, strengthening academic-based promotion and endeavoring hospital coverage expansion, whereas the new round of drug tenders also brought about new market potential. With these efforts made, the innovative drug products managed to continue its robust growth, along with continuous expansion of market share and a stronger presence and coverage in the high-end market. Sales of innovative drug products for the period reached approximately HK$2,949 million, representing a 30.0 % growth (or a 36.6 % growth on a constant currency basis) year-on-year.

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

"NBP"

"NBP" series is a Class 1 new drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide, and the drug is mainly used for the treatment of acute ischemic stroke. Both the soft capsule and injection forms have been listed in the latest edition of the national reimbursement drug list released in 2017 (the "New NRDL").

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for Outstanding Chinese Patented Invention" and the "China Grand Awards for Industry". "NBP" is also listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2014)", which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke, hence providing a solid basis for its academic-based promotion. "NBP" is also newly included in the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke in China" and "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)" during 2017, further increasing the clinical evidence of "NBP".

"NBP" also made progress in expanding into new treatment area. In addition to obtaining approval from the China Food and Drug Administration ("CFDA") for conducting clinical study of "NBP" soft capsules for the treatment of vascular dementia caused by ischemic stroke, the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015)" published in 2016 also mentions the effectiveness of "NBP" in improving the cognitive function and ability in managing daily activities of patients with ischemic subcortical non-dementia-type vascular cognitive dysfunction. The study of this new indication will create room for further expansion of the market potential for "NBP".

The new tender prices of "NBP" are largely stable and in line with the Group's product pricing strategy. It is expected that the new tenders will create more market opportunities for "NBP" injection. On the other hand, apart from achieving 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 means of organizing academic conferences and initiating clinical study projects, so as to improve its expert network and enhance experts' recognition of the product. The inclusion of "NBP" injection in the New NRDL will also provide additional sales driver.

"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 an exclusive formulation in China, and has been awarded the "Hebei Province Science and Technology Progress Award (First Class)". In the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015)" published in 2016, description and evidence were given on the efficacy of oxiracetam on Alzheimer's disease, vascular dementia and cognitive impairment. As the provincial reimbursement lists are undergoing progressive adjustment, "Oulaining" aims at being included in more provincial reimbursement drug lists, aiding the oxiracetam market to further expand. Leveraging on this opportunity, the Group will conduct deeper research on oxiracetam, differentiate the positions of both formulations and seek for new market growth drivers, through which to achieve stable growth for "Oulaining" series.

"Xuanning"

"Xuanning" 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)" and is included in the new edition of the "Guidelines for the Rational Use of Drugs for Hypertension" in 2017. With the promulgation of policies on the national tiered medical system and chronic disease management, the hypertension market gradually shifts to the community level, which possesses larger capacity and offers new growth opportunities for "Xuanning". The Group will step up the promotion of the "Xuanning" brand and expand its coverage in the low-tier end-user market in order to achieve rapid growth for "Xuanning" products.

"Duomeisu"

"Duomeisu" (doxorubicin hydrochloride liposome injection) is used as a first-line chemotherapy drug. The drug has been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines" 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, as well as patients who are intolerant of chemotherapy involving a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). The patented nano-membrane extrusion technique of "Duomeisu" can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug and significantly minimizing cardiotoxicity, hair loss, nausea, vomiting and other side effects. "Duomeisu" has become the leading brand of doxorubicin hydrochloride liposome injection in China, market prospects are good given that its market penetration rate is still relatively low as compared to traditional anthracyclines. In order to boost the sales growth of "Duomeisu", the Group will continue to focus on organising academic conferences and initiating clinical research projects to enhance expert network and recognition.

"Jinyouli"

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to low white blood cell count in patients receiving chemotherapy, thus ensuring the chemotherapy can proceed according to schedule and dosage. "Jinyouli" is well supported by evidence with its phase IV clinical study being included in the "Significant New Drug Innovation" major technology project in the 12th Five-Year Plan. It has the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China. The study has involved 1,537 cases covering lung cancer, breast cancer, lymphoma and other type of cancers.. The efficacy and safety of "Jinyouli" were clinically proven with domestic and foreign guidelines unanimously recommending its application. In 2017, "Jinyouli" was included into the New NRDL, thereby greatly enhancing its competitive advantage and providing new growth momentum.

"Ailineng"

"Ailineng" (elemene injection) is a drug mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The upgraded liquid formulation of this product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume. The Group will continue to adopt the market segmentation promotion strategy and adhere to product research and academic-based promotion in order to realise rapid growth of the product.

"Nuolining"

"Nuolining" (imatinib mesylate tablets) was launched in 2015 as the Group's first approved small molecule targeted cancer drug. It is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumors. According to the recommendation of various domestic and foreign guidelines, imatinib is a first-line drug for the above diseases. Since product launch, the Group has been continuing to strengthen the academic-based promotion and team building. In order to address to the lack of tenders in various provinces, the Group has adopted a combined business model of non-hospital channel and online promotion to drive sales growth. This product has become reimbursable according to the New NRDL.

Common Generic Drug Products

During the period, the Group accelerated the bioequivalence evaluation of generic drugs, among which the progress of amoxicillin capsules was ahead of schedule. Taking this opportunity, the Group has been actively strengthening its strategic cooperation with the core distributors and initiating various interactive marketing activities in the end-user market, including the promotion of best treatment option for common diseases and frequent diseases in the low-tier end-user market, thereby improving the diagnosis standard of doctors and reinforcing the reputation of the Group's common generic drugs in the low-tier market.

The Group's Chinese medicine soft capsule product series (including "Qingre Jiedu soft capsules (清熱解毒軟膠囊)", "Ganmao Qingre soft capsules (感冒清熱軟膠囊)", "Yin Huang soft capsules (銀黃軟膠囊)", "Xiangsha Yangwei soft capsules (香砂養胃軟膠囊)" and "Huoxiang Qushu soft capsules (藿香祛暑軟膠囊)") have attained sound growth during the first half of the year. Meanwhile, the Group's high-end antibiotic product "Zhongnuo Shuluoke (中諾舒羅克)" (meropenem for injection) and health supplement product "Guoweikang (果維康)" (vitamin C tablet) have recorded rapid growth. During the first half of the year, the Group has organised the chain pharmacies to initiate marketing activities to promote the sales of chronic diseases products, including "Qinkexi (勤可息)" (enalapril maleate tablets), "Gubang (固邦)" (alendronate sodium enteric-coated tablets/tablets), "Ouyi (歐意)" (aspirin enteric-coated tablets), "Ouwei (歐維)" (mecobalamin tablets) and "Linmeixin (林美欣)" (glimepiride dispersible tablets).

During the first half of 2017, the common generic drug products maintained stable growth with sales reaching approximately HK$2,325 million, representing a 10.1% growth (or a 15.7% growth on a constant currency basis) year-on-year.

Bulk Drug Business

Antibiotics

The decline in end-user market demand caused by the policies of restricted use of antibiotics, coupled with increase in market supply, has led to a decrease in the prices of antibiotic products during the period. It is expected that the sluggish market will not be recovered in the short term. 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, yet product prices have rebounded to a reasonable level after years of continual volatility during the period. Apart from the efforts to attain quality improvement and production cost reduction, the Group will grasp the market opportunities to develop high-quality, high-end customers, adjust customer structure and improve product's profitability. During the period, the vitamin C business continued to contribute profit.

Caffeine and Others

During the period, the market demand of caffeine remained stable while product prices recorded a slight increase. The Group has further improved its overall business performance by the promotion of new products and lowering of production costs. The strong growth of the segment during the period is also attributable to the contribution from the glucose business which was acquired by the Group in June 2016.

Research and Development

The Group continued to invest in the research and development of new products, and currently has approximately 170 new products under research and development, primarily focusing on the therapeutic areas of cardio cerebrovascular, diabetes, oncology, neurology and anti-infection. Among these products, 18 are Class 1 new drugs and 49 are Class 3 new chemical drugs (old classification system).

During the first half of 2017, the Group has submitted clinical trial application for 4 products and production application for 5 products (namely "dasatinib raw materials and tablets" (Class 3+6 chemical drug), "ticagrelor raw material and tablets" (Class 3+6 chemical drug), "pramipexole hydrochloride raw material and tablets" (Class 3+6 chemical drug), "sunitinib malate raw material and capsules" (Class 3+6 chemical drug) and "clopidogrel hydrogen sulfate tablets" (Class 6 chemical drug) to the CFDA; and has obtained clinical trial approval for 3 products (namely "baicalein tablets" (Class 1 new drug), "amphotericin b cholesteryl sulfate complex for injection" (Class 6 chemical drug) and "simethicone soft capsules" (Class 5 chemical drug)) from the CFDA.

At present, the Group has 32 products pending for production approval by the CFDA (including "paclitaxel for injection (albumin-bound)" (new Class 4 chemical drug), "dronedarone hydrochloride raw material and tablets" (Class 3+6 chemical drug) and "moxifloxacin hydrochloride raw material and tablets" (Class 3+6 chemical drug)) and 17 products undergoing bioequivalence studies or clinical trials (including 9 Class 1 new drugs).

With regard to the Abbreviated New Drug Application ("ANDA") in the U.S., the Group has submitted application for 3 drugs (namely "benzonatate soft capsules 100 mg", "celecoxib capsules" and "pregabalin capsules") and obtained approval for 6 drugs (namely "clopidogrel hydrogen sulfate tablets", "montelukast sodium tablets" , "montelukast sodium chewable tablets", "gabapentin tablets", "azithromycin tablets" and "cefadroxil capsules") so far this year. Currently, the Group has a total of 4 drugs with ANDA application submitted, and a total of 14 drugs in the research stage.

Meanwhile, the phase II clinical trial of "butylphthalide soft capsules" in the U.S. is in the stage of selecting clinical centres to conduct the clinical research. It is expected that 20 subjects will be enrolled by the end of 2017. Further, "mitoxantrone hydrochloride liposome injection" has also been approved by the U.S. FDA to commence clinical trials. At present, the protocol for clinical trial has passed the ethical evaluation of 4 centres and has started subject screening.

Financial Review

Results

	For the six months ended 30 June		
	2017	2016	Change
Revenue *(HK$'000)*			
Finished drugs	**5,273,381**	4,379,798	20.4%
Bulk drugs	**1,928,194**	1,766,068	9.2%
Total	**7,201,575**	6,145,866	17.2%
Operating profit *(HK$'000)*	**1,675,884**	1,310,280	27.9%
Operating profit margin	**23.3%**	21.3%	
Profit attributable to shareholders *(HK$'000)*	**1,312,930**	1,032,813	27.1%
Net profit margin	**18.2%**	16.8%	
Basic earnings per share *(HK cents)*	**21.69**	17.47	24.2%

Finished drug business continued to be the major growth driver to the Group. In particular, the innovative drugs of the Group delivered a strong growth in the first half of 2017 with aggregate sales reaching approximately HK$2,949 million, representing a growth of 30.0%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 36.9% in the same period last year to 40.9% in the current period. The increased contribution from the innovative drugs, coupled with a strong recovery of the vitamin C business, were mainly attributable to the improvement of operating profit margin and net profit margin of the Group in the first half of 2017.

Liquidity and Financial Position

For the first half of 2017, the Group's operating activities generated a cash inflow of HK$1,271 million (2016: HK$951 million). For the current period, the 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 41 days in 2016 to 42 days whereas the average turnover period of inventories (ratio of balance of inventories to cost of sales) increased from 116 days in 2016 to 149 days. The significant increase in inventory level was mainly due to (i) the finished drug business (which has a longer inventory turnover period in light of its business model) has taken up a bigger proportion of the overall business of the Group; (ii) the need to meet the expected increasing market demand; and (iii) the need to have more inventories in anticipation of the overhaul of bulk drug production plants in the third quarter. Current ratio of the Group was 1.9 as at 30 June 2017, remaining stable as compared to 2.1 half year earlier. Capital expenditure for the current period amounted to HK$365 million, which were mainly spent to expand production capacities and improve production efficiency.

The Group's financial position remained solid. As at 30 June 2017, total bank balances and cash amounted to HK$3,124 million (2016: HK$3,238 million) and total borrowings amounted to HK$1,085 million (2016: HK$1,138 million), resulting in a net cash positon of HK$2,039 million (2016: HK$2,100 million). Total borrowings comprised bank loans of HK$1,059 million and loan from a related company of HK$26 million. HK$834 million of the total borrowings are repayable within one year and the remaining HK$251 million repayable between one to two years. Gearing ratio further reduced from 11.2% as at 31 December 2016 to 9.7% as at 30 June 2017.

44.0% of the Group's borrowings are denominated in Hong Kong dollars, 39.3% in United States dollars and 16.7% in Renminbi. The Group's sales are denominated in Renminbi for domestic sales in China and 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 2017, the Group had approximately 10,749 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.

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 2017 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.

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 2017.

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

Hong Kong, 22 August 2017

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. PAN Weidong, Mr. WANG Huaiyu, Mr. LU Jianmin, Mr. WANG Zhenguo, Mr. WANG Jinxu, Mr. LU Hua 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, Mr. LO Yuk Lam, Mr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.