石藥集團有限公司
CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2019

INTERIM REPORT

CONTENTS

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
LU Hua
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

Committees

Audit Committee

CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

Nomination Committee

CAI Dongchen *(Chairman)*
CHAN Siu Keung, Leonard
LO Yuk Lam

Remuneration Committee

CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

Legal Advisers

Woo Kwan Lee & Lo

Auditor

Deloitte Touche Tohmatsu

Company Secretary

LEE Ka Sze, Carmelo

Authorised Representatives

PAN Weidong
CHAK Kin Man

Registered Office

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18 Harbour Road
Wan Chai
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Share Registrar and Transfer Office

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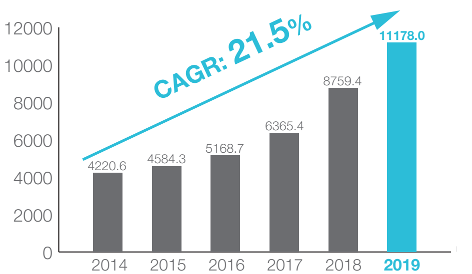
FINANCIAL HIGHLIGHTS

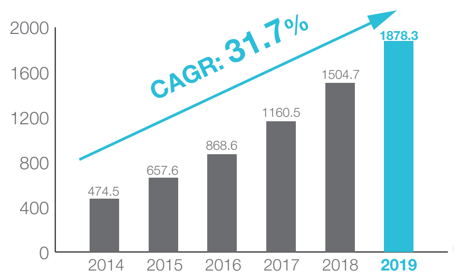
	For the six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited) (Restated)	
Revenue by business units:			
Finished drugs	**8,766,117**	6,407,383	**36.8%**
Vitamin C	**1,157,854**	1,051,336	**10.1%**
Antibiotics	**531,272**	626,726	**(15.2%)**
Others	**722,753**	673,982	**7.2%**
Total revenue	**11,177,996**	8,759,427	**27.6%**
Gross profit	**7,812,611**	5,595,513	**39.6%**
Operating profit	**2,339,895**	1,886,353	**24.0%**
Profit attributable to shareholders	**1,878,284**	1,504,740	**24.8%**
Basic earnings per share	**RMB30.13 cents**	RMB24.10 cents	**25.0%**

Turnover and profit attributable to shareholders for the six months ended 30 June of the latest six years are set out below:

Turnover (RMB million)



Profit attributable to shareholders (RMB million)



MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 June 2019, the Group achieved a revenue of RMB11,178 million, representing a 27.6% growth year-on-year and profit attributable to shareholders of RMB1,878 million, representing a 24.8% growth year-on-year. Basic earnings per share for the first half of 2019 amounted to RMB30.13 cents (first half of 2018: RMB24.10 cents).

Dividend

The board of directors of the Company does not declare the payment of an interim dividend for the six months ended 30 June 2019 (first half of 2018: nil).

Industry Review

During the period under review, the direction of medical reform policy remained the focus of the industry. The centralised procurement in 4+7 pilot cities has been officially implemented in March and the formulation of procurement rules for the second round is in progress. In light of the present development, it is probable that next round of centralised procurement will expand nationwide and allow multiple winners. If the rule of multiple winners is realised, it would relieve the pressure of exclusive supply and reduce the risk of excessive price competition. On the basis of price in exchange for volume, it is expected that the generic drugs market will become more concentrated, favourable to large pharmaceutical enterprises with competitive strength. In July this year, the "First National Key Drug List for Monitoring and Prescription Control" was released. The 20 drugs on the list are either on the national reimbursement drug list or the local supplemental reimbursement drug list, with the characteristics of high usage and injection formulation. Implementation of the list will eliminate the usage beyond reasonable scope of some drugs and return to their therapeutic areas, which is beneficial to the control of medical insurance expenditure and the efficient use of fund. In addition, national reimbursement drug list adjustment is expected to be completed in the near term while policies for medical insurance payment methods and payment based on diagnosis related groups (DRGs) are also in the process of formulation. The policy adjustments may have certain impact on the market but will also bring new opportunities, leading to change in the competitive landscape of the pharmaceutical industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(1) Finished Drug Business

The finished drug business continued to achieve satisfactory growth in the first half of 2019 with sales reaching RMB8,766 million, representing a 36.8% growth year-on-year.

Innovative Drug Products

During the period, the Group continued to expand the dedicated sales force for different drugs, accelerate market expansion in major cities and hospitals, and adopt different sales strategies based on the market positions and competitive landscape of the products, including i) stepping up market penetration into county-level hospitals and community medical institutions; ii) actively filling the market for newly launched products with rapid establishment of strong sales teams and sound sales networks; and iii) striving for market share gain through emphasis on products' differentiated edges. Leveraging the market competitiveness of the products and the effective sales strategies, innovative drug products maintained a strong growth momentum amidst fierce competition and achieved sales of RMB6,149 million in the first half of 2019, representing a 55.4% growth year-on-year. In particular, the sales of "NBP" increased by 35.9% and the sales of oncology drug portfolio increased by 194.2%, becoming the dual engine of the Group's growth.

Business Review *(Continued)*

(1) Finished Drug Business *(Continued)*

The following are the Group's major innovative drug products:

NBP(恩必普)(butylphthalide soft capsule and injection)

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product. The drug is mainly used for the treatment of acute ischemic stroke. NBP has been listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2010, 2014 and 2018 editions)". It has also been listed on a number of guidelines and consensus, including the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke of China", the "Guidelines for the Assessment and Intervention of Cerebral Collateral Circulation in Ischemic Stroke in China (2017)", the "Guidelines for the Diagnosis and Treatment of Cerebral Infarction with Chinese and Western Medicines in China (2017)", the "Guidelines for the Diagnosis and Treatment of Cognitive Impairment of Cerebral Small Vessel Diseases in China (2019)" and the "Guidelines for the Reasonable Medication for Stroke in China" (2019 Edition). These serve to recognise the clinical efficacy of NBP for treating acute ischemic stroke. The inclusion of both formulations of NBP into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsule for recovery use).

For the exploration of new therapeutic areas, 112 research projects in respect of butylphthalide are in progress, including 65 fundamental and 47 clinical projects. The phase III clinical trial of butylphthalide soft capsule for the treatment of vascular dementia has officially started, and the clinical trial for the treatment of amyotrophic lateral sclerosis (ALS) has completed its follow-up phase and started to recollect data. In addition, NBP has also participated in seven national studies under the "13th Five Year Plan", including efficacy and safety studies of butylphthalide for new treatment areas such as cerebral small vessel diseases, aortic atherosclerotic cerebral infarction and intravenous thrombolysis or endovascular treatment for acute ischemic stroke. Moreover, the intervention and safety studies of butylphthalide in acute cerebral haemorrhage have been formally launched in June this year, marking the entering of butylphthalide into cerebral haemorrhage area. For overseas market development, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with over 100 patients enrolled. The development of new indications and markets as mentioned above will be able to bring new growth opportunities to NBP.

Business Review *(Continued)*

(1) Finished Drug Business (Continued)

NBP（恩必普）(butylphthalide soft capsule and injection) (Continued)

During the period, the Group further expanded its dedicated sales force of NBP and accelerated market development of hospitals in untapped cities and penetration into county level and community hospitals according to the implementation of national tiered medical system, policy on separated treatment for acute and chronical diseases and medical consortium. During the period, market coverage at hospitals has further expanded with sales maintaining a high rate of growth.

Oulaining（歐來寧）(oxiracetam capsule and lyophilized powder injection)

Oulaining is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. Oxiracetam has been included in the "Guidelines for the Diagnosis and Treatment of Cognitive Impairment of Cerebral Small Vessel Diseases 2019", the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China 2015", the "Guidelines for Diagnosis and Treatment of Carbon Monoxide Poisoning", the "Clinical Pathway for Cerebral Contusion and Laceration" and the "Interpretation of Clinical Pathway of Therapeutic Drugs". In order to further improve evidence-based medical proof of the product and reinforce the leading position of Oulaining, a number of fundamental and clinical studies of oxiracetam led by domestic and overseas leading experts of neurology have commenced, covering Alzheimer's disease, vascular dementia, aphasia after stroke and brain damage.

Oxiracetam has been listed on the recently released "First National Key Drug List for Monitoring and Prescription Control", which may have certain impact on the future sales of Oulaining. The Group will boost the growth of Oulaining within its reasonable scope of use with the transformation to direct sales model and efforts put to strengthen market coverage at second-tier hospitals or below for both formulations, step up academic promotion and increase related medical studies.

Business Review *(Continued)*

(1) Finished Drug Business *(Continued)*

Xuanning（玄寧）(maleate levamlodipine tablet and dispersible tablet)

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina. It has won the Second Prize for State Technical Invention Award and has been included in the "Guidelines for the Prevention and Treatment of Hypertension of China 2018", the "Guidelines for Rational Use of Drugs of Coronary Heart Disease" (2nd Edition), "Guidelines for Rational Use of Drugs for Hypertension" (2nd Edition), the "Guidelines for Geriatric Hypertension Management in China 2019" and the "Interpretation of Clinical Pathway of Therapeutic Drugs (County-level Volume)". The results of the research study for the comparison of levamlodipine maleate (Xuanning) and amlodipine besylate for the treatment of hypertension (a major project in the "12th Five-Year Plan") has fully demonstrated the better clinical efficacy and lower side effects of Xuanning. The new drug application of Xuanning has been filed with U.S. FDA, which is the first NDA submission to the U.S, FDA by a Chinese pharmaceutical enterprise in the U.S..

The Group is transforming the sales model of Xuanning to direct sales model and strengthening market development at county-level or below and pharmacy stores, striving to seize a bigger market share and higher sales growth.

Duomeisu（多美素）(doxorubicin hydrochloride liposome injection)

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 currently been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines", an authoritative guideline in the U.S., for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of breast cancer, bone and soft tissue sarcoma and AIDS related progressive Kaposi sarcoma. Duomeisu has advantages in terms of efficacy and safety as compared to traditional anthracyclines. As the current market penetration rate is not high, there is a promising prospect for growth.

Business Review *(Continued)*

(1) Finished Drug Business (Continued)

Duomeisu（多美素）(doxorubicin hydrochloride liposome injection) (Continued)

After years of academic promotion, hospital development and market nurturing efforts, Duomeisu has become a leading brand of domestic doxorubicin hydrochloride liposome injection market, with continued high sales growth achieved in the first half of 2019. In the future, the Group will continue to build on its competitive resources to strengthen professional academic promotion and improve the expert network and recognition of the product through academic conferences and clinical research projects. In addition to strengthening the existing sales areas for haematological, breast, gynecologic and bone cancers, the Group will continue to explore other areas such as bladder cancer, liver cancer, gastric cancer and lung cancer, aiming to add growth momentum to Duomeisu.

Jinyouli（津優力）(PEG-rhGCSF injection)

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. It has been awarded the Golden Prize for China Patent and was awarded the First Prize for Shandong Science & Technology Progress during the period. Jinyouli is well supported by 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 and lymphoma, earning unanimous recommendations from domestic and foreign guidelines.

The principal marketing strategy of Jinyouli is to expand the coverage of hospitals and customers and increase the frequency of brand and academic promotion by making use of different domestic academic platforms. In the first half of 2019, sales growth continued to be strong. Jinyouli is aimed to become the leading brand for the long-acting version in China. In terms of therapeutic area, the Group will deepen the current areas and explore new areas such as digestive tract and urinary system and at the same time seek opportunities in immunotherapy and combo usage with target therapy.

Business Review *(Continued)*

(1) Finished Drug Business (Continued)

Keaili（克艾力）(paclitaxel for injection (albumin-bound))

Keaili is the first-to-market generic of new generation of paclitaxel chemotherapy drug in China. The drug was a major project of new drug innovation technology in the "12th Five Year Plan" during its research and development stage. It has passed the drug consistency evaluation after launch and was honoured the "Most Innovative Preparation in China" in 2018 of the 12th Chinese Pharmaceutical Conference. By integrating paclitaxel with albumin using a special technology to form stable nanoparticles, Keaili has solved the problem of paclitaxel's solubility and stability of the solution, increasing the dosage of paclitaxel and avoiding the use of toxic solvents with pre-treatment no longer required. Therefore, it is characterized by higher efficacy, lower toxicity and improved convenience and economic value. As compared with the imported originator drug, the price of Keaili is significantly lower, greatly relieving the patients' financial burden.

Keaili has been widely recognized by experts and patients immediately after launch with hospital coverage expanding quickly, realizing a rapid sales growth in the first half of 2019. Keaili is currently mainly used for the treatment of breast cancer. The Group will extend the application to areas such as lung cancer, pancreatic cancer, gastric cancer, melanoma, urothelial carcinoma, nasopharyngeal carcinoma and esophageal cancer by continual investment in clinical trials. The Group will also continue its marketing strategies of clinical studies and academic conferences, and strengthen its cooperation with professional academic institutions in order to establish a more solid academic platform for building a better market recognition and brand reputation of Keaili, fostering it to become the leader in the paclitaxel market of China.

Business Review *(Continued)*

(1) Finished Drug Business (Continued)

Ailineng（艾利能）(elemene injection)

Ailineng is an oncology drug developed in China, mainly used for the treatment of nerve glioma, brain metastases and malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy for oncology treatment. After years of clinical use, it has been widely recognized by the medical profession. The new and upgraded liquid formulation of the product was granted patent in China. Compared with the traditional emulsion formulation, the purity and the content of liquid formulation for elemene were further enhanced, contributing to the significant reduction of adverse clinical reaction.

The Group will continue to strengthen academic promotion, make further efforts in medical research projects and implement sales model transformation in certain regions in order to expand market share of the product.

Nuolining（諾利寧）(imatinib mesylate tablets)

Nuolining is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumour. Nuolining has been recommended by a number of domestic and foreign guidelines as a first-line drug for the above diseases. Patients using Nuolining for its main indications are required to use it on a long-term basis and thus the market potential is enormous.

During the period, Nuolining achieved a steady growth. The Group will accelerate the consistency evaluation of Nuolining in response to the changes in national policies.

Business Review *(Continued)*

(1) Finished Drug Business (Continued)

Common Generic Drug Products

During the period, the Group continued with the strategy of enhancing sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Among which, products with higher sales growth included Ouyi（歐意）(aspirin enteric-coated tablets), Ouwei（歐維）(mecobalamin tablets) and Shuanglexin（雙樂欣）(metformin hydrochloride tablets). High-end antibiotic product Zhongnuo Shuluoke（中諾舒羅克）(meropenem for injection) has also maintained rapid growth during the period. Furthermore, the Group actively pushed forward the quality and efficacy consistency evaluation of generic drugs. Currently, 9 common generic drug products have passed the consistency evaluation, including Xinweihong（新維宏）(azithromycin tablets), Qimaite（奇邁特）(tramadol hydrochloride tablets), Zuoshuxi（左舒喜）(captopril tablets), Shuanglexin（雙樂欣）(metformin hydrochloride tablets), Shiyao（石藥）(amoxicillin capsules), Yijia（怡嘉）(ranitidine capsules), Xinouyi（新歐意）(cefadroxil tablets), Encun（恩存）(clopidogrel tablets) and Meiluolin（美洛林）(ticagrelor tablets). Products passing consistency evaluation are expected to significantly lower the financial burden of patients, reduce medical insurance expense and improve the efficiency in the use of health insurance funds. The Group will fully utilise opportunities brought about by the consistency evaluation to actively participate in centralised procurement and strive for a larger market share for the products. On the other hand, the Group will continue to establish strategic cooperation with core distributors to expand and penetrate the end-user market into lower-tier medical institutions, opening new sales channels for the products.

In the first half of 2019, common generic drug products achieved sales of RMB2,617 million, representing a 6.9% growth year-on-year. The Group is gradually changing the marketing activities of common generic drug products to therapeutic based in order to achieve better promotion results and enhance sales growth.

Business Review *(Continued)*

(2) Vitamin C Business

Prices of vitamin C products continued to be under pressure due to excessive market supply during the period. In addition to using a number of measures to enhance product quality and reduce production cost, the Group has set up branch offices in Europe and the U.S. to directly cover the local end-user market, adjust customer structure and increase the sales contribution from quality customers. Besides, the Group has newly added products with different specifications based on market appetite in order to enhance customers' satisfaction and boost sales volume. The resulting increase in sales volume has to a certain extent effectively compensated for the loss due to price decline during the period.

(3) Antibiotics Business

Market demand for antibiotics remained low due to the restricted use for antibiotics policy in the end-user market. The strategic relocation of production facilities and the short-term adjustment to product mix have led to a decline in sales and profit contribution during the period. The Group will strive to reduce production costs continuously with the implementation of various measures such as technology advancement, management enhancement and energy conservation, and foster new business growth drivers and improve market competitiveness by expanding into high-end market through product registration and certification.

(4) Others

The functional food business (including caffeine additives and vitamin supplements) recorded a stable growth during the period.

Business Review *(Continued)*

(5) Research and Development

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 in the first half of 2019 amounted to RMB942 million, representing a 68.5% increase year-on-year and accounting for approximately 10.7% of finished drug business revenue. At present, there are more than 300 projects in the pipeline, of which 40 are new small molecule drugs and 30 are new target macromolecule biologics, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, oncology, diabetes, psychiatry & neurology diseases and anti-infectives.

The major R&D progress of the Group from January to July is as follows:

1. 2 drugs have been granted drug registration approval by the National Medical Products Administration: clopidogrel bisulphate tablets and ticagrelor tablets;

2. 4 drugs have passed consistency evaluation: ranitidine hydrochloride capsules, cefadroxil tablets, clopidogrel bisulphate tablets (deemed as passed) and ticagrelor tablets (deemed as passed);

3. 9 new drug candidates have been granted clinical trial approval by the Center for Drug Evaluation, including: 6 for oncology, 1 for metabolic diseases, 1 antithrombotic agent, 1 for nervous system diseases;

4. 16 small molecule new drug candidates are under clinical trials in China, including: 6 for oncology, 4 for nervous system diseases, 2 for metabolic diseases, 1 antithrombotic agent, 2 for respiratory system diseases, 1 anti-infective;

5. 7 macromolecule new drug candidates are under clinical trials in China: 6 for oncology, 1 for metabolic diseases;

6. 5 drug candidates of new preparation are under clinical trials: 4 for oncology, 1 for cardiovascular diseases;

Business Review *(Continued)*

(5) Research and Development *(Continued)*

7. 26 drug candidates are pending drug registration approval, including: 4 for metabolic diseases, 4 anti-infectives, 4 for nervous system diseases, 3 for respiratory system diseases, 2 for cardiovascular diseases, 2 for oncology, 1 for digestive system diseases, 1 antithrombotic agent, 5 for other diseases;

8. 19 drugs are under bioequivalent tests, including: 5 for oncology, 3 for metabolic diseases, 3 anti-infectives, 3 for cardiovascular system diseases, 1 for digestive system diseases, 1 antithrombotic agent, 1 for nervous system diseases, 2 for other diseases;

9. 1 new drug candidate for nervous system diseases is under clinical trials in the U.S.;

10. 1 drug for genitourinary system diseases has been granted U.S. ANDA pre-approval;

11. 7 drug candidates are pending U.S. ANDA approval: 4 for nervous system diseases, 1 for oncology, 1 for digestive system diseases, 1 for cardiovascular system diseases; and

12. 26 domestic patents have been applied for, 11 of which have been authorized; and 5 foreign patents have been applied for, 2 of which have been authorized during the period.

Apart from in-house research and development, the Group has also been proactively seeking external cooperation and acquisition opportunities with its focus on drugs of small molecule and macromolecule which are close to product approval and market launch so as to supplement the pipeline of product launch in the next few years, and fully leverage the Group's strong marketing and market development capabilities to achieve rapid growth in sales of new products.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Change
Revenue *(RMB'000)*			
Finished drugs	**8,766,117**	6,407,383	36.8%
Vitamin C	**1,157,854**	1,051,336	10.1%
Antibiotics	**531,272**	626,726	(15.2%)
Others	**722,753**	673,982	7.2%
Total	**11,177,996**	8,759,427	27.6%
Operating profit *(RMB'000)*	**2,339,895**	1,886,353	24.0%
Operating profit margin	**20.9%**	21.5%	
Profit attributable to shareholders *(RMB'000)*	**1,878,284**	1,504,740	24.8%

Finished drug business continued to be the major growth driver to the Group, with sales increasing by 36.8% to RMB8,766 million in the current period. Innovative drugs, in particular, delivered a strong growth with sales reaching RMB6,149 million, representing a growth of 55.4%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 45.2% in the first half of 2018 to 55% in the current period.

Operating profit margin slightly decreased from 21.5% in the first half of 2018 to 20.9% in the current period. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively 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) significant increase in research and development expenses; and (iv) lower profit margin of the vitamin C business in the current period due to decrease in average selling prices.

Financial Review *(Continued)*

Selling and Distribution Expenses

Selling and distribution expenses was RMB4,227 million for the current period as compared to RMB2,921 million in the first half of 2018. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of the innovative drugs; (ii) increased efforts in marketing and academic promotion for the newly launched innovative product "Keaili"; and (iii) increased efforts in academic promotion for some common generic products.

Administrative Expenses

Administrative expenses was RMB383 million in the current period as compared to RMB328 million in the first half of 2018. The increase in administrative expenses was primarily attributable to the expanded scale of operation of the Group.

Research and Development Expenses

R&D expenses was RMB942 million in the current period as compared to RMB559 million in the first half of 2018. 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 generics.

Liquidity and Financial Position

For the first half of 2019, the Group's operating activities generated a cash inflow of RMB1,599 million (30 June 2018: RMB1,651 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly increased from 37 days in 2018 to 40 days in the current period. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 178 days in 2018 to 133 days in the current period. Current ratio of the Group was 2.1 as at 30 June 2019, slightly higher than 1.9 half year ago. Capital expenditure for the current period amounted to RMB1,213 million, which were mainly spent to construct production capacities and improve production efficiency.

The Group's financial position remained solid. As at 30 June 2019, cash and cash equivalents amounted to RMB4,031 million (31 December 2018: RMB4,336 million) and bank borrowings amounted to RMB60 million (31 December 2018: RMB71 million), resulting in a net cash positon of RMB3,971 million (31 December 2018: RMB4,265 million).

Financial Review *(Continued)*

Liquidity and Financial Position *(Continued)*

All of the bank borrowings are denominated in Renminbi. The Group's sales 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 net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when necessary.

Pledge of Assets

As at 30 June 2019, bank deposits amounting to RMB100 million (31 December 2018: RMB100 million) and structured bank deposits amounting to RMB200 million (31 December 2018: RMB1,380 million) have been pledged to secured certain banking facilities granted to the Group.

Employees

As at 30 June, 2019, the Group had approximately 18,039 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.

Deloitte. 德勤

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 21 to 70, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	NOTES	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited) (Restated)
Revenue	3	**11,177,996**	8,759,427
Cost of sales		**(3,365,385)**	(3,163,914)
Gross profit		**7,812,611**	5,595,513
Other income		**73,300**	67,028
Other gains or losses		**25,758**	43,405
Selling and distribution expenses		**(4,227,175)**	(2,921,475)
Administrative expenses		**(383,206)**	(328,454)
Research and development expenses		**(941,694)**	(558,960)
Other expenses		**(19,699)**	(10,704)
Operating profit		**2,339,895**	1,886,353
Finance costs		**(26,908)**	(29,348)
Share of results of joint ventures		**24,573**	19,171
Profit before tax	4	**2,337,560**	1,876,176
Income tax expense	5	**(449,293)**	(380,752)
Profit for the period		**1,888,267**	1,495,424
Profit (loss) for the period attributable to:			
Owners of the Company		**1,878,284**	1,504,740
Non-controlling interests		**9,983**	(9,316)
		1,888,267	1,495,424
		RMB cents **(Unaudited)**	*RMB cents* (Unaudited) (Restated)
Earnings per share	7		
— Basic		**30.13**	24.10
— Diluted		**30.13**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	**1,888,267**	1,495,424
Other comprehensive income (expenses):		
Items that will not be reclassified to profit or loss:		
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**9,030**	69,446
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(5,127)**	(1,528)
Other comprehensive income for the period	**3,903**	67,918
Total comprehensive income for the period	**1,892,170**	1,563,342
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**1,882,187**	1,572,658
Non-controlling interests	**9,983**	(9,316)
	1,892,170	1,563,342

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment	8	**7,720,325**	6,692,220
Right-of-use assets	8	**849,416**	—
Prepaid lease payments		**—**	526,903
Goodwill		**188,964**	140,752
Other intangible assets	9	**1,076,718**	806,986
Interests in joint ventures		**125,782**	126,279
Financial assets measured at fair value through other comprehensive income	10	**879,778**	672,263
Deferred tax assets		**37,671**	18,946
Deposits and prepayments	12	**299,000**	329,000
Bank deposits	17	**100,000**	100,000
		11,277,654	9,413,349
Current assets			
Inventories		**2,470,369**	3,045,318
Trade receivables	11	**2,655,945**	2,064,925
Deposits, prepayments and other receivables	12	**441,964**	481,087
Bills receivables	13	**1,745,589**	1,296,364
Trade receivables due from related companies	15	**95,022**	63,443
Amounts due from joint ventures	15	**229,999**	204,450
Prepaid lease payments		**—**	16,570
Other financial assets		**533**	443
Structured bank deposits	16	**1,359,747**	2,292,366
Restricted bank deposits	17	**12,909**	2,909
Bank balances and cash	17	**4,031,475**	4,335,613
		13,043,552	13,803,488

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2019

	NOTES	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited) (Restated)
Current liabilities			
Trade payables	18	**1,762,943**	1,619,356
Other payables	19	**3,240,029**	2,920,262
Contract liabilities		**297,244**	700,075
Bills payables	20	**520,113**	1,654,470
Amounts due to related companies	15	**20,185**	28,425
Contingent consideration payable		**16,517**	12,375
Lease liabilities		**75,245**	—
Tax liabilities		**145,952**	241,465
Borrowings	21	**60,000**	70,589
		6,138,228	7,247,017
Net current assets		**6,905,324**	6,556,471
Total assets less current liabilities		**18,182,978**	15,969,820
Non-current liabilities			
Other payables	19	**198,944**	182,404
Contingent consideration payable		**3,383**	19,899
Lease liabilities		**126,637**	—
Deferred tax liabilities		**339,519**	237,917
		668,483	440,220
Net assets		**17,514,495**	15,529,600
Capital and reserves			
Share capital	22	**10,899,412**	10,899,412
Reserves		**5,574,204**	4,152,848
Equity attributable to owners of the Company		**16,473,616**	15,052,260
Non-controlling interests		**1,040,879**	477,340
Total equity		**17,514,495**	15,529,600

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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 2018 (Audited) (Restated)	10,899,412	–	–	(4,689,903)	1,244,088	46,794	2,655	60	5,398,509	12,901,615	71,053	12,972,668
Profit (loss) for the period	–	–	–	–	–	–	–	–	1,504,740	1,504,740	(9,316)	1,495,424
Other comprehensive income (expense) for the period	–	–	–	–	–	–	69,446	(1,528)	–	67,918	–	67,918
Total comprehensive income (expense) for the period	–	–	–	–	–	–	69,446	(1,528)	1,504,740	1,572,658	(9,316)	1,563,342
Dividends recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(782,875)	(782,875)	–	(782,875)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Transfer to statutory reserve	–	–	–	–	3,661	–	–	–	(3,661)	–	–	–
Acquisition of subsidiaries *(note 26)*	–	–	–	–	–	–	–	–	–	–	427,670	427,670
At 30 June 2018 (Unaudited) (Restated)	10,899,412	–	–	(4,689,903)	1,247,749	46,794	72,101	(1,468)	6,116,713	13,691,398	487,407	14,178,805
At 1 January 2019 (Audited) (Restated)	10,899,412	–	–	(4,689,903)	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 (expense) for the period	–	–	–	–	–	–	9,030	(5,127)	–	3,903	–	3,903
Total comprehensive income (expense) for the period	–	–	–	–	–	–	9,030	(5,127)	1,878,284	1,882,187	9,983	1,892,170
Dividends recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(958,326)	(958,326)	–	(958,326)
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 iv)*	–	(100,706)	–	–	–	–	–	–	–	(100,706)	–	(100,706)
Transfer to statutory reserve	–	–	–	–	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 interest in a subsidiary *(note v)*	–	–	–	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)	7,533,183	16,473,616	1,040,879	17,514,495

Notes:

(i) The balance in other reserve at 1 January 2018 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, which comprised (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) The Company purchased its own ordinary shares of an aggregate of 10,000,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in January 2019 through BOCI-Prudential Trustee Limited (the "Trustee"). As at 30 June 2019, all the shares were held by the Trustee. Details are set out in note 23(ii).

(v) 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") and 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 2019

	NOTE	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited) (Restated)
Net cash from operating activities		**1,598,511**	1,650,846
Net cash used in investing activities:			
Purchase of property, plant and equipment		**(1,304,328)**	(811,663)
Acquisition of subsidiaries and assets	*26*	**(367,291)**	(143,784)
Purchase of financial assets measured at fair value through other comprehensive income		**(215,462)**	(178,044)
Advances to joint ventures		**(17,608)**	(209,201)
Payment of contingent consideration		**(12,374)**	—
Placement of restricted bank deposits		**(10,000)**	(6,148)
Payments for deposits for acquisition of property, plant and equipment		**(10,000)**	—
Payments for right-of-use assets		**(6,211)**	—
Addition of intangible assets		**(119)**	(2,900)
Placement of structured bank deposits		**—**	(1,870,139)
Repayment from a joint venture		**—**	159,200
Withdrawal of bank deposits with more than three months to maturity upon placement		**—**	30,210
Withdrawal of structured bank deposits		**980,706**	380,000
Proceeds on disposal of property, plant and equipment		**82,923**	490
Interest received		**38,060**	22,171
Proceeds from disposal of financial assets measured at fair value through other comprehensive income		**16,977**	—
Disposal of a subsidiary		**9,075**	—
Receipt of government grant for acquisition of property, plant and equipment		**6,894**	—
		(808,758)	(2,629,808)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)
Net cash (used in) from financing activities:		
Settlement of bills payables	**(1,134,357)**	—
Dividends paid	**(958,326)**	(782,875)
Purchase of shares under the share award scheme	**(100,706)**	—
Listing expenses from the Share Offer of CSPC XNW	**(81,091)**	—
Payment of lease liabilities	**(31,386)**	—
Repayment of borrowings	**(20,589)**	(79,105)
Repayment to related parties	**(8,240)**	(16,924)
Dividends paid to non-controlling interests	**(2,000)**	(2,000)
Proceeds from discounted bills	**—**	1,193,167
Advance from related parties	**—**	5,804
Proceeds from the Share Offer of CSPC XNW	**1,223,500**	—
New borrowings raised	**10,000**	19,110
Capital injection from non-controlling interests	**8,150**	—
	(1,095,045)	337,177
Net decrease in cash and cash equivalents	**(305,292)**	(641,785)
Cash and cash equivalents at 1 January	**4,335,613**	4,316,564
Effect of foreign exchange rate changes	**1,154**	2,051
Cash and cash equivalents at 30 June, represented by bank balances and cash	**4,031,475**	3,676,830
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash in the condensed consolidated statement of financial position	**4,031,475**	3,709,052
Bank deposits with more than three months to maturity upon placement	**—**	(32,222)
Cash and cash equivalents in the condensed consolidated statement of cash flows	**4,031,475**	3,676,830

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 2018 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 2018 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.

The functional currency of the Company is Renminbi ("RMB"). The presentation currency of the consolidated financial statements in prior financial year was Hong Kong dollars ("HK$"). In view of the fact that the Group's operation is mainly located in the PRC with transactions mainly denominated in RMB, the directors of the Company (the "Directors") consider that it is more appropriate to use RMB as the presentation currency in presenting the financial performance and financial positions of the Group effective from 1 January 2019, and the comparative information has been restated to reflect the change in presentation currency to RMB accordingly.

Significant transactions in the current interim period and estimation uncertainty on business acquisition

The Company and its subsidiaries (collectively referred to as the "Group") made certain acquisitions during the current interim period and the details are set out in note 26. Further, CSPC XNW was listed on the Shenzhen Stock Exchange on 22 March 2019 and completed the Share Offer for net proceeds of RMB1,142,409,000. The Group's interest in CSPC XNW was diluted to 75% upon completion of the Share Offer.

1. BASIS OF PREPARATION *(Continued)*

Significant transactions in the current interim period and estimation uncertainty on business acquisition *(Continued)*

The acquisition of Yong Shun (as defined in note 26) during the current period is accounted for as business combination. Since the initial accounting for the business combination is incomplete by the end of the current reporting period, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts adjusted during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the sum of the acquisition-date fair value of the assets transferred to the Group, liabilities assumed by the Group, and the goodwill arising on acquisition recognised on the date of acquisition.

As at 30 June 2019, the provisional fair value of the net assets acquired on the date of acquisition of Yong Shun amounted to RMB204,668,000, and the goodwill arising on this acquisition determined based on provisional amounts was RMB48,212,000.

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 new 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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

Except as described below, the application of the new and 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/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies on application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the condensed consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment; or
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC) — Int 4 *Determining whether an Arrangement Lease contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is 4.35%.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee (Continued)

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018 (Restated)	204,323
Lease liabilities discounted at relevant incremental borrowing rates	189,659
Less: Recognition exemption — short-term leases	(9,155)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	180,504
Analysed as	
Current	55,850
Non-current	124,654
	180,504

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		180,504
Reclassified from prepaid lease payments	*(a)*	543,473
		723,977
By class:		
Leasehold lands		543,473
Lands and buildings		180,504
		723,977

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

Impacts and changes in accounting policies on application of HKFRS 16 Leases *(Continued)*

2.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2018**	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 January 2019**
		RMB'000	*RMB'000*	*RMB'000*
Non-current Assets				
Prepaid lease payments	(a)	526,903	(526,903)	—
Right-of-use assets		—	723,977	723,977
Current Assets				
Prepaid lease payments	(a)	16,570	(16,570)	—
Current Liabilities				
Lease liabilities		—	(55,850)	(55,850)
Non-current liabilities				
Lease liabilities		—	(124,654)	(124,654)

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments, amounting to RMB16,570,000 and RMB526,903,000 respectively, were reclassified to right-of-use assets.

(b) For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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.

Vitamin supplements are included as functional food products in the segment of others for the period, while they were included in the segment of finished drugs in prior financial years. The comparative information has been restated to conform with current period's presentation.

Under HKFRS 15 *Revenue from Contracts with Customers*, revenue from manufacture and sales of products is recognised at a point in time when the customer obtains control of the distinct goods.

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

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

For the six months ended 30 June 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	8,766,117	1,160,764	576,427	724,998	11,228,306	(50,310)	11,177,996
SEGMENT PROFIT	1,865,211	299,561	29,614	127,196			2,321,582
Unallocated income							85,941
Unallocated expenses							(67,628)
Operating profit							2,339,895
Finance costs							(26,908)
Share of results of joint ventures							24,573
Profit before tax							2,337,560

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2018 (Unaudited) (Restated)

	Finished drugs	Vitamin C	Antibiotics	Others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	6,407,383	1,051,336	626,726	673,982	8,759,427	–	8,759,427
Inter-segment sales	–	27,058	33,568	2,111	62,737	(62,737)	–
TOTAL REVENUE	6,407,383	1,078,394	660,294	676,093	8,822,164	(62,737)	8,759,427
SEGMENT PROFIT	1,296,482	403,915	48,432	145,363			1,894,192
Unallocated income							68,296
Unallocated expenses							(76,135)
Operating profit							1,886,353
Finance costs							(29,348)
Share of results of joint ventures							19,171
Profit before tax							1,876,176

Segment profit represents the profit earned by each segment without allocation of interest income, fair value gain on structured bank deposits, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

4. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Profit before tax has been arrived at after charging (crediting):		
Amortisation of other intangible assets	**10,631**	8,426
Amortisation of prepaid lease payments	**–**	7,630
Depreciation of property, plant and equipment	**288,967**	280,717
Depreciation of right-of-use assets	**37,995**	–
Total depreciation and amortisation	**337,593**	296,773
Fair value gain on structured bank deposits (included in other gains or losses)	**(48,087)**	(34,874)
Government grant income	**(30,686)**	(8,006)
Interest income on bank balances	**(37,854)**	(22,181)
Loss on disposal of property, plant and equipment	**5,531**	7,466
Net foreign exchange loss (gain)	**6,429**	(15,277)

Note: For the six months ended 30 June 2018 and 2019, 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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)
The tax charge comprises:		
Current taxation		
— PRC Enterprise Income Tax	**406,430**	329,231
— United States of America ("USA") Federal and State Income Tax	**1,984**	5,671
	408,414	334,902
Deferred taxation	**40,879**	45,850
	449,293	380,752

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 taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB6,430,372,000 (31 December 2018: RMB5,576,655,000) 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. DIVIDEND

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Dividend recognised as distribution during the period:		
2018 Final, paid — HK18 cents (equivalent to RMB15.5 cents) (2018: 2017 Final, paid — HK15 cents (equivalent to RMB12.5 cents)) per share	**958,326**	782,875

The Directors do not declare the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,878,284**	1,504,740

7. EARNINGS PER SHARE *(Continued)*

	For the six months ended 30 June	
	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,233,436**	6,243,018
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**354**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,233,790**	N/A

For the six months ended 30 June 2019, the weighted average number of ordinary shares for the purpose of calculation of basic earnings per share has been adjusted for the effect of shares held by the Trustee pursuant to the share award scheme.

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group had acquired property, plant and equipment of RMB1,212,929,000 (2018: RMB800,785,000) in order to upgrade its manufacturing capabilities and additions through acquisitions of subsidiaries and assets of RMB196,043,000 (2018: RMB78,151,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of RMB88,454,000 (2018: RMB7,956,000) for proceeds of RMB82,923,000 (2018: RMB490,000), resulting in a loss of RMB5,531,000 (2018: RMB7,466,000).

During the current interim period, the Group entered into three new lease agreements with CHL for three years which the Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets of RMB59,640,000 and lease liabilities of RMB59,640,000. Further, the Group had additions to right-of-use assets through acquisitions of subsidiaries and assets of RMB68,703,000.

9. OTHER INTANGIBLE ASSETS

	Development costs RMB'000 (note a)	In-process research and development projects RMB'000 (note b)	Exclusive distribution right RMB'000 (note c)	Licenses and patents RMB'000 (note d)	Total RMB'000
COST					
At 1 January 2018	109,469	–	–	109,179	218,648
Acquisition of subsidiaries *(note 26)*	554	631,906	–	–	632,460
Additions	1,316	–	103,723	1,887	106,926
Exchange adjustments	3,015	–	–	1,585	4,600
At 31 December 2018 and 1 January 2019	114,354	631,906	103,723	112,651	962,634
Acquisition of subsidiaries *(note 26)*	–	280,048	–	–	280,048
Additions	119	–	–	–	119
Exchange adjustments	–	–	–	289	289
At 30 June 2019	114,473	911,954	103,723	112,940	1,243,090
AMORTISATION AND IMPAIRMENT					
At 1 January 2018	97,580	–	–	34,814	132,394
Provided for the year	6,737	–	–	13,405	20,142
Exchange adjustments	2,907	–	–	205	3,112
At 31 December 2018 and 1 January 2019	107,224	–	–	48,424	155,648
Provided for the period	3,193	–	–	7,438	10,631
Exchange adjustments	–	–	–	93	93
At 30 June 2019	110,417	–	–	55,955	166,372
CARRYING VALUES					
At 30 June 2019	4,056	911,954	103,723	56,985	1,076,718
At 31 December 2018	7,130	631,906	103,723	64,227	806,986

9. OTHER INTANGIBLE ASSETS *(Continued)*

Notes:

(a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.

(b) In-process research and development projects ("IPR&D"s) were acquired through business combination. 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.

(c) During the year ended 31 December 2018, the Group entered into an agreement with a third party in relation to the commercialisation of a drug that had already received new drug application approval from U.S. Food and Drug Administration. Pursuant to the agreement, the Group is responsible for the drug application and commercialisation of the product in the PRC.

The consideration payable by the Group comprised upfront payments and milestone payments subject to the progress of obtaining regulatory approval for treatment in the PRC of the product. As at 30 June 2019, an aggregate amount of United States Dollars ("USD") 15,000,000 (approximately RMB103,723,000) paid by the Group was capitalised as intangible assets.

The exclusive distribution right is not yet available for use and is not amortised but tested individually for impairment annually until regulatory approval in the PRC of the product has been obtained.

(d) Licenses and patents were acquired from third parties.

Intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Development costs	1 to 10 years
Licenses and patents	3 to 10 years

10. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

	As at 30 June 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Listed equity investment in Hong Kong, at fair value *(note i)*	**48,048**	66,261
Unlisted equity investments in partnerships, at fair value *(note ii)*	**366,815**	341,413
Unlisted equity investments, at fair value *(note iii)*	**464,915**	264,589
	879,778	672,263

Notes:

(i) The amount represents equity security 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) Unlisted equity investments in partnerships included six (2018: five) limited partnership enterprises (the "Partnership Enterprises") 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 and 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 and therefore these investments are accounted for as financial assets. The unlisted equity investments in partnerships are measured at FVTOCI at the end of the reporting period.

(iii) The amount represents investments in unlisted equity interests in entities established in the PRC, which are measured at FVTOCI at the end of the reporting period.

11. TRADE RECEIVABLES

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Trade receivables	**2,666,247**	2,076,986
Less: allowance for impairment	**(10,302)**	(12,061)
	2,655,945	2,064,925

The Group allows a general credit period of 90 days (31 December 2018: 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:

	As at 30 June 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited) (Restated)
0 to 90 days	**2,424,706**	1,861,714
91 to 180 days	**221,642**	188,303
181 to 365 days	**2,785**	7,880
Over 365 days	**6,812**	7,028
	2,655,945	2,064,925

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited) (Restated)
Prepayment for purchase of raw materials	**96,528**	143,067
Prepaid research and development expenses	**12,008**	44,464
Prepayment for acquisition of intangible assets	**100,000**	100,000
Deposits paid for right-of-use assets/prepaid lease payments	**189,000**	229,000
Deposits and prepayment for utilities	**29,234**	35,400
Other tax recoverable	**116,501**	70,756
Others	**197,693**	187,400
	740,964	810,087
Analysed as:		
Current	**441,964**	481,087
Non-current	**299,000**	329,000
	740,964	810,087

13. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2018: 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 and experience.

During the six months ended 30 June 2018, bills receivables issued by group companies for settlement of intra-group transactions were discounted to bank without recourse for proceeds of RMB1,193,167,000, and the related liabilities were included in bills payables as at 30 June 2018.

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

The basis of determining the inputs and assumptions and the estimation techniques used in the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2019 for assessment of ECL are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Allowance for impairment

The movement in the allowance for impairment in respect of trade receivables during the current interim period was as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
At 1 January (Audited)	**12,061**	11,278
Impairment losses recognised on receivables	**155**	273
Reversal of impairment loss	**(1,914)**	(868)
At 30 June (Unaudited)	**10,302**	10,683

15. RELATED PARTY DISCLOSURES

Other than the new lease agreements entered into with CHL and the acquisition of subsidiaries as disclosed in notes 8 and 26, respectively, 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	
		2019	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
			(Restated)
CHL and its subsidiaries and associates *(note d)* (the "CHL Group")	Sales of pharmaceutical products	**172,522**	181,667
	Rental expenses	**9,155**	10,018
	Recharge of utility expenses	**1,000**	659
	Interest expense on other loans	**—**	182
	Interest expense on lease liabilities	**3,267**	—
	Purchase of steam	**13,932**	14,579
	Warehouse service income	**4,296**	3,924
	Payment of lease liabilities	**28,620**	—

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
		(Restated)
Balance due from/to the CHL Group		
— trade receivables *(note b)* aged 0-90 days	**95,022**	63,443
— other payables *(note a)*	**20,185**	28,425
— lease liabilities	**195,001**	—
Guarantees provided to banks to secure general banking facilities granted to the Group *(note c)*	**120,000**	207,970

15. RELATED PARTY DISCLOSURES *(Continued)*

(II) Joint Ventures

Name of company	Nature of transactions/balances	For the six months ended 30 June 2019 RMB'000 (Unaudited)	For the six months ended 30 June 2018 RMB'000 (Unaudited) (Restated)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Purchase of raw materials	**47,261**	13,753
	Recharge of utility expenses	**73,296**	38,899
	Sales of raw materials	**140,066**	85,844

Name of company	Nature of transactions/balances	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited) (Restated)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Balance due from Huarong — other receivable *(note a)*	**98,311**	66,298
Yantai Jiashi Pharmaceutical Technology Co., Ltd. and its subsidiaries ("Yantai Jiashi")	Balance due from Yantai Jiashi — other receivable *(note a)*	**60,868**	138,152
Bioworkshops Limited and its subsidiaries ("Bioworkshops")	Balance due from Bioworkshops — other receivable *(note a)*	**70,820**	—

15. RELATED PARTY DISCLOSURES *(Continued)*

(III) Compensation of key management personnel

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)
Short-term benefits	**6,370**	4,284
Post-employment benefits	**623**	467
	6,993	4,751

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

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand.

b. The Group allows a general credit period of 90 days (2018: 90 days) for the sale.

c. As at 30 June 2019, CHL entered into guarantee agreements with banks to secure the general banking facilities granted to the Group amounting to RMB120,000,000 (31 December 2018: RMB207,970,000) for free-of-charge to the Group.

d. 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.

16. STRUCTURED BANK DEPOSITS

As at 30 June 2019, structured bank deposits of RMB1,359,747,000 (31 December 2018: RMB2,292,366,000) were placed with banks in the PRC. Structured bank deposits amounting to RMB200,000,000 (31 December 2018: RMB1,379,900,000) have been pledged to secure certain banking facilities of the Group.

The structured bank deposits of RMB100,000,000 carry guaranteed return of 1.05% and have a total expected return up to 2.45% (31 December 2018: RMB30,000,000 carry guaranteed return of 1.35% and have a total expected return up to 3.80%), depending on the market prices of the underlying commodities quoted in the market as specified in the relevant deposits placement.

The structured bank deposits of RMB1,259,747,000 carry no guaranteed return and have a total expected return up to 4.50% (31 December 2018: RMB2,262,366,000 carry no guaranteed return and have a total expected return up to 5.70%), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the relevant deposits placement.

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

17. BANK BALANCES/BANK DEPOSITS/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates ranging from 0.01% to 1.15% (31 December 2018: 0.01% to 1.95%) per annum.

As at 30 June 2019 and 31 December 2018, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and other payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term banking facilities.

As at 30 June 2019, bank deposits with term of five years amounting to RMB100,000,000 (31 December 2018: RMB100,000,000) carry interest at market interest rate of 4.75% (31 December 2018: 4.75%) per annum and have been pledged to secure certain banking facilities granted to the Group.

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:

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
0 to 90 days	**1,565,128**	1,455,498
91 to 180 days	**78,496**	60,093
More than 180 days	**119,319**	103,765
	1,762,943	1,619,356

The general credit period on purchases of goods is up to 90 days (31 December 2018: 90 days).

19. OTHER PAYABLES

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Customers' deposits	**218,993**	340,811
Other tax payables	**132,176**	206,275
Selling expenses payable and other accrued charges	**1,458,420**	950,798
Payables arising from construction and acquisition of property, plant and equipment	**753,909**	845,308
Government grants	**407,125**	360,375
Staff welfare payable	**208,907**	239,559
Others	**259,443**	159,540
	3,438,973	3,102,666
Analysed as:		
Current	**3,240,029**	2,920,262
Non-current — government grants	**198,944**	182,404
	3,438,973	3,102,666

20. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (31 December 2018: 365 days) and not yet due at the end of the reporting period. As at 30 June 2019, bills payable of RMB313,865,000 (31 December 2018: RMB1,504,585,000) are secured by bank deposits and certain structured bank deposits.

21. BORROWINGS

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Fixed-rate RMB bank loans	**10,000**	—
Floating-rate RMB bank loan	**50,000**	50,000
Fixed-rate USD bank loan	**—**	20,589
	60,000	70,589

As at 30 June 2019, bank loans of RMB50,000,000 (31 December 2018: RMB70,589,000) were guaranteed by CHL.

The effective interest rates (which also equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 30 June 2019	As at 31 December 2018
Effective interest rate:		
Fixed-rate RMB bank loans	**5.22% per annum**	N/A
Floating-rate RMB bank loan	**4.10% per annum**	4.10% per annum
Fixed-rate USD bank loan	**N/A**	4.60% per annum

The floating-rate RMB bank borrowings is at benchmark interest rate of the PRC plus a spread.

22. SHARE CAPITAL

	Number of shares	Share capital *RMB'000*
Issued and fully paid		
At 1 January 2018 and 30 June 2018	6,243,018,403	10,899,412
Share repurchased and cancelled *(note)*	(6,680,000)	–
At 31 December 2018, 1 January 2019 and 30 June 2019	6,236,338,403	10,899,412

Note:

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid *RMB'000*
October 2018	4,680,000	HK$15.66 (equivalent to RMB13.22)	HK$14.72 (equivalent to RMB12.42)	59,937
December 2018	2,000,000	HK$14.06 (equivalent to RMB11.87)	HK$13.68 (equivalent to RMB11.55)	23,496
	6,680,000			83,433

The above ordinary shares were cancelled upon repurchase.

23. LONG TERM INCENTIVE PROGRAM

(i) 2015 share option scheme

The share option scheme (the "2015 Scheme") was adopted on 9 December 2015. The purpose of the 2015 Scheme is to provide the Company with a flexible means of giving incentive to directors and employees of each member of the Group, eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the Board. The 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

23. LONG TERM INCENTIVE PROGRAM *(Continued)*

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2015 Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder of the Company would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 (equivalent to RMB4,400,000), such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK$1. The subscription price is determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under 2015 Scheme since its adoption.

(ii) 2018 share award scheme

The Board has adopted a share award scheme on 20 August 2018 (the "2018 Share Award Scheme"). The purposes of the 2018 Share Award Scheme are to a) provide any participant selected by the Board with an opportunity to acquire a proprietary interest in the Company; b) to encourage and retain such individuals to work with the Company; and c) to provide additional incentive to them to achieve performance goals and help in retaining them.

23. LONG TERM INCENTIVE PROGRAM *(Continued)*

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

The total number of shares which may be purchased or issued pursuant to the 2018 Share Award Scheme shall not in aggregate exceed 2% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme. The maximum number of shares which may be granted to a selected participant at any one time or in aggregate under the 2018 Share Award Scheme must not exceed 0.5% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme.

Where any grant of shares is proposed to be made to any selected participant who is a director (including any independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed selected participant.

Subject to any early termination in accordance with the rules of the 2018 Share Award Scheme, the 2018 Share Award Scheme shall be valid and effective for a period of 10 years commencing from its date of adoption. Any shares held by the trustee on behalf of a selected participant shall be vested by selected participant in accordance with the vesting conditions or vesting schedule as set out in the grant notice. Restricted shares which do not vest will be forfeited and may be re-granted to other selected participants by the Board.

For the purpose of the 2018 Share Award Scheme, the Company purchased an aggregate of 10,000,000 its own ordinary shares on the Stock Exchange in January 2019 through the Trustee.

On 15 January 2019, the Company granted 2,394,000 award shares ("Award Shares") under the 2018 Share Award 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. The fair value of the awarded 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 2019, share-based payment expense of RMB3,198,000 has been recognised in profit or loss.

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share award reserve.

24. CAPITAL AND OTHER COMMITMENTS

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

	As at 30 June 2019 ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**1,705,612**	1,333,394
Other commitments arising from unlisted equity investments in partnerships	**396,897**	413,800
Other commitments arising from research and development projects	**103,121**	106,406

25. 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).

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets/ financial liability	Fair value as at 30 June 2019 RMB'000 (Unaudited)	Fair value as at 31 December 2018 RMB'000 (Audited) (Restated)	Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity securities listed in the PRC	**533**	443	Level 1	Quoted bid prices in an active market	N/A	N/A
Listed equity investment in Hong Kong	**48,048**	66,261	Level 1	Quoted bid price in an active market	N/A	N/A
Unquoted equity investments	**831,730**	606,002	Level 3	Income approach – 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	**1,359,747**	2,292,366	Level 2	Discounted cash flows – future cash flows are estimated based on estimated return, and discounted at rates that reflects the credit risks of various counterparties.	N/A	N/A
Contingent consideration in a business combination	**19,900**	32,274	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.

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

There were no transfers between levels in the current period.

Unrealised fair value gain of RMB9,030,000 is 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'.

(i) Fair value measurements and valuation processes

The Board of the Company has set up a valuation committee, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

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 engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the Board of the Company 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.

26. ACQUISITION OF SUBSIDIARIES AND ASSETS

For the six months ended 30 June 2019

During the six months ended 30 June 2019, the following business acquisitions took place:

(a) Business combination

On 4 January 2019, the Group entered into an equity transfer agreement with an independent third party to acquire 100% interest in Yong Shun Technology Development Limited ("Yong Shun") and its wholly-owned subsidiaries, 上海津曼特生物科技有限公司 and 上海津曼特生物制藥有限公司 (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 the business of research and development of innovative monoclonal antibodies for targeting tumour antigens and immunotherapy of various kinds of cancer.

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

26. **ACQUISITION OF SUBSIDIARIES AND ASSETS** *(Continued)*

For the six months ended 30 June 2019 *(Continued)*

(a) Business combination *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis)

	Yong Shun Group
	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, prepayments 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)
Total identifiable net assets acquired	204,668

Note: The intangible assets represent the fair value of the techniques acquired for the development of products and production technology. The intangible assets have finite useful lives and will be amortised on a straight-line basis when they are available for use.

The fair value and classification of assets have been determined on a provisional basis awaiting further information and finalisation of the valuation.

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

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(Continued)*

For the six months ended 30 June 2019 *(Continued)*

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

Goodwill arising from acquisition (determined on a provisional basis)

	Yong Shun Group
	RMB'000
Consideration transferred	252,880
Less: Recognised amount of identifiable net assets acquired	(204,668)
Goodwill arising on acquisition	48,212

Goodwill arose in the acquisition of Yong Shun Group because of the expected synergies 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 this acquisition is expected to be deductible for tax purpose.

The acquisition-related costs incurred are insignificant.

Net cash outflow on acquisition of subsidiaries

	Yong Shun Group
	RMB'000
Cash consideration paid	252,880
Bank balances and cash acquired	(1,293)
Net cash outflow	251,587

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.

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(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 took place as they did not operate any business prior to the dates of acquisitions, and have been accounted for as acquisitions of assets.

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

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(Continued)*

For the six months ended 30 June 2018

During the six months ended 30 June 2018, the following business acquisitions took place:

i) On 9 January 2018, the Group entered into an equity transfer agreement with independent third parties to acquire an aggregate 37% interest in Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") for a cash consideration of RMB203,574,000 and a contingent consideration up to RMB55,426,000, depending on the achievement of certain milestone events. On the same date, the Group also entered into a capital injection agreement pursuant to which the Group would inject RMB76,242,000 to YZY Biopharma upon completion of the aforesaid equity transfer. YZY Biopharma is principally engaged in the development of innovative biopharmaceutical drugs. The acquisition was completed on 31 January 2018 and together with the capital injection, the Group holds a 39.56% interest in YZY Biopharma.

As a result of a contractual arrangement with certain equity owners of YZY Biopharma, the Group is given the power to control the majority of the votes in the equity owners' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. As such, the Group has obtained control over YZY Biopharma upon the acquisition and accounted it as a subsidiary.

ii) On 3 March 2018, the Group entered into an equity transfer agreement to acquire 60% equity interest in CSPC Anwoqin Pharmaceutical (Taizhou) Co., Ltd. ("Anwoqin") from a non-wholly owned subsidiary of CHL for a cash consideration of RMB15,615,000. Anwoqin is principally engaged in the manufacturing and sales of pharmaceutical products. The acquisition was completed on 27 March 2018.

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

Consideration transferred

	YZY Biopharma *RMB'000* (Restated)	**Anwoqin** *RMB'000* (Restated)	**Total** *RMB'000* (Restated)
Cash consideration	279,816	15,615	295,431
Contingent consideration agreement *(note)*	32,274	—	32,274
	312,090	15,615	327,705

Note: Based on the relevant agreement, the Group is required to pay an additional consideration up to RMB55,426,000 if milestone events in relation to two biospecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent arrangement amounted to RMB32,274,000 as at the date of acquisition and RMB19,900,000 at 30 June 2019.

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Consideration transferred *(Continued)*

Assets acquired and liabilities recognised at the date of acquisitions

	YZY Biopharma *RMB'000* (Restated)	Anwoqin *RMB'000* (Restated)	Total *RMB'000* (Restated)
Fair value of assets and liabilities recognised at the date of acquisition:			
Non-current assets			
Property, plant and equipment	78,023	128	78,151
Prepaid lease payments	10,210	—	10,210
Intangible assets *(Note)*	632,460	—	632,460
Current assets			
Inventories	1,948	4,286	6,234
Trade receivables	—	4,415	4,415
Deposits, prepayments and other receivables	69,158	7,350	76,508
Bills receivables	—	347	347
Bank balances and cash	138,424	13,223	151,647
Current liabilities			
Trade payables	(5,496)	(2,427)	(7,923)
Other payables	(106,993)	(1,297)	(108,290)
Non-current liabilities			
Other payables	(3,600)	—	(3,600)
Deferred tax liabilities	(97,265)	—	(97,265)
Borrowings	(26,500)	—	(26,500)
Total identifiable net assets acquired	690,369	26,025	716,394

Note: The intangible assets mainly represent the IPR&Ds acquired for the development of products and production technology. 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.

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Consideration transferred *(Continued)*

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

The fair value of assets and liabilities of YZY Biopharma and Anwoqin are valued by independent qualified professional valuers which are not connected to the Group.

The fair values of trade receivables, deposits, prepayments and other receivables and bills receivables of the acquired entities at the dates of acquisitions amounted to RMB81,270,000 which represents the gross contractual amounts at the date of acquisition.

Goodwill arising from acquisition

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Consideration transferred	312,090	15,615	327,705
Plus: Non-controlling interests	417,260	10,410	427,670
Less: Recognised amount of identifiable net assets acquired	(690,369)	(26,025)	(716,394)
Goodwill arising on acquisition	38,981	—	38,981

Goodwill arose in the acquisition of YZY Biopharma because of the expected synergies, revenue growth, future market development and the assembled workforce of YZY Biopharma. 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.

The acquisition-related costs incurred are insignificant.

Non-controlling interests

The non-controlling interests in YZY Biopharma and Anwoqin recognised at the acquisition dates were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets and amounted to RMB427,670,000.

26. ACQUISITION OF SUBSIDIARIES AND ASSETS *(Continued)*

For the six months ended 30 June 2018 *(Continued)*

Consideration transferred *(Continued)*

Net cash outflow on acquisition of subsidiaries

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Cash consideration paid	279,816	15,615	295,431
Bank balances and cash acquired	(138,424)	(13,223)	(151,647)
Net cash outflow	141,392	2,392	143,784

All acquired entities did not have any significant contribution to the Group's revenue or results for the six months ended 30 June 2018.

Had the acquisitions of the above entities been completed on 1 January 2018, total amount of the Group's revenue for the six months ended 30 June 2018 would have been RMB8,767,719,000 and the profit for the six months ended 30 June 2018 would have been RMB1,495,844,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2018, nor is it intended to be a projection of future results.

OTHER INFORMATION

Directors' Interests in Shares, Underlying Shares and Debentures

As at 30 June 2019, 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
Cai Dongchen	Beneficial owner	87,538,000		
	Interest of controlled corporation	1,356,619,120	*(Note)*	
		1,444,157,120		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 2019.

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 2019, 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
Cai Dongchen	Beneficial owner	87,538,000	
	Interest in controlled corporation	1,356,619,120	
		1,444,157,120	23.16%
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	862,739,120	
		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	15,059,578	
	Interest in controlled corporation	37,052,543	
	Approved lending agents	330,394,523	
		382,506,644	6.13%

Substantial Shareholders *(Continued)*

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share of the Company
Citigroup Inc.	Interest in controlled corporation	4,422,842	0.071%

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 2019.

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 adoped 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 2019 except the deviation from code provision A.2.1 as set out below.

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

OTHER INFORMATION

Review of Interim Results

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

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

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 2019.

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 been appointed as a chairman of the Listing Review Committee of the Stock Exchange of Hong Kong Limited with effect from 5 July 2019.