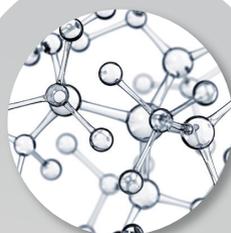




# 石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)



2020  
INTERIM REPORT



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## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

CAI Dongchen (*Chairman and CEO*)

ZHANG Cuilong (*Vice-Chairman and Rotating CEO*)

WANG Zhenguo

PAN Weidong

WANG Huaiyu

LI Chunlei

WANG Qingxi

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

### 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

### Auditor

Deloitte Touche Tohmatsu

*Registered Public Interest Entity Auditors*

### Company Secretary

LEE Ka Sze, Carmelo

### Registered Office

Suite 3206

32nd Floor

Central Plaza

18 Harbour Road

Wan Chai

Hong Kong

### Share Registrar

Tricor Secretaries Limited

Level 54

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

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	Change
Revenue by business units:			
Finished drugs	10,231,025	8,766,117	+16.7%
Vitamin C	1,004,964	1,157,854	-13.2%
Antibiotics	478,020	531,272	-10.0%
Others	875,588	722,753	+21.1%
Total revenue	<b>12,589,597</b>	<b>11,177,996</b>	+12.6%
Gross profit	<b>9,437,353</b>	7,812,611	+20.8%
Operating profit	<b>2,618,639</b>	2,339,895	+11.9%
Profit attributable to shareholders	<b>2,313,996</b>	1,878,284	+23.2%
Basic earnings per share	<b>RMB30.97 cents</b>	RMB25.11 cents	+23.3%
Interim dividend per share	<b>HK6 cents</b>	—	

#### Turnover (RMB million)



#### Profit attributable to shareholders (RMB million)





## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

For the six months ended 30 June 2020, the Group achieved revenue of RMB12,590 million, representing an increase of 12.6% year-on-year; and profit attributable to shareholders of RMB2,314 million, representing an increase of 23.2% year-on-year. Basic earnings per share for the first half of 2020 amounted to RMB30.97 cents (first half of 2019: RMB25.11 cents).

### DIVIDEND

The Board has declared an interim dividend of HK6 cents per share for 2020. The interim dividend will be payable on 9 October 2020 to shareholders whose names appear on the register of members of the Company on 15 September 2020.

### BONUS ISSUE OF SHARES

The Board has also proposed a bonus issue of three new shares for every five existing shares held by shareholders of the Company whose names appear on the register of members of the Company on 21 October 2020, which is subject to shareholders' approval at the forthcoming extraordinary general meeting of the Company. Details of the bonus issue will be disclosed in the circular to be published by the Company in due course.

### INDUSTRY REVIEW

The first half of 2020 has witnessed the continuous deepening of the national healthcare reform and the accelerated implementation of policies regulating the pharmaceutical industry. Following the second batch of nationwide centralised medicines procurement, which was held in January and implemented in April, a new round of centralised procurement of drugs has been held in August, offering opportunities for enterprises that have competitive edges on passing consistency evaluations and cost control capability to achieve volume gain with price reduction. The policy of consistency evaluation of generic drugs was formally extended to injectable formulations in May, which will drive enterprises to improve drug quality and prepare for the gradual inclusion of injectable formulations into the scope of centralised procurement. The regular adjustment of the national reimbursement drug list and rolling out of pilot trials of Diagnosis Related Groups (DRGs) will generate a positive effect on improving the structure of reimbursement drugs, reducing the burden of patients and enhancing the accessibility of medication. While these policies will pose challenges to the industry, they will also promote market consolidation and shift industry's focus from generic drugs to innovative drugs, which are favourable to the development of the industry in the long run.



## BUSINESS REVIEW

With the outbreak of COVID-19 pandemic, hospital visit rate dropped sharply and market activities were disrupted during the first quarter, making a negative impact on the operation. The Group actively implemented online promotion and flexible sales strategies to reduce the impact on sales. Since the beginning of the second quarter, the pandemic in China has been gradually brought under control, hospital visit rate has recovered and various marketing activities have resumed. The overall operation of the Group has returned to normal.

In the first half of 2020, the results of the Group maintained a steady growth. With the efforts put in professional academic-based promotion, hospital development, lower-tier market penetration, clinical application extension and professional sales force expansion, major finished drug products were able to sustain rapid growth, and market coverage was further enhanced (reaching medical institutions of various levels in city, county, town and community). During the period, market development of the newly launched products was also carried out smoothly, which have brought in new sales contribution and further facilitated a more balanced product mix of the finished drugs. Owing to the pandemic, the overseas market has seen a substantial increase in demand for healthcare products, resulting in a significant improvement in the operating results of vitamin C business in the second quarter.

Good progress has also been made in respect of R&D:

- 1) Obtained drug registration approvals for rivaroxaban tablets, montelukast sodium tablets, montelukast sodium chewable tablets, ornithine aspartate injections, bortezomib for injection, celecoxib capsules, acarbose tablets, memantine hydrochloride tablets and duloxetine hydrochloride enteric capsules in China;
- 2) Obtained ANDA approval for omega-3-acid ethyl esters 90 soft capsules in the U.S.;
- 3) New Drug Application for mitoxantrone hydrochloride liposome injection (new preparation) in China was submitted and accepted;
- 4) Completed patient enrolment of the bridging trial of Duvelisib (innovative drug) in China, currently under follow-up;
- 5) Passed the preliminary assessment of the application of Jinyouli and its related technology for the Second Prize of State Scientific and Technological Progress Award;

- 
- 6) Obtained clinical trial approvals for irinotecan liposome injection, docetaxel for injection (albumin-bound), SYHA1805 tablets, SYHA1815 tablets and recombinant anti-IgE monoclonal antibody for injection in China, ALMB-0168 in Australia and Y150 (CD38/CD3 bispecific antibody) developed by Wuhan YZY in the U.S.; and
  - 7) 12 generic drug products (18 specifications) have passed or been deemed to have passed the consistency of quality and efficacy evaluation of generic drugs.

## **Finished Drug Business**

The finished drug business recorded sales of RMB10,231 million in the first half of 2020, representing an increase of 16.7% over the same period of last year. The sales performance of products by major therapeutic area is as follows.

### ***Nervous System Disease Products***

Major products include NBP (恩必普) (butylphthalide soft capsules and injections), Oulaining (歐來寧) (oxiracetam capsules and lyophilised powder injections) and Enxi (恩悉) (pramipexole dihydrochloride tablets).

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. Its efficacy has been widely recognised with its being listed as one of the recommended drugs in various editions of “Guidelines for Acute Ischemic Stroke Treatment in China” as well as in more than ten other guidelines and expert consensuses. Both formulations of NBP are national reimbursement drugs, which are favourable for the promotion of sequential treatment (injections for emergency use and soft capsules for recovery use). Active exploration in new therapeutic areas for butylphthalide has been conducted as well, with 153 research projects in progress, including 75 fundamental and 78 clinical projects. In particular, the clinical trial of butylphthalide soft capsules for the treatment of vascular dementia has been approved to proceed to phase III directly in China. The phase II clinical trial of butylphthalide soft capsules in the U.S. has completed patient enrolment and is in the process of data analysis. The development of new indications and markets will be able to bring new growth opportunities to NBP.

Oulaining is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. The promulgation of the National Key Drug List for Monitoring and Prescription Control and removal from the provincial supplementary reimbursement lists had significant impact on the sales of Oulaining. Nevertheless, Oulaining has been marketed in China for over 16 years and has also been included in a number of authoritative guidelines with a relatively large user base of doctors and patients. The Group adopted a combined sales model with direct and cooperative sales during the period, strengthened control over each level of end-user market and increased efforts in academic-based promotion, striving to achieve stable sales of Oulaining within its reasonable scope of use.



Enxi is the first product launched by the Group for the therapeutic area of Parkinson's disease. It obtained drug registration approval in December 2019 and is the first and currently the only product of pramipexole dihydrochloride tablets that has passed the consistency evaluation in China. Since launch in April this year, Enxi has successfully registered for online tender in 23 provinces across the country and has developed more than 360 tiered hospitals.

In the first half of 2020, nervous system disease products recorded sales of RMB3,806 million, representing a year-on-year increase of 6.4%. Among which the sales of NBP increased by 29.7% and the sales of Oulaining decreased by 64.7%.

### **Oncology products**

Major products include Duomeisu(多美素)(doxorubicin hydrochloride liposome injections), Jinyouli(津優力)(PEG-rhGCSF injections) and Keaili(克艾力)(paclitaxel for injection (albumin-bound)).

Duomeisu was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group and supported by the "Major New Drug Development" projects in China. It has been recommended by the U.S. "National Comprehensive Cancer Network (NCCN) Guidelines" for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi sarcoma. Duomeisu has considerable advantages in terms of efficacy and safety (especially cardiac safety of patients) as compared to traditional anthracyclines. On the basis of strengthening the existing sales areas such as haematological cancer, breast cancer, gynecologic cancer and bone cancer, the Group will continue to explore new areas such as leukemia, liver cancer, bladder cancer, lung cancer and gastric cancer, with an aim of sustaining a steady sales growth of Duomeisu.

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection and pyrexia due to low neutrophil count in patients during chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. Jinyouli is well supported by clinical evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte stimulating factor in China, covering lung cancer, breast cancer, lymphoma, ovarian cancer, colorectal cancer, gastric cancer and nasopharyngeal carcinoma, earning unanimous recommendations from domestic and foreign guidelines. In addition to existing therapeutic areas, the Group will further expand into areas such as head and neck cancer and genitourinary cancer. In addition, the Group will gradually release data of clinical studies on leukemia, concurrent chemoradiotherapy and immunotherapy in order to establish sufficient medical evidence for promoting the leading position of Jinyouli in the long-acting white blood cell booster drug market.



Keaili is the first-to-market generic of new generation of paclitaxel chemotherapy drug in China with the consistency evaluation passed. It is made of stable nanoparticles formed by the integration of paclitaxel and human serum albumin (endogenous). The product has the distinctive features of convenience, high efficacy and safety. It can enhance the efficacy of paclitaxel drugs and is convenient to use. Toxic solvents and pre-treatment are not required and the administration only takes 30 minutes. The clinical trials and medical projects conducted since the launch of Keaili have generated phased data for various cancers. 6 articles have been published in “Science Citation Index (SCI)” and domestic core journals and 5 articles have been submitted to conferences such as CSCO, ESMO-ASIA and ASCO. It also assisted in formulating a guideline for pancreatic cancer. In 2020, Keaili won the national centralised procurement tender with the lowest price. By leveraging on the policy advantage, the Group will put effort in covering all cancer types, hospital development and market penetration, and continue to adopt the strategy of professional academic-based promotion in order to achieve rapid sales growth for Keaili.

In the first half of 2020, oncology products recorded sales of RMB3,131 million, representing a year-on-year increase of 44.4%. Among which the sales of Keaili, Jinyouli and Duomeisu increased by 70.9%, 53.5% and 23.7% respectively.

### **Anti-infective products**

Major products include Shuluoke(舒羅克)(meropenem for injection), Nuomoling(諾莫靈)(amoxicillin capsules), Xianqu/Shiyao(先曲/石藥)(ceftriaxone sodium for injection), Zhongnuo Lixin(中諾立新)(cefuroxime sodium for injection), Xinweihong(新維宏)(azithromycin tablets) and Weihong(維宏)(azithromycin dispersible tablets/capsules/enteric tablets).

Affected by the restrictive use of antibiotics policy, the market of anti-infective products was relatively weak. In addition, the adoption of infection control measures to fight the pandemic by the public during the period has led to a drop in the number of infection, and the demand for related medicines has also decreased accordingly. In the first half of 2020, anti-infective products recorded sales of RMB1,371 million, representing a year-on-year decrease of 17.3%.

### **Cardiovascular disease products**

Major products include Xuanning(玄寧)(maleate levamlodipine tablets and dispersible tablets), Encun(恩存)(clopidogrel bisulfate tablets), Daxinning(達新寧)(dronedarone hydrochloride tablets), Abikang(阿比康)(aspirin enteric tablets) and Meiluolin(美洛林)(ticagrelor tablets).



Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina, and is a product in the national reimbursement drug list and essential drug list. In December 2019, Xuanning received marketing approval from the U.S. Food and Drug Administration (FDA), becoming the first Chinese innovative drug granted full approval by the U.S. FDA. It is also included in certain authoritative guidelines such as the “Guidelines for Hypertension Prevention” and “Guidelines for the Rational Use of Drugs for Hypertension” in China. During the period, the Group stepped up effort in boosting the sales of Xuanning by adopting an integrated sales model with direct, cooperative and retail sales, proactively strengthening the clinical applications in China and developing overseas market.

Encun is the only domestic clopidogrel bisulfate tablets with approval by the U.S FDA. It has won the nationwide extended tender of the “4+7” centralised procurement with a reasonable price in 2019. It is a preferred drug for treating coronary heart disease and secondary prevention for stroke with high quality and reasonable price. With the guaranteed procurement volume in the markets with tender won and effective marketing development and academic-based promotion strategies, Encun achieved rapid sales volume ramp-up in the first half of the year with sales revenue in line with expectation.

In the first half of 2020, cardiovascular disease products recorded sales of RMB1,107 million, representing a year-on-year increase of 54.0%. In addition to the new sales revenue contributed by Encun, the sales growth of Xuanning has also returned to a more desirable level of 30.6%.

### **Respiratory disease products**

Major products include Qixiao (琦效) (arbidol hydrochloride tablets), Zhongnuo Like (中諾立克) (ambroxol hydrochloride oral solution), Zhongnuoping (中諾平) (ambroxol hydrochloride extended-release tablets) and Nuoyian (諾一安) (montelukast sodium tablets/chewable tablets) newly approved during the period.

As a broad-spectrum antiviral drug, Qixiao is mainly used for the treatment of viral infections represented by influenza. With its good clinical efficacy and outstanding performance in the treatment of novel coronavirus pneumonia, arbidol has been included into the national “Guidelines for Diagnosis and Treatment of Influenza” and “Guidelines for Diagnosis and Treatment of Novel Coronavirus Pneumonia”. The Group will increase efforts in medical research on Qixiao in various therapeutic areas, establish evidence of efficacy comparable to oseltamivir and actively promote clinical applications of the product in emergency, pediatrics, respiratory and infection departments. Driven by the pandemic outbreak, Qixiao achieved rapid sales volume ramp-up and satisfactory sales revenue in the first half of the year.

In the first half of 2020, respiratory disease products recorded sales of RMB256 million, representing a year-on-year increase of 50.4%.



## **Diabetes products**

Major products include Linmeixin (林美欣) (glimepiride dispersible tablets) and Shuanglexin (雙樂欣) (metformin hydrochloride tablets/extended-release tablets). In addition, acarbose tablets has been approved in the first half of this year. It is expected to enter the market quickly through the existing strong OTC coverage of the Group and bring new growth driver to this therapeutic area. In the first half of 2020, diabetes products recorded sales of RMB173 million, representing a year-on-year increase of 32.6%.

## **Products in other therapeutic areas**

Major products include Gubang (固邦) (alendronate sodium tablets/enteric tablets), Debixin/Ouyi (得必欣/歐意) (omeprazole enteric capsules), Xianpai (先派) (omeprazole injections) and Qimaite (奇邁特) (tramadol hydrochloride tablets). In the first half of 2020, products in other therapeutic areas recorded sales of RMB387 million, representing a year-on-year increase of 12.9%.

## **Vitamin C Business**

In the first half of 2020, the business recorded sales revenue of RMB1,005 million, representing a year-on-year decrease of 13.2%. Driven by the pandemic, product prices increased in the second quarter and export volume reached a record high. However, following the slow-down of demand in the export market, product prices have currently seen a rapid decline. It is expected that the business will face a greater market pressure in the second half of the year. The Group will ensure a steady development of the business through measures such as continuous improvement of product qualities, cost cutting and expenses reduction, focusing on the development of untapped market and optimizing the proportion of end-user customers.

## **Antibiotics Business**

In the first half of 2020, the business recorded sales revenue of RMB478 million, representing a year-on-year decrease of 10.0%. The market demand and product prices have remained at a low level as a result of the policy of restricting the use of antibiotics over the years. However, due to the pandemic outbreak, the demand from the export market increased in the second quarter. The Group will keep improving product qualities, accelerating accreditation in the high-end market, developing end-user customers as well as making use of the product chain advantage.



## Other Businesses

In the first half of 2020, the business recorded sales revenue of RMB876 million, representing a year-on-year increase of 21.1%. The functional food business (including caffeine additives and vitamin supplements) maintained a steady growth. The competition in the caffeine market has intensified due to entrant of new participant. The Group will continue to maintain a steady growth of the results through technology upgrade, cost reduction and market development.

## Research and Development

The Group has a leading R&D team of more than 2,000 people in China with over 200 talents with doctorate or overseas experience. Research and development bases are located in Shijiazhuang, Shanghai, Beijing and the United States, focusing on the discovery, research and development of small molecule target drugs, nano-drugs, monoclonal antibody drugs, bispecific antibody drugs, antibody-drug conjugates and biological drugs in the immune field.

The Group firmly believes in the importance of investing in research and development so that the Group can have strong product and technology innovation capability as well as a rich pipeline of drugs under development. The R&D expenses for the period amounted to RMB1,452 million (charged to profit or loss statement), representing a year-on-year increase of 54.2% and accounting for approximately 14.2% of the finished drug business revenue. At present, there are more than 300 projects in the pipeline, of which over 40 are innovative small molecule drugs, over 50 are innovative macromolecule drugs and over 20 are drugs of new preparation, primarily focusing on the therapeutic areas of oncology, autoimmunity, psychiatry and neurology, digestion and metabolism, cardio-cerebrovascular system and anti-infectives.

Currently, there are 25 drug candidates pending drug registration approvals, 42 products under clinical trials (including 31 innovative drugs and 11 new preparations), 9 products under bioequivalence tests and 7 products pending clinical trial approvals (6 in China and 1 in the U.S.).

The major products under development of the Group are as follows:

<b>Therapeutic Area</b>	<b>Product under Development</b>	
<b>Oncology</b>	Duvelisib capsules	SKLB1028 capsules
	HA121-28 tablets	SYHA1801 capsules
	SYHA1807 capsules	Simmitinib hydrochloride tablets
	SYHA1803 capsules	JMT103
	SYSA1802	DP303c
	JMT101	M802*
	M701*	ALMB0168
	Y150(CD38/CD3)*	Mitoxantrone hydrochloride liposome injection
	Docetaxel for injection (albumin-bound)	Paclitaxel cationic liposome for injection
	Irinotecan liposome injection	
<b>Anti-infectives</b>	Baicalein tablets	Amphotericin B liposome for injection
	Amphotericin B cholesteryl sulfate complex for injection	
<b>Digestion &amp; Metabolism</b>	DBPR108 tablets	SYHA1402 tablets
	SYHA1805 tablets	SYSA1803(TG103)
<b>Psychiatry &amp; Neurology</b>	Butylphthalide soft capsules	ALMB0166
	Ammuxetine hydrochloride enteric tablets	Propofol medium and long chain fat emulsion injection
<b>Cardio-cerebrovascular</b>	SYHA136 tablets	Alprostadiil liposome for injection
<b>Immunity System</b>	Omalizumab	Ustekinumab biosimilar
	NR18006	Toll-like receptor agonist liposome
<b>Others</b>	CSPCHA115 capsules	JMT103
	Aprepitant injectable emulsions	

\* Product developed by Wuhan YZY Biopharma Co. Ltd.

The Group's R&D innovation capabilities and projects have received great support from the government. The projects receiving government funding support since the beginning of this year include: 16 major scientific and technological projects for the "13th Five-Year" major new drug innovation projects, 10 scientific and technological plan projects in Hebei Province, 8 scientific and technological plan projects in Shijiazhuang City and a number of high-tech zone policy support projects. In the first half year, government funding received amounted to approximately RMB60 million.

The Group also attaches great importance to the protection of intellectual property rights and actively files patent applications for its research and development projects. Since the beginning of the year, the Group has filed 102 patent applications (70 domestic and 32 overseas) and received 54 authorisations (43 domestic and 11 overseas).

In the three years ahead, the Group is expected to launch more than 50 new products, over 15 of which will be key products with a market potential exceeding RMB1 billion each, providing strong support for the high quality growth of the Group in the future.

## FINANCIAL REVIEW

### Results

	For the six months ended 30 June		
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	Change
Revenue:			
Finished drugs	10,231,025	8,766,117	+16.7%
Vitamin C	1,004,964	1,157,854	-13.2%
Antibiotics	478,020	531,272	-10.0%
Others	875,588	722,753	+21.1%
Total	<b>12,589,597</b>	<b>11,177,996</b>	+12.6%
Operating profit	2,618,639	2,339,895	+11.9%
Operating profit margin	20.8%	20.9%	
Profit attributable to shareholders	2,313,996	1,878,284	+23.2%

Finished drug business is the major growth driver to the Group, with sales increasing by 16.7% to RMB10,231 million in the current period. Key products such as NBP, Xuanning, Duomeisu, Jinyouli and Keaili continued to maintain robust growth.



Operating profit margin slightly decreased from 20.9% in the first half of 2019 to 20.8% in the current period. It is the mixed results of the following factors: (i) higher proportion of sales from key finished drug products which have a higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business in the current period resulting from the Group's increased efforts in market development; (iii) higher ratio of research and development expense to revenue of finished drug business; and (iv) lower average selling prices of Vitamin C products as compared with the same period of last year.

### **Selling and Distribution Expenses**

Selling and distribution expenses amounted to RMB4,876 million for the current period as compared to RMB4,227 million in the corresponding period last year. The increase in selling and distribution expenses was primarily attributable to (i) continued expansion of sales force of the finished drug business; (ii) increased efforts in marketing and academic promotion for key and newly launched finished drug products.

### **Administrative Expenses**

Administrative expenses amounted to RMB561 million in the current period as compared to RMB383 million in the corresponding period last year. The increase in administrative expenses was primarily attributable to the expansion of the scale of operation of the Group and the administrative function.

### **Research and Development Expenses**

R&D expenses amounted to RMB1,452 million in the current period as compared to RMB942 million in the corresponding period last year. The increase in R&D expenses was primarily attributable to (i) increased number of drug candidates under development; (ii) increased spending on ongoing and newly initiated clinical trials; and (iii) increased spending on quality and efficacy consistency evaluation of generic drugs.

### **Liquidity and Financial Position**

For the first half of 2020, the Group's operating activities generated a cash inflow of RMB2,429 million (first half of 2019: RMB1,599 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) increased from 35 days in 2019 to 39 days in the current period. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 149 days in 2019 to 121 days in the current period. Current ratio of the Group was 2.1 as at 30 June 2020, slightly lower than 2.2 half year ago. Capital expenditure for the current period amounted to RMB746 million, which were mainly spent to construct production capacities and improve production efficiency.



The Group's financial position remained solid. As at 30 June 2020, the Group's bank balances and cash amounted to RMB5,948 million (31.12.2019: RMB4,118 million); structured bank deposits amounted to RMB1,536 million (31.12.2019: RMB1,838 million); and bank borrowings amounted to RMB99 million (31.12.2019: RMB23 million).

All of the Group's borrowings are denominated in Renminbi. The Group's sales revenue are denominated in Renminbi for domestic sales in China and in US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

### **Pledge of Assets**

As at 30 June 2020, restricted bank deposits and structured bank deposits of RMB118 million (31.12.2019: RMB195 million) in total have been pledged to secure certain banking facilities of the Group.

### **Employees**

As at 30 June 2020, the Group had approximately 17,292 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards 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 18 to 54, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated 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.



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

### 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

26 August 2020

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		For the six months ended 30 June	
	NOTES	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	12,589,597	11,177,996
Cost of sales		(3,152,244)	(3,365,385)
Gross profit		9,437,353	7,812,611
Other income		90,401	73,300
Other gains or losses		10,558	25,758
Selling and distribution expenses		(4,875,740)	(4,227,175)
Administrative expenses		(561,288)	(383,206)
Research and development expenses		(1,452,498)	(941,694)
Other expenses		(30,147)	(19,699)
Operating profit		2,618,639	2,339,895
Finance costs		(5,549)	(26,908)
Share of results of associates		(9,942)	—
Share of results of joint ventures		16,736	24,573
Gain on disposal of subsidiaries	28a	314,901	—
Loss on deemed disposal of a subsidiary	28b	(19,038)	—
Profit before tax	4	2,915,747	2,337,560
Income tax expense	5	(565,273)	(449,293)
Profit for the period		2,350,474	1,888,267
Profit for the period attributable to:			
Owners of the Company		2,313,996	1,878,284
Non-controlling interests		36,478	9,983
		2,350,474	1,888,267
		<b>RMB cents (Unaudited)</b>	<b>RMB cents (Unaudited) (Restated)</b>
Earnings per share	7		
— Basic		30.97	25.11
— Diluted		30.96	25.11

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Profit for the period	<u>2,350,474</u>	<u>1,888,267</u>
<b>Other comprehensive income:</b>		
<b>Item that will not be reclassified to profit or loss:</b>		
Fair value gain on investments in financial assets measured at fair value through other comprehensive income, net of income tax	323,429	9,030
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation of foreign operations	<u>(1,471)</u>	<u>(5,127)</u>
Other comprehensive income for the period, net of income tax	<u>321,958</u>	<u>3,903</u>
Total comprehensive income for the period	<u><u>2,672,432</u></u>	<u><u>1,892,170</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	2,635,954	1,882,187
Non-controlling interests	<u>36,478</u>	<u>9,983</u>
	<u><u>2,672,432</u></u>	<u><u>1,892,170</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTES	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	7,912,649	8,459,176
Right-of-use assets	9	1,097,808	823,202
Goodwill		149,983	188,964
Other intangible assets	10	508,740	1,135,662
Interests in associates		472,423	231,135
Interests in joint ventures		243,437	176,639
Amount due from an associate		24,731	—
Amounts due from joint ventures	15	708,931	150,432
Financial assets measured at fair value through other comprehensive income	11	1,417,938	1,077,932
Deferred tax assets		30,012	34,843
Deposits	13	110,370	343,380
		<b>12,677,022</b>	<b>12,621,365</b>
<b>Current assets</b>			
Inventories		2,103,449	2,535,743
Trade receivables	12	2,907,951	2,258,844
Deposits, prepayments and other receivables	13	986,871	567,252
Bills receivables	14	2,665,871	1,993,083
Trade receivables due from related companies	15	99,324	140,183
Amounts due from joint ventures	15	172,151	58,628
Other financial assets		387	536
Structured bank deposits	16	1,536,176	1,838,159
Restricted bank deposits	17	69,489	186,293
Bank balances and cash	17	5,948,368	4,118,236
		<b>16,490,037</b>	<b>13,696,957</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2020

	NOTES	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
<b>Current liabilities</b>			
Trade payables	18	1,169,971	1,110,883
Other payables	19	5,544,761	3,691,652
Contract liabilities		197,580	503,755
Bills payables	20	397,075	316,137
Contingent consideration payable		19,013	18,130
Amounts due to related companies	15	25,938	10,854
Amount due to an associate	15	64,627	124,627
Amount due to a joint venture	15	33,511	104,678
Lease liabilities		81,779	74,235
Tax liabilities		270,856	258,823
Borrowing	21	99,000	23,000
		<u>7,904,111</u>	<u>6,236,774</u>
<b>Net current assets</b>		<u>8,585,926</u>	<u>7,460,183</u>
<b>Total assets less current liabilities</b>		<u>21,262,948</u>	<u>20,081,548</u>
<b>Non-current liabilities</b>			
Other payables	19	155,519	154,733
Contingent consideration payable		—	13,923
Lease liabilities		108,570	90,300
Deferred tax liabilities		293,334	304,427
		<u>557,423</u>	<u>563,383</u>
<b>Net assets</b>		<u>20,705,525</u>	<u>19,518,165</u>
<b>Capital and reserves</b>			
Share capital	22	10,899,412	10,899,412
Reserves		9,068,566	7,562,311
		<u>19,967,978</u>	<u>18,461,723</u>
Equity attributable to owners of the Company		19,967,978	18,461,723
Non-controlling interests		737,547	1,056,442
<b>Total equity</b>		<u>20,705,525</u>	<u>19,518,165</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Equity attributable to owners of the Company											
	Share capital RMB'000	Treasury share reserve RMB'000	Share awards reserve RMB'000	Other reserve RMB'000 (note i)	Statutory reserves RMB'000 (note ii)	Capital contribution reserve RMB'000 (note iii)	Investments revaluation reserve RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019 (Audited)	10,899,412	-	-	(4,889,903)	1,495,111	46,794	53,423	(2,403)	7,249,826	15,052,260	477,340	15,529,600
Profit for the period	-	-	-	-	-	-	-	-	1,878,284	1,878,284	9,983	1,888,267
Other comprehensive income for the period, net of income tax	-	-	-	-	-	-	9,030	(5,127)	-	3,903	-	3,903
Dividends recognised as distribution (note 6)	-	-	-	-	-	-	-	-	(965,385)	(965,385)	-	(965,385)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,000)	(2,000)
Recognition of equity-settled share based payments	-	-	3,198	-	-	-	-	-	-	3,198	-	3,198
Purchase of shares under share award scheme (note 23)	-	(100,706)	-	-	-	-	-	-	-	(100,706)	-	(100,706)
Transfer to statutory reserves	-	-	-	-	637,112	-	-	-	(637,112)	-	-	-
Disposal of investments in equity investments at fair value through other comprehensive income	-	-	-	-	-	-	(511)	-	511	-	-	-
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	8,150	8,150
Dilution of interests in a subsidiary (note iv)	-	-	-	595,003	-	-	-	-	-	595,003	547,406	1,142,409
At 30 June 2019 (Unaudited)	10,899,412	(100,706)	3,198	(4,094,900)	2,132,223	46,794	61,942	(7,530)	7,526,124	16,466,557	1,040,879	17,507,436
At 1 January 2020 (Audited)	10,899,412	(100,706)	6,721	(4,094,900)	1,789,312	46,794	237,134	(26,906)	9,704,862	18,461,723	1,056,442	19,518,165
Profit for the period	-	-	-	-	-	-	-	-	2,313,996	2,313,996	36,478	2,350,474
Other comprehensive income for the period, net of income tax	-	-	-	-	-	-	323,429	(1,471)	-	321,958	-	321,958
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	-	(1,133,194)	(1,133,194)	-	(1,133,194)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(7,000)	(7,000)
Recognition of equity-settled share based payments	-	-	3,495	-	-	-	-	-	-	3,495	-	3,495
Transfer to statutory reserves	-	-	-	-	20,991	-	-	-	(20,991)	-	-	-
Disposal of subsidiaries (note 28)	-	-	-	-	-	-	-	-	-	-	(1,756)	(1,756)
Deemed disposal of a subsidiary (note 28)	-	-	-	-	-	-	-	-	-	-	(346,617)	(346,617)
At 30 June 2020 (Unaudited)	10,899,412	(100,706)	10,216	(4,094,900)	1,810,303	46,794	560,563	(28,377)	10,864,673	19,967,978	737,547	20,705,525

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

For the six months ended 30 June 2020

### Notes:

- (i) The balance in other reserve at 1 January 2019 mainly included an amount of RMB4,030,633,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of RMB2,631,198,000 and the fair value of the consideration paid by the Company of RMB6,661,831,000 in the reverse acquisition on 29 October 2012.
- (ii) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.
- (iii) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 15, 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 2016.
- (iv) CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC XNW"), an indirect wholly-owned subsidiary of the Company as at 31 December 2018, listed its shares on the Shenzhen Stock Exchange with effect from 22 March 2019. On the same date, 50,000,000 ordinary shares of CSPC XNW with a par value of RMB1.00 each were issued by way of public offering and placing (the "Share Offer"). The net proceeds received by CSPC XNW, after deducting the expenses relating to the Share Offer, was RMB1,142,409,000. The Group's percentage of equity interest in CSPC XNW and its subsidiaries (collectively referred to as the "XNW Group") was then diluted from 100% to 75% upon completion of the Share Offer. The difference between the share of net assets of XNW Group by the non-controlling interests and the net proceeds from the Share Offer of RMB595,003,000 was recognised in other reserve.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

		For the six months ended 30 June	
	NOTES	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net cash from operating activities		<b>2,428,998</b>	1,598,511
Net cash used in investing activities:			
Purchase of property, plant and equipment		<b>(839,961)</b>	(1,304,328)
Disposal of subsidiaries	28a	<b>(591,503)</b>	9,075
Payments for right-of-use assets		<b>(195,278)</b>	(6,211)
Purchase of financial assets measured at fair value through other comprehensive income		<b>(108,444)</b>	(215,462)
Investment in an associate		<b>(60,000)</b>	—
Payment of contingent consideration		<b>(18,130)</b>	(12,374)
Advance to an associate		<b>(16,500)</b>	—
Purchase of intangible assets		<b>(11,046)</b>	(119)
Deemed disposal of a subsidiary	28b	<b>(9,753)</b>	—
Advances to joint ventures		<b>(606)</b>	(17,608)
Acquisition of subsidiaries and assets	27	—	(367,291)
Placement of restricted bank deposits		—	(10,000)
Deposits paid for acquisition of property, plant and equipment		—	(10,000)
Repayment from joint ventures		<b>548,600</b>	—
Withdrawal of structured bank deposits		<b>333,246</b>	980,706
Distributions received from financial assets measured at fair value through other comprehensive income		<b>136,660</b>	16,977
Withdrawal of restricted bank deposits		<b>59,282</b>	—
Interest received		<b>26,449</b>	38,060
Receipt of government grants related to acquisition of property, plant and equipment		<b>13,821</b>	6,894
Proceeds on disposal of property, plant and equipment		<b>963</b>	82,923
		<b>(732,200)</b>	(808,758)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net cash from (used in) financing activities:		
Payment of lease liabilities	(44,635)	(31,386)
Dividends paid to non-controlling interests	(7,000)	(2,000)
Settlement of bills payables	—	(1,134,357)
Dividends paid	—	(958,326)
Purchase of shares under the share award scheme	—	(100,706)
Listing expenses from the Share Offer of CSPC XNW	—	(81,091)
Repayment of borrowings	—	(20,589)
Repayment to related parties	—	(8,240)
New borrowings raised	169,000	10,000
Advance from related parties	15,084	—
Proceeds from the Share Offer of CSPC XNW	—	1,223,500
Capital injection from non-controlling interests	—	8,150
	<b>132,449</b>	<b>(1,095,045)</b>
Net increase (decrease) in cash and cash equivalents	1,829,247	(305,292)
Cash and cash equivalents at 1 January	4,118,236	4,335,613
Effect of foreign exchange rate changes	885	1,154
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>5,948,368</b>	<b>4,031,475</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

### 1. BASIS OF PREPARATION

CSPC Pharmaceutical Group Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange.

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.

The financial information relating to the year ended 31 December 2019 that is included 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 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 event and transaction in the current interim period**

On 9 January 2018, the Group acquired 39.56% equity interest of Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma"). As a result of a contractual arrangement with certain shareholders of YZY Biopharma (the "Agreement"), the Group was given the power to control the majority of the votes in shareholders' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. After assessment, the Directors considered that the Group had obtained control over YZY Biopharma upon acquisition and YZY Biopharma was accounted for as a subsidiary.

On 1 April 2020, the Group and the other shareholders entered into an agreement to cancel the Agreement after considering the future development plan of YZY Biopharma. Based on the assessment of facts and circumstances, the Directors considered that the Group has lost control over YZY Biopharma on 1 April 2020. As such, YZY Biopharma became an associate of the Group with effect from the same date and has since been accounted for using the equity method of accounting. Disclosure on the deemed disposal has been made in note 28(b).

## 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.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/on the disclosures set out in these condensed consolidated financial statements.

## 3. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors (the “Board”), 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 — research and development, manufacture and sale of pharmaceutical products;
- (b) Vitamin C — manufacture and sale of vitamin C products in bulk form;
- (c) Antibiotics — manufacture and sale of antibiotic products in bulk form; and
- (d) Others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), glucose products and provision of healthcare services.

### 3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue is recognised at a point of time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods.

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

#### For the six months ended 30 June 2020 (Unaudited)

	Finished drugs RMB'000	Vitamin C RMB'000	Antibiotics RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE							
External sales	10,231,025	1,004,964	478,020	875,588	12,589,597	—	12,589,597
Inter-segment sales	—	3,263	81,682	8,108	93,053	(93,053)	—
TOTAL REVENUE	<u>10,231,025</u>	<u>1,008,227</u>	<u>559,702</u>	<u>883,696</u>	<u>12,682,650</u>	<u>(93,053)</u>	<u>12,589,597</u>
SEGMENT PROFIT	<u>2,188,973</u>	<u>204,562</u>	<u>52,321</u>	<u>195,558</u>			2,641,414
Unallocated income							73,249
Unallocated expenses							(96,024)
Operating profit							2,618,639
Finance costs							(5,549)
Share of results of associates							(9,942)
Share of results of joint ventures							16,736
Gain on disposal of subsidiaries							314,901
Loss on deemed disposal of a subsidiary							(19,038)
Profit before tax							<u>2,915,747</u>

### 3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2019 (Unaudited)

	Finished drugs RMB'000	Vitamin C RMB'000	Antibiotics RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated RMB'000
SEGMENT REVENUE							
External sales	8,766,117	1,157,854	531,272	722,753	11,177,996	—	11,177,996
Inter-segment sales	—	2,910	45,155	2,245	50,310	(50,310)	—
TOTAL REVENUE	<u>8,766,117</u>	<u>1,160,764</u>	<u>576,427</u>	<u>724,998</u>	<u>11,228,306</u>	<u>(50,310)</u>	<u>11,177,996</u>
SEGMENT PROFIT	<u>1,865,211</u>	<u>299,561</u>	<u>29,614</u>	<u>127,196</u>			2,321,582
Unallocated income							85,941
Unallocated expenses							<u>(67,628)</u>
Operating profit							2,339,895
Finance costs							(26,908)
Share of results of joint ventures							<u>24,573</u>
Profit before tax							<u>2,337,560</u>

Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, finance costs, central administrative expenses, share of results of associates, share of results of joint ventures, gain on disposal of subsidiaries and loss on deemed disposal of a subsidiary. 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 BEFORE TAX

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	<b>331,595</b>	288,967
Depreciation of right-of-use assets	<b>51,069</b>	37,995
Amortisation of other intangible assets	<b>6,387</b>	10,631
	<hr/>	<hr/>
Total depreciation and amortisation	<b>389,051</b>	337,593
	<hr/>	<hr/>
Fair value gain on structured bank deposits (included in other gains or losses)	<b>(31,263)</b>	(48,087)
Government grant income (included in other income)	<b>(36,169)</b>	(30,686)
Impairment losses recognised (reversed) under expected credit loss model (included in other gains or losses)	<b>30,222</b>	(1,759)
Interest income on bank balances (included in other income)	<b>(26,449)</b>	(37,854)
Loss on disposal of property, plant and equipment (included in other gains or losses)	<b>4,195</b>	5,531
Net foreign exchange (gain) loss (included in other gains or losses)	<b>(14,111)</b>	6,429
	<hr/> <hr/>	<hr/> <hr/>

*Note:* For the six months ended 30 June 2019 and 2020, 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.

## 5. INCOME TAX EXPENSE

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
The tax charge comprises:		
Current taxation		
– PRC Enterprise Income Tax	<b>511,374</b>	406,430
– United States of America (“USA”) Federal and State Income Tax	<b>8,008</b>	1,984
	<b>519,382</b>	408,414
Deferred taxation	<b>45,891</b>	40,879
	<b>565,273</b>	449,293

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both periods.

The basic tax rate of the Company’s PRC subsidiaries is 25% under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

Under the EIT Law of the PRC, withholding tax is imposed on dividends distributed in respect of profits earned by the 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.

## 5. INCOME TAX EXPENSE (Continued)

Deferred tax liabilities of RMB200,730,000 (31 December 2019: RMB160,124,000) has 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 RMB4,014,600,000 (31 December 2019: 3,202,480,000). Deferred taxation has not been provided for the remaining accumulated profits of the PRC subsidiaries amounting to approximately RMB8,696,950,000 (31 December 2019: RMB6,879,928,000) 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

### (a) Interim dividend

The Board has declared the payment of an interim dividend of HK6 cents per share for 2020 amounting to HK\$449,016,000 (2019: Nil) after the end of the reporting period, which has not been recognised as a liability at the end of the reporting period.

### (b) Final dividend approved during the reporting period

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
2019 final dividend of HK20 cents (equivalent to RMB18.2 cents) (2019: 2018 final dividend of HK18 cents (equivalent to RMB15.5 cents)) per share	1,135,014	966,935
Less: Dividend for shares held by share award scheme	(1,820)	(1,550)
	<u>1,133,194</u>	<u>965,385</u>

The 2019 final dividend, which was paid on 3 July 2020, has been recognised as a liability at the end of the reporting period. The 2018 final dividend was paid during the six months ended 30 June 2019.

## 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:

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<b><u>2,313,996</u></b>	<u>1,878,284</u>

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>'000</b>	'000
		(Restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b><u>7,471,606</u></b>	<u>7,480,123</u>
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	<u>1,711</u>	<u>425</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>7,473,317</u></b>	<u>7,480,548</u>

The weighted average number of ordinary shares for the calculation of basic earnings per share has been adjusted for the effects of the bonus issue that took place on 3 July 2020 and the shares held by the trustee pursuant to the share award scheme.

## 8. PROPERTY, PLANT AND EQUIPMENT

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At beginning of the period:		
Cost	11,749,281	9,495,941
Accumulated depreciation	<b>(3,290,105)</b>	(2,803,721)
Net carrying amount	<b>8,459,176</b>	6,692,220
At beginning of the period, net of accumulated depreciation	8,459,176	6,692,220
Additions	746,121	1,212,929
Acquisition of subsidiaries and assets	—	196,043
Disposals	(5,158)	(88,454)
Disposal of subsidiaries	<b>(879,921)</b>	(4,020)
Deemed disposal of a subsidiary	<b>(77,170)</b>	—
Depreciation provided during the period	<b>(331,595)</b>	(288,967)
Exchange adjustments	1,196	574
At end of the period, net of accumulated depreciation	<b>7,912,649</b>	7,720,325
At end of the period:		
Cost	10,890,777	10,469,088
Accumulated depreciation	<b>(2,978,128)</b>	(2,748,763)
Net carrying amount	<b>7,912,649</b>	7,720,325

## 9. RIGHT-OF-USE ASSETS

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CARRYING VALUES		
At beginning of the period	823,202	723,977
Additions	483,914	105,851
Acquisition of subsidiaries and assets	—	68,703
Disposal of subsidiaries	<b>(149,418)</b>	(10,645)
Deemed disposal of a subsidiary	<b>(9,711)</b>	—
Depreciation provided during the period	<b>(51,069)</b>	(37,995)
Exchange adjustments	890	(476)
At end of the period	<b>1,097,808</b>	849,415

## 10. OTHER INTANGIBLE ASSETS

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
At beginning of the period:		
Cost	<b>1,306,363</b>	959,565
Accumulated amortisation	<b>(170,701)</b>	(152,579)
	<hr/>	<hr/>
Net carrying amount	<b>1,135,662</b>	806,986
	<hr/> <hr/>	<hr/> <hr/>
At beginning of the period, net of accumulated amortisation	<b>1,135,662</b>	806,986
Additions	<b>11,046</b>	119
Acquisition of subsidiaries	<b>—</b>	280,048
Deemed disposal of a subsidiary	<b>(631,906)</b>	—
Amortisation provided during the period	<b>(6,387)</b>	(10,631)
Exchange adjustments	<b>325</b>	196
	<hr/>	<hr/>
At end of the period, net of accumulated amortisation	<b>508,740</b>	1,076,718
	<hr/> <hr/>	<hr/> <hr/>
At end of the period:		
Cost	<b>685,428</b>	1,243,090
Accumulated amortisation	<b>(176,688)</b>	(166,372)
	<hr/>	<hr/>
Net carrying amount	<b>508,740</b>	1,076,718
	<hr/> <hr/>	<hr/> <hr/>

## 11. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (“FVTOCI”)

	<b>As at 30 June 2020 RMB’000 (unaudited)</b>	As at 31 December 2019 RMB’000 (audited)
Listed equity investments ( <i>note i</i> )	<b>40,530</b>	42,120
Unlisted equity investments in partnerships ( <i>note ii</i> )	<b>910,595</b>	603,290
Unlisted equity investments ( <i>note iii</i> )	<b>466,813</b>	432,522
	<b><u>1,417,938</u></b>	<u>1,077,932</u>

These investments are not held for trading but for long-term strategic purposes. The Directors have elected to designate these investments in financial assets measured at FVTOCI as they believe that recognising short-term fluctuations in these investments’ fair value in profit or loss would not be consistent with the Group’s strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

*Notes:*

- (i) The amount represents equity securities listed in Hong Kong and the fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The investment is not intended to be held in the short-term to earn a profit.
- (ii) The amount represents unlisted equity investments in limited partnership enterprises (the “Partnership Enterprise(s)”) which specialise in making equity investment. The Group has an intention of holding them as long-term investments.

According to the Partnership Enterprise agreements, each Partnership Enterprise is managed by a general partner. The Group participates in the Partnership Enterprises as one of the limited partners who does not have the 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 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.

- (iii) The amount represents investments in unlisted equity interests in entities established in the PRC.

## 12. TRADE RECEIVABLES

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	<b>2,927,608</b>	2,273,530
Less: allowance for impairment	<b>(19,657)</b>	(14,686)
	<b><u>2,907,951</u></b>	<b><u>2,258,844</u></b>

The Group allows a general credit period of 90 days (31 December 2019: 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
0 to 90 days	<b>2,612,353</b>	2,124,588
91 to 180 days	<b>283,115</b>	125,010
181 to 365 days	<b>7,855</b>	2,830
More than 365 days	<b>4,628</b>	6,416
	<b><u>2,907,951</u></b>	<b><u>2,258,844</u></b>

### 13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Prepayments for purchase of raw materials	<b>108,234</b>	176,471
Deposits paid for right-of-use assets	<b>110,370</b>	333,380
Deposits and prepayment for utilities	<b>44,455</b>	51,646
Consideration receivable for disposal of a subsidiary (note 28)	<b>447,478</b>	—
Other tax recoverable	<b>128,026</b>	114,453
Others	<b>258,678</b>	234,682
	<b><u>1,097,241</u></b>	<b><u>910,632</u></b>
Analysed as:		
Current	<b>986,871</b>	567,252
Non-current	<b>110,370</b>	343,380
	<b><u>1,097,241</u></b>	<b><u>910,632</u></b>

### 14. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (31 December 2019: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information, experience and forward-looking information that is available without undue cost of effort.

## 15. RELATED PARTY DISCLOSURES

During the period, the Group had significant transactions and balances with related parties with details as follows:

### (I) Related Companies

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CHL and its subsidiaries and associates (note a) (the "CHL Group")	Sales of pharmaceutical products	237,191	172,522
	Rental expenses	483	9,155
	Recharge of utility expenses	1,009	1,000
	Purchase of steam	15,785	13,932
	Warehouse service income	759	4,296
	Payment of lease liabilities	39,241	28,620
		<b>99,324</b>	<b>140,183</b>
		<b>25,938</b>	<b>10,854</b>
		<b>123,590</b>	<b>159,683</b>
		<b>99,324</b>	<b>140,183</b>
		<b>25,938</b>	<b>10,854</b>
		<b>123,590</b>	<b>159,683</b>

15. RELATED PARTY DISCLOSURES (Continued)

(II) Joint Ventures

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Purchase of raw materials	126,321	47,261
	Recharge of utility expenses	—	73,296
	Sales of raw materials	44,340	140,066
		<b>18,581</b>	17,975
	Balance due from/to Huarong		As at 31 December 2019
	— other receivable (note c)	18,581	RMB'000 (Audited)
	— other payable (note c)	33,511	104,678
		<b>40,653</b>	40,653
			As at 31 December 2019
	Balance due from Yantai Jiashi Group		RMB'000 (Audited)
Yantai Jiashi Pharmaceutical Technology Co., Ltd. and its subsidiaries ("Yantai Jiashi Group")	— other receivable (note c)	40,653	40,653

15. RELATED PARTY DISCLOSURES (Continued)

(II) Joint Ventures (Continued)

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Bioworkshops Limited and its subsidiaries ("Bioworkshops Group")	Provision of research and development services	<u>4,770</u>	<u>—</u>
		<b>As at 30 June 2020</b> RMB'000 (Unaudited)	<b>As at 31 December 2019</b> RMB'000 (Audited)
	Balance due from Bioworkshops Group — other receivable (note d)	<u>260,428</u>	<u>150,432</u>

Name of company	Nature of transactions/balances	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CSPC Zhongcheng Pharmaceutical Logistics Co., Limited and its subsidiaries ("Zhongcheng Logistics Group")	Purchase of raw materials	406,625	—
	Recharge of utility expenses	469	—
	Sales of raw materials	<u>187,464</u>	<u>—</u>

## 15. RELATED PARTY DISCLOSURES (Continued)

### (II) Joint Ventures (Continued)

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Balance due from Zhongcheng Logistics Group — other receivable (note e)	<b>561,420</b>	<b>—</b>

### (III) Associates

Name of company	Nature of balances	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Beijing Guoxinhuijin Co., Ltd. ("Guoxin")	Balance due to Guoxin — capital injection payable (note f)	<b>64,627</b>	<b>124,627</b>

#### Notes:

- a. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significant influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.
- b. The Group allows a general credit period of 90 days (2019: 90 days) to its trade customers.
- c. Amounts are unsecured, non-interest bearing and repayable on demand.
- d. Amount is unsecured and with imputed interest computed using the prevailing market interest rate of 4.75% per annum for comparable long term borrowings.
- e. Amount is unsecured, non-interest bearing and repayable on demand except for a balance of RMB448,503,000 (net of impairment of RMB22,397,000) which bears interest rate of 4.00% per annum with terms of two to three years.
- f. On 12 December 2019, CSPC XNW subscribed for 26 million shares of Guoxin for a consideration of RMB156,062,000, of which RMB64,627,000 remained unsettled as at 30 June 2020 (31 December 2019: RMB124,627,000), which is unsecured, non-interest bearing and repayable by instalments within one year.

## 15. RELATED PARTY DISCLOSURES *(Continued)*

### (IV) Compensation of key management personnel

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short-term benefits	6,667	6,370
Post-employment benefits	494	623
	<b>7,161</b>	<b>6,993</b>

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 16. STRUCTURED BANK DEPOSITS

Structured bank deposits of RMB150,000,000 carry no guaranteed return and have a total expected return up to 3.7% per annum (31 December 2019: RMB93,700,000 carried no guaranteed return and had total expected return up to 3.5% per annum), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits.

Structured bank deposits of RMB1,386,176,000 carry guaranteed return ranging from 1.00% to 1.75% per annum and have a total expected return up to 4.1% per annum (31 December 2019: RMB1,744,459,000 carried guaranteed return of 3.8% per annum and had total expected return up to 5.7% per annum), depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at fair value through profit or loss on initial recognition as they contain non-closely related embedded derivatives.

## 17. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.01% to 1.15% (31 December 2019: 0.01% to 3.00%) per annum.

The restricted bank deposits represent deposits required to be placed in banks for securing certain banking facilities of the Group and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

## 18. TRADE PAYABLES

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

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
0 to 90 days	1,033,746	941,700
91 to 180 days	29,225	34,626
More than 180 days	107,000	134,557
	<b>1,169,971</b>	1,110,883

The general credit period on purchases of goods is up to 90 days.

## 19. OTHER PAYABLES

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Customers' deposits	255,984	238,748
Other tax payable	152,538	126,489
Selling expense payable and other accrued charges	2,604,193	1,512,130
Payables arising from construction and acquisition of property, plant and equipment	821,622	1,157,020
Government grants	384,196	359,841
Staff welfare payable	249,975	244,848
Dividend payable (note 6)	1,133,194	—
Others	98,578	207,309
	<b>5,700,280</b>	3,846,385
Analysed as:		
Current	5,544,761	3,691,652
Non-current — government grants	155,519	154,733
	<b>5,700,280</b>	3,846,385

## 20. **BILLS PAYABLES**

All bills payables of the Group are aged within 365 days (31 December 2019: within 365 days) and not yet due at the end of the reporting period. As at 30 June 2020, bills payable of RMB390,918,000 (31 December 2019: RMB198,649,000) are secured by certain structured bank deposits and restricted bank deposits of the Group.

## 21. **BORROWING**

The amount represents fixed-rate RMB bank loan which is repayable within one year and carries an effective interest rate (representing contractual interest rate) of 2.05% (31 December 2019: 5.22%) per annum.

As at 30 June 2020, the loan is secured by the corporate guarantee of CHL.

As at 31 December 2019, the loan was secured by the pledge of the Group's right-of-use assets and property with carrying amount of RMB34,142,000.

## 22. **SHARE CAPITAL**

	<b>Number of shares</b>	<b>Share capital RMB'000</b>
<b>Issued and fully paid</b>		
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	<u>6,236,338,403</u>	<u>10,899,412</u>

## 23. **LONG TERM INCENTIVE PROGRAM**

### (i) **2015 share option scheme**

The share option scheme was adopted on 9 December 2015 and is valid and effective for a period of 10 years from its adoption. No share options have been granted under the scheme since its adoption.

### (ii) **2018 share award scheme**

The share award scheme was adopted on 20 August 2018 and is valid and effective for a period of 10 years from its adoption.

The trustee of the scheme has purchased an aggregate of 10,000,000 shares of the Company on the Stock Exchange in January 2019. On 15 January 2019, the Company granted 2,394,000 award shares ("Award Shares") under the scheme to employees of the Group. A total of 1,200,000, 597,000 and 597,000 of the Award Shares will vest on 14 January 2022, 14 January 2023 and 14 January 2024 respectively, subject to the accomplishment of certain non-market conditions. The fair value of the Award Shares amounted to RMB25,113,000 and was determined with reference to the share price of the Company on date of grant of HK\$11.92 (equivalent to RMB10.49).

During the six months ended 30 June 2020, share-based payment expense of RMB3,495,000 (six months ended 30 June 2019: RMB3,198,000) has been recognised in profit or loss and no awarded shares were forfeited.

## 24. CAPITAL AND OTHER COMMITMENTS

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

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>1,626,101</b>	1,494,280
Other commitments arising from unlisted equity investments in partnerships	<b>359,671</b>	395,324
Other commitments arising from research and development projects	<b>156,200</b>	164,700
	<b><u>1,941,972</u></b>	<b><u>1,854,304</u></b>

## 25. PLEDGE OF ASSETS

As at 30 June 2020, restricted bank deposits and structured bank deposits of RMB118 million in total (31 December 2019: restricted bank deposits and structured bank deposits of RMB195 million in total and buildings and right-of-use assets of RMB34 million) have been pledged to secure certain banking facilities of the Group.

## 26. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 26. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liability	Fair value		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	Fair value as at 30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)				
Equity securities listed in the PRC	387	536	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity securities listed in Hong Kong	40,530	42,120	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted equity investments	1,377,408	1,035,812	Level 3	Valuation based on recent transaction prices of underlying investments.	Recent transaction prices of underlying investments	The higher the recent transaction prices of underlying investment, the higher the fair value, vice versa.
				Discount cash flows – in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa
					Long-term pre-tax operating margin	The higher the long- term pre-tax operating margin, the higher the fair value, vice versa.
Structured bank deposits	1,536,176	1,838,159	Level 2	Discounted cash flows – future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risks of various counterparties.	N/A	N/A
Contingent consideration in a business combination	19,013	32,053	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Probability of the achievement of certain milestone events	The higher the probability, the higher the fair value, vice versa.

## 26. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

The pre-tax unrealised fair value gain of RMB368,222,000 included in other comprehensive income related to financial assets at FVTOCI held at the end of the reporting period and is reported as changes of 'investments revaluation reserve'.

### **Fair value measurements and valuation processes**

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group estimates the valuation of unquoted equity investments by making reference to valuation based on recent transactions of underlying investments, if any and performs discounted cash flow to determine the present value of structured bank deposits, contingent consideration in a business combination and unquoted equity instruments without any recent transactions of underlying investments. There were no transfers between levels in the current period. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liability are disclosed above.

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.

## 27. ACQUISITION OF SUBSIDIARIES

### **For the six months ended 30 June 2019**

#### **(a) Business combination**

On 4 January 2019, the Group entered into an agreement with an independent third party to acquire 100% interest in Yong Shun Technology Development Limited ("Yong Shun") and its wholly-owned subsidiaries (hereinafter collectively referred to as "Yong Shun Group") for a cash consideration of RMB252,880,000. The acquisition was completed on 11 January 2019. Yong Shun Group is principally engaged in research and development of innovative biological drugs.

The above acquisition has been accounted for using the acquisition method of accounting.

## 27. ACQUISITION OF SUBSIDIARIES (Continued)

For the six months ended 30 June 2019 (Continued)

### (a) Business combination (Continued)

Assets acquired and liabilities recognised at the date of acquisition

RMB'000

#### Fair value of assets and liabilities recognised at the date of acquisition:

##### Non-current assets

Property, plant and equipment	8,698
Intangible assets (note)	280,048

##### Current assets

Trade receivables	143
Deposits, prepayment and other receivables	4,663
Bank balances and cash	1,293

##### Current liabilities

Trade payables	(3,674)
Other payables	(44,496)

##### Non-current liabilities

Deferred tax liabilities	(42,007)
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#### Total identifiable net assets acquired

204,668

Note: The intangible assets mainly represent the IPR&Ds acquired. IPR&Ds are not yet available for use and are not amortised but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to approximately RMB2,911,000 which represent the gross contractual amounts at the date of acquisition.

**27. ACQUISITION OF SUBSIDIARIES** (Continued)  
**For the six months ended 30 June 2019** (Continued)

**(a) Business combination** (Continued)

*Goodwill arising from acquisition*

	<i>RMB'000</i>
Consideration transferred	252,880
Less: Recognised amount of identifiable net assets acquired	<u>(204,668)</u>
Goodwill arising on acquisition	<u><u>48,212</u></u>

Goodwill arose in the acquisition of Yong Shun Group because of the expected synergies, revenue growth, future market development and the assembled workforce of Yong Shun Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

*Net cash outflow on acquisition of subsidiaries*

	<i>RMB'000</i>
Cash consideration paid	252,880
Bank balances and cash acquired	<u>(1,293)</u>
Net cash outflow	<u><u>251,587</u></u>

Yong Shun Group does not have any significant contribution to the Group's revenue or results for the six months ended 30 June 2019.

The acquisition of Yong Shun Group was completed on 11 January 2019. Accordingly, the impact to the Group's revenue and profit for the period would have been immaterial had the acquisition been completed on 1 January 2019.

## 27. ACQUISITION OF SUBSIDIARIES (Continued)

For the six months ended 30 June 2019 (Continued)

### (b) Assets acquisitions

During the six months ended 30 June 2019, the following assets acquisitions have been accounted for as acquisitions of assets as they did not operate any business prior to the date of acquisitions.

- (i) On 1 February 2019, the Group entered into an agreement to acquire 100% equity interest in 上海聯寅物業管理有限公司 (“Shanghai Lianyin”) from independent third parties for a cash consideration of RMB96,899,000. The acquisition, which was completed on 6 March 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Shanghai; and
- (ii) On 28 March 2019, the Group entered into an agreement to acquire 100% equity interest in 蘇州久富電子有限公司 (“Suzhou Jiufu”) from independent third parties for a consideration of RMB18,941,000. The acquisition, which was completed on 9 April 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Suzhou.

*Assets acquired and liabilities recognised at the dates of acquisitions*

	Shanghai Lianyin RMB'000	Suzhou Jiufu RMB'000	Total RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	116,043	71,302	187,345
Right-of-use assets	59,005	9,698	68,703
<b>Current assets</b>			
Bank balances and cash	136	—	136
<b>Current liabilities</b>			
Other payables	(78,285)	(62,059)	(140,344)
	<u>96,899</u>	<u>18,941</u>	<u>115,840</u>
<b>Net cash outflow on acquisition of assets</b>			
Cash consideration	96,899	18,941	115,840
Bank balances and cash acquired	<u>(136)</u>	<u>—</u>	<u>(136)</u>
Net cash outflow	<u>96,763</u>	<u>18,941</u>	<u>115,704</u>

## 28. DISPOSAL OF SUBSIDIARIES

### (a) Disposal of subsidiaries

- (i) On 10 March 2020, the Group entered into an agreement with an independent third party to dispose of its entire 99.39% equity interest in Shijiazhuang Zhongrun Pharmaceutical Technology Limited ("Zhongrun Technology") for a consideration of RMB503,046,000. The disposal was completed on 10 March 2020 with the Group losing control in Zhongrun Technology. The net assets of Zhongrun Technology at the date of disposal were as follows:

#### Net cash outflow arising on disposal:

	<i>RMB'000</i>
Cash consideration received	50,304
Less: bank balance and cash disposed of	<u>(243,632)</u>
	<u><u>(193,328)</u></u>

#### Analysis of assets and liabilities over which control was lost:

	<i>RMB'000</i>
Property, plant and equipment	52,743
Right-of-use assets	31,606
Other receivables	58,438
Bank balance and cash	243,632
Other payables	<u>(169,604)</u>
Net assets disposed of	<u><u>216,815</u></u>

#### Gain on disposal of a subsidiary:

	<i>RMB'000</i>
Consideration	503,046
Non-controlling interest	1,316
Net assets disposed of	<u>(216,815)</u>
Gain on disposal	<u><u>287,547</u></u>

## 28. DISPOSAL OF SUBSIDIARIES (Continued)

### (a) Disposal of subsidiaries (Continued)

- (ii) On 16 April 2020, the Group entered into an agreement with an independent third party to dispose of its 49.5% equity interest in CSPC Zhongcheng Pharmaceutical Logistic Co., Limited and its subsidiary ("Zhongcheng Logistics Group") for a consideration of RMB34,650,000. The disposal was completed on 30 April 2020 with the Group losing control in Zhongcheng Logistics Group. Pursuant to the relevant agreements and revised articles of association of Zhongcheng Logistics, the Group has joint control over the strategic financial and operating decisions relating to the relevant activities of Zhongcheng Logistics Group. Accordingly, Zhongcheng Logistics Group became a joint venture of the Group with effect from 1 May 2020 and has since been accounted for using the equity method of accounting. The net assets of Zhongcheng Logistics Group at the date of disposal were as follows:

#### Net cash outflow arising on disposal:

	RMB'000
Cash consideration	34,650
Less: bank balance and cash disposed of	(432,825)
	<u>(398,175)</u>

#### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	827,178
Right-of-use assets	117,812
Interest in a joint venture	257
Inventories	67,254
Trade receivables	295,744
Other receivables	91,534
Bills receivables	133,744
Trade receivables due from related companies	101,409
Restricted bank deposits	57,522
Bank balance and cash	432,825
Trade payables	(230,682)
Other payables	(340,703)
Contract liabilities	(40,759)
Bills payables	(267,610)
Amount due to intergroup companies	(1,131,492)
Borrowing	(70,000)
	<u>44,033</u>

#### Gain on disposal of a subsidiary:

	RMB'000
Consideration	34,650
Non-controlling interest	440
Fair value of equity interest retained in Zhongcheng Logistics Group at the date of disposal	36,297
Net assets disposed of	(44,033)
	<u>27,354</u>

## 28. DISPOSAL OF SUBSIDIARIES (Continued)

### (b) Deemed disposal of a subsidiary

As set out in note 1, the Group lost control over YZY Biopharma upon the cancellation of the Agreement on 1 April 2020. Accordingly, YZY Biopharma became an associate of the Group with effect from 1 April 2020 and has since been accounted for using the equity method of accounting. The net assets of YZY Biopharma at the date of deemed disposal were as follows:

#### Analysis of assets and liabilities over which control was lost:

	<i>RMB'000</i>
Property, plant and equipment	77,170
Right-of-use assets	9,711
Goodwill	38,981
Other intangible assets	631,906
Inventories	4,129
Other receivables	8,998
Bank balances and cash	9,753
Trade payable	(13,341)
Other payables	(21,383)
Amount due to intergroup companies	(9,118)
Borrowing	(23,000)
Deferred tax liabilities	(96,921)
	<hr/>
Net assets disposed of	616,885
	<hr/> <hr/>

#### Loss on deemed disposal of a subsidiary:

	<i>RMB'000</i>
Net assets disposed of	(616,885)
Non-controlling interest	346,617
Fair value of equity interest retained in YZY Biopharma at the date of deemed disposal	251,230
	<hr/>
Loss on deemed disposal	(19,038)
	<hr/> <hr/>

## 29. EVENT AFTER THE END OF THE REPORTING PERIOD

On 3 July 2020, the Company issued 1,247,267,680 ordinary shares pursuant to a bonus issue of one new share for every five existing shares held by shareholders of the Company.

## OTHER INFORMATION

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

As at 30 June 2020, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

#### Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued shares of the Company as at 30 June 2020
Cai Dongchen	Beneficial owner	87,538,000	
	Interest of controlled corporation	1,356,619,120 (Note)	
		<u>1,444,157,120</u>	23.16%
Chak Kin Man	Beneficial owner	4,000	0.00006%

Note: Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited (“True Ally”), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice 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 or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2020.

## OTHER INFORMATION

### Arrangements to Purchase Shares or Debentures

Other than the share option scheme and share award scheme disclosed below, at no time during the period was the Company or any of its 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 2020, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders 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 the issued shares of the Company as at 30 June 2020
Cai Dongchen	Beneficial owner	87,538,000	
	Interest in controlled corporation	1,356,619,120 (Note)	
		<hr/> 1,444,157,120	23.16%
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	862,739,120 (Note)	
		<hr/> 1,356,619,120	21.75%
Massive Giant Group Limited	Beneficial owner	634,809,620	10.18%
Common Success International Limited	Beneficial owner	423,206,414	6.79%
Citigroup Inc.	Person having a security interest in shares	12,450,021	
	Interest in controlled corporation	27,477,368	
	Approved lending agents	393,768,033	
		<hr/> 433,695,422	6.95%
UBS Group AG	Interest in controlled corporation	456,592,457	7.32%

## OTHER INFORMATION

### Substantial Shareholders (Continued)

#### Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share of the Company as at 30 June 2020
Citigroup Inc.	Interest in controlled corporation	4,559,891	0.073%

*Note:* Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice 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, the Company has not been notified of any other relevant interests or short positions in the issued shares of the Company as at 30 June 2020.

#### Share Option Scheme

The Company has adopted a share option scheme on 9 December 2015. No options have been granted under the share option scheme since its adoption.

#### Share Award Scheme

The Company has adopted a share award scheme on 20 August 2018. A total of 2,394,000 shares has been granted on 15 January 2019 under the share award scheme.

#### 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 2020 except the deviation from code provision A.2.1 as set out below.

## OTHER INFORMATION

### Corporate Governance *(Continued)*

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.

### Closure of Register of Members

The register of members of the Company will be closed from Monday, 14 September 2020 to Tuesday, 15 September 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 11 September 2020.

### 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 2020.

### 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 2020.

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

Mr. Lee Ka Sze, Carmelo, a non-executive director of the Company, has ceased to be an independent non-executive director of China Pacific Insurance (Group) Co., Ltd. (listed on the Stock Exchange of Hong Kong Limited) with effect from 12 May 2020.