



石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)



2017

INTERIM REPORT

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## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

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

#### 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

PAN Weidong  
CHAK Kin Man

#### 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](http://www.cspc.com.hk)

## FINANCIAL HIGHLIGHTS

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

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 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".

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Finished Drug Business *(Continued)*

#### *Innovative Drug Products (Continued)*

##### *“NBP” (Continued)*

“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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Finished Drug Business *(Continued)*

#### *Innovative Drug Products (Continued)*

##### *“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.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Finished Drug Business (Continued)

#### *Innovative Drug Products (Continued)*

##### *“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.





## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Finished Drug Business (Continued)

#### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Bulk Drug Business *(Continued)*

#### **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).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Research and Development (Continued)

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	<b>5,273,381</b>	4,379,798	20.4%
Bulk drugs	<b>1,928,194</b>	1,766,068	9.2%
Total	<b>7,201,575</b>	6,145,866	17.2%
Operating profit (HK\$'000)	<b>1,675,884</b>	1,310,280	27.9%
Operating profit margin	<b>23.3%</b>	21.3%	
Profit attributable to shareholders (HK\$'000)	<b>1,312,930</b>	1,032,813	27.1%
Net profit margin	<b>18.2%</b>	16.8%	
Basic earnings per share (HK cents)	<b>21.69</b>	17.47	24.2%

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Financial Review *(Continued)*

#### Results *(Continued)*

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 position 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.



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Financial Review** *(Continued)*

#### **Liquidity and Financial Position** *(Continued)*

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.




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 15 to 41, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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

22 August 2017

## 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	
	NOTES	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (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		1,665,256	1,297,077
Income tax expense	5	(346,614)	(257,275)
Profit for the period	4	1,318,642	1,039,802
<b>Other comprehensive income (expense):</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
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



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

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

## 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)
<b>Non-current assets</b>			
Property, plant and equipment	8	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	9	230,198	91,732
Deferred tax assets		22,491	27,986
		<u>6,961,226</u>	<u>6,332,568</u>
<b>Current assets</b>			
Inventories		2,534,483	1,933,147
Trade and other receivables	10	2,183,588	1,835,266
Bills receivables	10	1,551,220	1,215,156
Trade receivables due from related companies	11	74,571	73,570
Amounts due from joint ventures	11	250,110	115,986
Prepaid lease payments		17,451	16,419
Tax recoverable		474	—
Held-for-trading investments		607	521
Restricted bank deposits	12	7,961	2,875
Bank balances and cash	12	3,116,357	3,234,678
		<u>9,736,822</u>	<u>8,427,618</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 30 JUNE 2017

	NOTES	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
<b>Current liabilities</b>			
Trade and other payables	13	3,815,264	2,937,893
Bills payables	13	104,263	100,559
Amounts due to related companies	11	132,289	657
Tax liabilities		119,853	147,769
Borrowings	14	833,938	897,777
		<u>5,005,607</u>	<u>4,084,655</u>
<b>Net current assets</b>		<u>4,731,215</u>	<u>4,342,963</u>
<b>Total assets less current liabilities</b>		<b>11,692,441</b>	10,675,531
<b>Non-current liabilities</b>			
Deferred tax liabilities		122,025	68,865
Borrowings	14	250,600	240,380
Government grants		178,446	174,964
		<u>551,071</u>	<u>484,209</u>
<b>Net assets</b>		<u><b>11,141,370</b></u>	<u>10,191,322</u>
<b>Capital and reserves</b>			
Share capital	15	10,577,404	10,569,620
Reserves		475,739	(461,994)
Equity attributable to owners of the Company		<u>11,053,143</u>	<u>10,107,626</u>
Non-controlling interests		88,227	83,696
<b>Total equity</b>		<u><b>11,141,370</b></u>	<u>10,191,322</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Equity attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Other reserve	Investment revaluation reserve	Statutory reserve	Capital contribution reserve	Share options reserve	Translation reserve	Accumulated profits			Total
	HK\$'000	HK\$'000 (note i)	HK\$'000	HK\$'000 (note ii)	HK\$'000 (note iii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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 a subsidiary (note 19)	—	—	—	—	11,879	—	—	—	11,879	3,989	15,868
At 30 June 2016 (Unaudited)	9,835,299	(5,523,729)	—	742,271	57,443	172,965	(567,340)	4,233,693	8,950,602	84,013	9,034,615
At 1 January 2017 (Audited)	10,569,620	(5,523,729)	—	769,815	57,443	1,814	(1,041,222)	5,273,885	10,107,626	83,696	10,191,322
Profit for the period	—	—	—	—	—	—	—	1,312,930	1,312,930	5,712	1,318,642
Other comprehensive income for the period	—	—	—	—	—	—	351,102	—	351,102	2,379	353,481
Total comprehensive income for the period	—	—	—	—	—	—	351,102	1,312,930	1,664,032	8,091	1,672,123
Dividends recognised as distribution (note 6)	—	—	—	—	—	—	—	(726,482)	(726,482)	—	(726,482)
Dividends paid to non-controlling interest	—	—	—	—	—	—	—	—	—	(3,490)	(3,490)
Transfer to statutory reserve	—	—	—	236,826	—	—	—	(236,826)	—	—	—
Exercise of share options	7,784	—	—	—	—	(1,814)	—	—	5,970	—	5,970
Acquisition of a subsidiary (note 19)	—	—	—	—	—	—	—	—	—	8,927	8,927
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(8,997)	(8,997)
Revaluation in available-for-sale investments	—	—	1,997	—	—	—	—	—	1,997	—	1,997
At 30 June 2017 (Unaudited)	10,577,404	(5,523,729)	1,997	1,006,641	57,443	—	(690,120)	5,623,507	11,053,143	88,227	11,141,370



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

FOR THE SIX MONTHS ENDED 30 JUNE 2017

*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 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"), a related company as defined in note 11, 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 a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co. Ltd. from CHL in April 2016.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		For the six months ended 30 June	
	NOTE	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash from operating activities		<u>1,271,452</u>	<u>951,206</u>
Net cash used in investing activities:			
Purchase of property, plant and equipment		(369,236)	(420,214)
Acquisition of subsidiaries and assets	19	(304,539)	(25,570)
Purchase of available-for-sale investments		(136,469)	—
Advances to joint ventures		(123,478)	(11,249)
Placement of restricted bank deposits		(4,906)	—
Addition of intangible assets		(760)	(6,685)
Proceeds on disposal of property, plant and equipment		8,868	5,341
Interest received		7,906	6,478
Deposit paid for acquisition of prepaid lease payment		—	(76,374)
Other investing cash flows		—	(11,059)
		<u>(922,614)</u>	<u>(539,332)</u>
Net cash used in financing activities:			
Dividend paid		(726,482)	(650,212)
Repayments of borrowings		(641,621)	(111,669)
Acquisition of additional interest in a subsidiary		(8,997)	—
Dividends paid to non-controlling interests		(3,490)	—
New borrowings raised		573,513	230,906
Advance from related parties		235,123	37,659
Receipt on issuance of shares upon exercise of share options		5,970	—
		<u>(565,984)</u>	<u>(493,316)</u>
Net decrease in cash and cash equivalents		(217,146)	(81,442)
Cash and cash equivalents at 1 January		3,234,678	2,299,468
Effect of foreign exchange rate changes		98,825	(44,107)
		<u>3,116,357</u>	<u>2,173,919</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash		<u>3,116,357</u>	<u>2,173,919</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

### 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 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.

#### **Significant transactions**

The Group made certain acquisitions during the current interim period. For details, please refer to note 19.

## 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.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

## 3. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker ("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 segments 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 operating and reportable segments:

#### For the six months ended 30 June 2017 (Unaudited)

	Finished drugs HK\$'000	Antibiotics HK\$'000	Vitamin C HK\$'000	Caffeine and others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE							
External sales	5,273,381	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	<u>5,273,381</u>	<u>661,365</u>	<u>772,012</u>	<u>552,809</u>	<u>7,259,567</u>	<u>(57,992)</u>	<u>7,201,575</u>
SEGMENT PROFIT	<u>1,391,525</u>	<u>24,608</u>	<u>192,395</u>	<u>113,089</u>			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							<u>1,665,256</u>

**3. SEGMENT INFORMATION** *(Continued)*  
**For the six months ended 30 June 2016 (Unaudited)**

	Finished drugs <i>HK\$'000</i>	Antibiotics <i>HK\$'000</i>	Vitamin C <i>HK\$'000</i>	Caffeine and others <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE							
External sales	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	<u>4,379,798</u>	<u>755,309</u>	<u>680,908</u>	<u>361,329</u>	<u>6,177,344</u>	<u>(31,478)</u>	<u>6,145,866</u>
SEGMENT PROFIT	<u>1,275,454</u>	<u>22,973</u>	<u>1,484</u>	<u>83,089</u>			1,383,000
Unallocated income							6,478
Unallocated expenses							<u>(79,198)</u>
Operating profit							1,310,280
Finance costs							(22,212)
Share of results of a joint venture							<u>9,009</u>
Profit before tax							<u>1,297,077</u>

Segment profit represents the profit earned by each segment without allocation of certain interest income, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resources 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 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (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	<u>290,945</u>	<u>270,371</u>
Total depreciation and amortisation	<u>310,971</u>	<u>285,256</u>
Government grant income ( <i>note ii</i> )	(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)	<u>324,656</u>	<u>192,164</u>

#### Notes:

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

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 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Dividends recognised as distribution during the period:		
2016 Final, paid — HK12 cents (2016: 2015 Final, paid — HK11 cents) per share	<u>726,482</u>	<u>650,212</u>

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 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<u>1,312,930</u>	<u>1,032,813</u>

## 7. EARNINGS PER SHARE (Continued)

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

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group had addition of property, plant and equipment of approximately HK\$365,189,000 (2016: HK\$395,618,000) 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\$16,116,000 (2016: HK\$4,792,000) for proceeds of approximately HK\$8,868,000 (2016: HK\$5,341,000), resulting in a loss of approximately HK\$7,248,000 (2016: gain of approximately HK\$549,000).

## 9. AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at 30 June 2017 HK\$'000 (unaudited)</b>	As at 31 December 2016 HK\$'000 (audited)
Listed equity investment in Hong Kong, at fair value (note i)	<b>60,086</b>	—
Unlisted equity investments in partnerships, at cost (note ii)	<b>154,630</b>	91,372
Unlisted equity investments, at cost (note iii)	<b>15,482</b>	—
	<b>230,198</b>	91,372

### Notes:

- (i) The amount represents equity securities listed in Hong Kong. The fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The Group does not have the intention to sell the investment in the short term.
- (ii) Unlisted equity investments in partnerships included two limited partnership enterprises established in 2016 and the limited partnership enterprises interests acquired on 29 May 2017. The limited partnership enterprises (the "Partnership Enterprise(s)") specialise in making equity investment. The Group has an intention of holding them as long term investments.

According to the Partnership Enterprises agreements, each Partnership Enterprise is managed by its general partner. The Group participates in the Partnership Enterprises as one of the limited partners whom does not have power on selection nor removal of assets manager or general partner of the Partnership Enterprises. In addition, the Group does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The directors of the Company are of the opinion that the Group does not have any control nor significant influence to affect the variable returns through its investment in the partnership enterprises and therefore these investments are accounted for as available-for-sale financial assets.

As at 30 June 2017, the investments in the Partnership Enterprises are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

- (iii) The amount represents investments in unlisted equity interests in entities established in the PRC. The investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates are so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

## 10. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	As at 31 December 2016 HK\$'000 (Audited)
Trade receivables	<b>1,821,042</b>	1,492,855
Less: allowance for doubtful debts	<b>(10,943)</b>	(10,423)
	<b>1,810,099</b>	1,482,432
Prepayment for purchase of raw materials	<b>160,150</b>	150,585
Deposits and prepayment for utilities	<b>60,089</b>	51,720
Other tax recoverable	<b>61,545</b>	46,891
Others	<b>91,705</b>	103,638
	<b>2,183,588</b>	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) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	As at 31 December 2016 HK\$'000 (Audited)
0 to 90 days	<b>1,589,711</b>	1,357,953
91 to 180 days	<b>203,058</b>	114,647
181 to 365 days	<b>17,330</b>	9,832
	<b>1,810,099</b>	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.





## 11. RELATED PARTIES DISCLOSURES (Continued)

### (II) JOINT VENTURES

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Purchase of raw materials Provision of utility services Sales of raw materials	19,792 41,482 81,304	3,622 43,947 82,738
		<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2016 HK\$'000 (Audited)</b>
	Balance due from Huarong — other receivables (note i)	<b>55,561</b>	<b>72,187</b>
Yantai Jiashi Pharmaceutical Technology Co., Ltd. ("Yantai Jiashi")	Balance due from Yantai Jiashi — other receivables (note i)	<b>194,549</b>	<b>43,799</b>

#### Notes:

- (i) Amounts are unsecured, non-interest bearing and repayable on demand, except for a loan of approximately HK\$149,770,000 granted by the Group to Yantai Jiashi during 2017 which is unsecured, interest-bearing at a fixed rate of 6% per annum and repayable on demand.
- (ii) The Group allows a general credit period of 90 days to its trade customers.
- (iii) The Group obtained loans from a related company which are unsecured, bear interest rate of 4.6% per annum and repayable within 1 to 3 years. The Group repaid part of the loans in the current period of approximately HK\$16,969,000 (2016: HK\$35,088,000).
- (iv) Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significance influence over the Company and exercises control over CHL through a series of controlled corporations. CHL and its subsidiaries and associates are related parties of the Group.

## 11. RELATED PARTIES DISCLOSURES (Continued)

### (III) 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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Short-term benefits	5,845	5,899
Post-employment benefits	502	489
	<b>6,347</b>	<b>6,388</b>

## 12. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.15% (31 December 2016: 0.01% to 1.35%) per annum.

As at 30 June 2017 and 31 December 2016, 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 of relevant short term bank facilities.

## 13. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (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
	<b>3,815,264</b>	<b>2,937,893</b>

### 13. 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:

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	As at 31 December 2016 HK\$'000 (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
	<b><u>1,677,985</u></b>	<b><u>1,113,908</u></b>

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.

### 14. BORROWINGS

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	As at 31 December 2016 HK\$'000 (Audited)
Unsecured		
— floating-rate HK\$ bank loans	477,300	277,000
— floating-rate United States dollar ("USD") bank loans	93,000	93,000
— fixed-rate USD bank loans	332,786	—
— floating-rate RMB bank loans	155,530	726,258
— fixed-rate RMB loans from a related company (note 11)	25,922	41,899
	<b><u>1,084,538</u></b>	<b><u>1,138,157</u></b>

The carrying amounts of the above borrowings are repayable as follows:

On demand or within one year	833,938	897,777
Within a period of more than one year, but not exceeding two years	250,600	240,380
	<b><u>1,084,538</u></b>	<b><u>1,138,157</u></b>
Less: Amounts due within one year shown under current liabilities	<b><u>(833,938)</u></b>	<b><u>(897,777)</u></b>
Amounts shown under non-current liabilities	<b><u>250,600</u></b>	<b><u>240,380</u></b>

#### 14. BORROWINGS (Continued)

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 2017	As at 31 December 2016
Effective interest rate:		
Floating-rate HK\$ bank loans	<b>From 2.02% to 2.81% per annum</b>	From 2.03% to 2.98% per annum
Floating-rate USD bank loans	<b>From 2.47% to 2.91% per annum</b>	From 2.44% to 3.12% per annum
Fixed-rate USD bank loans	<b>From 2.55% to 2.90% per annum</b>	—
Floating-rate RMB bank loans	<b>From 3.50% to 4.65% per annum</b>	From 3.15% to 4.085% per annum
Fixed-rate RMB loans from a related company	<b>4.60% per annum</b>	4.60% per annum

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

#### 15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<b>Issued and fully paid</b>		
At 1 January 2016 (audited) and 30 June 2016 (unaudited)	5,911,018,403	9,835,299
Exercise of share option	141,500,000	734,321
At 1 January 2017 (audited)	6,052,518,403	10,569,620
Exercise of share option (note)	1,500,000	7,784
At 30 June 2017 (unaudited)	6,054,018,403	10,577,404

Note: In March 2017, the Company issued 1,500,000 shares upon exercise of share options at an exercise price of HK\$3.98 under the 2004 Scheme (as set out in note 16). These new shares ranked pari passu in all respects with other shares in issue.

## 16. 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 will fully vest on the first anniversary of the date of grant. The exercise price of the options and closing price of the Company's shares on 17 April 2013, the date of grant, was HK\$3.98. The share options granted on 17 April 2013 are exercisable from 17 April 2014 to 16 April 2023. The fair values of the options determined at the date of grant using the Binomial model were approximately HK\$181,433,000. Details of the fair value measurements are set out in the Group's consolidated financial statements for the year ended 31 December 2013.

During the period, the grantees exercised the remaining 1,500,000 (2016: nil) options. As at 30 June 2017, no share options were outstanding (31 December 2016: 1,500,000).

In respect of the share options exercised during the period, the weighted average share price at the dates on which the share options were exercised was HK\$10.04.

### (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 have been granted under 2015 Scheme since its adoption.

## 17. CAPITAL AND OTHER COMMITMENTS

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

	<b>As at 30 June 2017 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2016 HK\$'000 (Audited)</b>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<b>983,935</b>	643,254
Other commitments ( <i>note</i> )	<b>655,029</b>	132,782

*Note:* Amounts refer to commitments arising from unlisted equity investments in partnerships and research and development projects.



## 18. 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, except for the listed available-for-sale investment. The fair value of the listed available-for-sales investment is determined by the quoted bid price in an active market.

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.

## 19. ACQUISITION OF SUBSIDIARIES

### (a) Business combinations

During the period ended 30 June 2017, the following business acquisitions took place:

- (i) On 3 January 2017, the Group entered into an agreement to acquire 100% equity interest in Cenway Pharmaceutical (Inner Mongolia) Co. Ltd. ("Cenway") from an independent third party for a cash consideration of RMB68,000,000 (equivalent to approximately HK\$75,978,000). The acquisition was completed on 12 January 2017 and the name of Cenway was changed to CSPC Neimenggu Zhongnuo Pharmaceutical Co. Ltd. ("NMG Zhongnuo") on the same date. NMG Zhongnuo is engaged in manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's production capability; and
- (ii) On 23 January 2017, the Group entered into an agreement to acquire 100% equity interest in Goldfaith Investments Limited ("Goldfaith") and its subsidiaries, Rockley Inc. ("Rockley") and Hebei Union Pharmaceutical Co., Ltd ("Union") (hereafter collectively referred to as the "Goldfaith Group"), from an independent third party for a cash consideration of RMB72,710,000 (equivalent to approximately HK\$82,167,000). Goldfaith holds 100% equity interest in Rockley and Rockley holds 90% equity interest in Union. The acquisition was completed on 23 January 2017. Goldfaith Group is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's product portfolio.

All the above acquisitions have been accounted for using the acquisition method of accounting.

19. ACQUISITION OF SUBSIDIARIES (Continued)

(a) Business combinations (Continued)

Assets acquired and liabilities recognised at the date of acquisitions

	NMG Zhongnuo HK\$'000	Goldfaith Group HK\$'000	Total HK\$'000
<b>Fair value of assets and liabilities recognised at the date of acquisition:</b>			
<b>Non-current assets</b>			
Property, plant and equipment	130,206	25,888	156,094
Prepaid lease payments	—	19,164	19,164
Intangible assets	—	9	9
Available-for-sale investments	—	126	126
<b>Current assets</b>			
Inventories	7,692	16,947	24,639
Trade and other receivables	74,299	20,111	94,410
Bills receivables	5,403	4,076	9,479
Prepaid lease payments	—	512	512
Bank balances and cash	986	25,705	26,691
<b>Current liabilities</b>			
Trade and other payables (note)	(142,608)	(21,025)	(163,633)
Tax liabilities	—	(3)	(3)
<b>Non-current liability</b>			
Deferred tax liabilities	—	(2,283)	(2,283)
<b>Total identifiable net assets acquired</b>	<b>75,978</b>	<b>89,227</b>	<b>165,205</b>
Consideration transferred	75,978	82,167	158,145
Plus: Non-controlling interests	—	8,927	8,927
Less: Recognised amount of identifiable net assets acquired	(75,978)	(89,227)	(165,205)
Goodwill	—	1,867	1,867
Cash consideration paid	75,978	82,167	158,145
Bank balances and cash acquired	(986)	(25,705)	(26,691)
Net cash outflow	74,992	56,462	131,454



## 19. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) Business combinations (Continued)

#### **Assets acquired and liabilities recognised at the date of acquisitions (Continued)**

Note: Included in trade and other payables was an amount of approximately HK\$7,752,000 due to the Group.

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to approximately HK\$94,410,000, which represent the gross contractual amounts at the date of acquisition.

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.

#### **Non-controlling interests**

The non-controlling interests in Goldfaith Group 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 Union and amounted to approximately HK\$8,927,000.

All acquired entities did not have any significant contribution to the Group's revenue or results for the period ended 30 June 2017. Had the acquisitions of the above entities been completed on 1 January 2017, total amount of the Group's revenue for the period would have been approximately HK\$7,205,052,000, and the profit for the period would have been approximately HK\$1,319,604,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2017, nor is it intended to be a projection of future results.

### (b) Assets acquisitions

During the period ended 30 June 2017, the following assets acquisitions took place as they did not operate any business prior to the date of acquisitions, and have been accounted for as acquisitions of assets.

- (i) On 3 March 2017, the Group entered into an agreement to acquire 100% equity interest in Hebei Shiwei Pharmaceutical Trading Co., Ltd. ("Hebei Shiwei") from China Charmaine Pharmaceutical Company Limited, which is a wholly-owned subsidiary of CHL for a cash consideration of RMB200,030,689 (equivalent to approximately HK\$225,259,000). The acquisition was completed on 20 March 2017 and the name of Hebei Shiwei was changed to Shijiazhuang Ouyihe Medical Trading Co., Ltd. ("Ouyihe") on the same date. A pharmaceutical operation permit has been granted to Ouyihe from the China Food and Drug Administration for the engagement of wholesale of pharmaceutical products. The acquisition enabled the Group to commence its wholesales business for a new line of pharmaceutical products immediately after completion of the acquisition and to save time for applying the pharmaceutical operation permit; and

## 19. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Assets acquisitions (Continued)

- (ii) On 9 May 2017, the Group entered into an agreement to acquire 100% equity interest in CSPC Dopphen Corporation (“Dopphen”) from CHL for a consideration of USD9,700,000 (equivalent to approximately HK\$75,314,000). The acquisition was completed on 9 May 2017. Dopphen is principally engaged in research and development of pharmaceutical products. The acquisition will be able to strengthen the Group’s research and development capability of biopharmaceuticals and supplement its product pipeline.

#### **Assets acquired and liabilities recognised at the date of acquisitions**

	<b>Ouyihe</b> HK\$'000	<b>Dopphen</b> HK\$'000	<b>Total</b> HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	4	11,847	11,851
Intangible assets	—	69,745	69,745
<b>Current assets</b>			
Other receivables (note)	181,282	—	181,282
Bank balances and cash	44,870	7,304	52,174
<b>Current liabilities</b>			
Trade and other payables	(897)	(13,582)	(14,479)
<b>Total identifiable net assets acquired</b>	<b>225,259</b>	<b>75,314</b>	<b>300,573</b>
Cash consideration paid	225,259	—	225,259
Bank balances and cash acquired	(44,870)	(7,304)	(52,174)
Net cash (outflow) inflow	<b>180,389</b>	<b>(7,304)</b>	<b>173,085</b>

Note: Included in trade and other receivables was an amount of approximately HK\$181,208,000 due from the Group.

The Group completed a business acquisition and an asset acquisition during the year ended 31 December 2016 and details are disclosed in the Group’s 2016 annual report.

## OTHER INFORMATION

### Directors' Interest in Shares, Underlying Shares and Debentures

As at 30 June 2017, 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	Percentage of shares in issue of the Company
Cai Dongchen	Beneficial owner	86,538,000	1.43%
	Interest of controlled corporation	1,765,825,534 (Note i)	29.17%
Chak Kin Man	Beneficial owner	4,000	0.0001%

#### Notes:

- (i) 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 2017.

## OTHER INFORMATION (Continued)

### 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 2017, 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.

### 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 (Note (i))	
		<u>1,765,825,534</u>	29.17%
Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)	Interest in controlled corporation	1,058,016,034 (Note (ii))	17.48%
March Rise Limited	Interest in controlled corporation	1,058,016,034 (Note (ii))	17.48%
Massive Top Limited	Interest in controlled corporation	1,058,016,034 (Note (ii))	17.48%
Massive Giant Group Limited	Beneficial owner	1,058,016,034 (Note (ii))	17.48%
UBS Group AG	Persons having a security interest in shares Interest in controlled corporation	270,230,698	
		62,345,489	
		<u>332,576,187</u>	5.49%



## OTHER INFORMATION *(Continued)*

### Substantial Shareholders *(Continued)*

#### Long Positions *(Continued)*

Notes:

- (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 Zhongyihe and 10% by True Ally. March Rise Limited is owned as to 40% by True Ally and 60% by Zhongyihe.

#### Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
UBS Group AG	Interest in controlled corporation	3,121,170	0.05%

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 2017.

## 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 2017
				As at 1 January 2017	Granted	Exercised	Cancelled	Lapsed	
<b>Directors</b>									
Chak Kin Man	17 April 2013	3.98	17 April 2014 – 16 April 2023	1,500,000	—	(1,500,000)	—	—	—
<b>Total</b>				<b>1,500,000</b>	<b>—</b>	<b>(1,500,000)</b>	<b>—</b>	<b>—</b>	<b>—</b>

Notes:

1. The closing price of the Company’s shares immediately before the date of grant of the options was HK\$3.98.
2. The weighted average closing price of the Company’s shares immediately before the dates on which the share options were exercised was HK\$10.04.

As at 30 June 2017, no options were outstanding as at the date of this report.

#### (ii) 2015 share option scheme

At the extraordinary general meeting of the Company held on 9 December 2015, an ordinary resolution was passed for the adoption of a new share option scheme. No options have been granted under the new share option scheme since its adoption.



## **OTHER INFORMATION** *(Continued)*

### **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 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 2017.

### **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 Board  
**CSPC Pharmaceutical Group Limited**  
**CAI Dongchen**  
*Chairman*

Hong Kong, 22 August 2017