

2022

INTERIM REPORT





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Corporate Information

Board of Directors

Executive Directors

CAI Dongchen (*Chairman*)

ZHANG Cuilong (*Vice-Chairman and CEO*)

WANG Zhenguo

PAN Weidong

WANG Huaiyu

LI Chunlei

WANG Qingxi

CHAK Kin Man

JIANG Hao

Independent Non-executive Directors

WANG Bo

CHEN Chuan

WANG Hongguang

AU Chun Kwok Alan

LAW Cheuk Kin Stephen

Audit Committee

AU Chun Kwok Alan (*Chairman*)

WANG Bo

CHEN Chuan

Nomination Committee

CAI Dongchen (*Chairman*)

WANG Bo

CHEN Chuan

Remuneration Committee

AU Chun Kwok Alan (*Chairman*)

WANG Bo

CHEN Chuan

Auditor

Deloitte Touche Tohmatsu

Registered Public Interest Entity Auditors

Company Secretary

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18 Harbour Road

Wan Chai

Hong Kong

Share Registrar

Tricor Secretaries Limited

17/F, Far East Finance Centre

16 Harcourt Road

Hong Kong

Website

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Financial Highlights

	Six months ended 30 June		Change
	2022 (Unaudited)	2021 (Unaudited)	
<i>(in RMB'000, unless otherwise stated)</i>			
Revenue by business units:			
Finished drugs	12,292,908	11,233,382	+9.4%
Bulk products	2,352,321	1,916,627	+22.7%
Functional food and others	964,797	672,266	+43.5%
Total revenue	15,610,026	13,822,275	+12.9%
Profit attributable to shareholders			
As reported	2,966,205	3,062,569	-3.1%
Underlying profit <i>(Note)</i>	3,068,763	2,671,837	+14.9%
Earnings per share <i>(RMB cents)</i>			
Basic	24.89	25.62	-2.8%
Diluted	24.89	25.62	-2.8%
Interim dividend per share <i>(HK cents)</i>	10.00	8.00	25.0%

Note: Underlying profit attributable to shareholders, a non-HKFRS measure, represents profit before taking into account fair value changes on financial assets measured at fair value through profit or loss and share-based compensation expense. Reconciliation between the reported and underlying profit is provided on page 16.



Management Discussion and Analysis

Results

For the six months ended 30 June 2022, the Group's revenue increased by 12.9% to RMB15,610 million and profit attributable to shareholders slightly decreased by 3.1% to RMB2,966 million.

The Group's underlying profit attributable to shareholders, excluding fair value changes on financial assets measured at fair value through profit or loss ("FVTPL") and share-based compensation expense, increased by 14.9% to RMB3,069 million.

Dividend

The Board has declared an interim dividend of HK10 cents per share for 2022 (2021: HK8 cents) to be paid on 11 October 2022 to shareholders whose names appear on the register of members of the Company on 14 September 2022.

Corporate Overview

The Group is an innovation-driven pharmaceutical enterprise with integrated R&D, manufacture and sales capabilities. With the corporate mission of "All for Better Medicines, All for a Healthier World", the Group is committed to developing innovative products to fill unmet clinical needs and provide innovative therapies for patients.

Over the course of development in the past years, the Group has developed competitive advantages in the entire industry chain with benefit of scale and high technology barriers in research and development, registration, manufacturing and commercialisation. Against the backdrop of the deepening reform of China's pharmaceutical industry, we will leverage the above advantages as well as our solid cash flow and strong talent pool to seize the opportunities amid the industry's transformation and development to achieve innovation-driven high-quality development.

The Group has strong commercialisation capabilities. After years of development and enhancement, its sales force currently has approximately 10,000 team members. It is organised into different business units by main product lines, with extensive coverage in various medical institutions including tiered-hospitals, rural health centres, community health centres, clinics and pharmacy chain stores across the country. Over the past years, the Group has focused on building up the innovative drug commercialisation capabilities of the sales team with academic promotion as the core strategy, and strengthening its comprehensive capabilities in medical affairs, market access and brand promotion. The sales team has successfully nurtured an innovative drug portfolio represented by NBP, Jinyouli and Duomeisu, and also will provide a strong support for the efficient promotion and commercialisation of the future stream of new drugs. On the foundation of its extensive coverage in prefecture-level cities across the country, the sales team is stepping up efforts in lower-tier market penetration, tapping the market potential of county-level areas to provide quality drugs to the grass roots. In light of the medical insurance payment method reform and rapid development of the internet health industry, the Group has been actively building up its new retail sales team and constructing the OTC channel and internet medicine platform.

Management Discussion and Analysis

The Group has built an internationalised R&D team, eight innovative R&D platforms and five major innovative R&D centres located in China and the US. The Group's nanotechnology platform has developed a number of core delivery technologies encompassing liposomes, albumin-bound nanoparticles, polymeric micelles, with a pipeline layout occupying a leading position in the international arena. For large molecule drugs, the focus is on the development of multifunctional proteins and antibody drugs, such as bispecific, trispecific and novel antibody-drug conjugate (ADC) drugs. For small molecule drugs, the focus is on the development of PROTAC, LYTAC and AI-based screening platforms to develop small molecule targeted drugs with multiple functions such as anti-tumor and immune modulation, and small molecule drugs based on epigenetics. For the mRNA technology platform, in addition to the COVID-19 mRNA vaccine, the Group has also initiated the development of rabies vaccine, shingles vaccine, respiratory syncytial virus vaccine, and therapeutic tumor vaccine (including HPV vaccine). For the siRNA technology platform, the Group has been developing a number of genetically related products for major chronic diseases. We have also established CAR-T, CAR-NK and CAR-M cell therapy platforms based on LNP transient transfection of CAR mRNA/DNA for the treatment of tumors and chronic diseases. These leading technology platforms and R&D pipeline candidates will provide continuous momentum for the Group's sustainable development.

The Group has also made internationalisation as an important development strategy, with internationalisation of talents, R&D, market and business development as its objectives. The Group will continue its efforts in seeking cooperation for both its own products and products from overseas partners in order to broaden the markets and enhance the Group's global position.

Business Review

1. Finished Drug Business

Sales of the finished drug business increased by 9.4% to RMB12,293 million in the first half of 2022. Sales by major therapeutic areas are as follows:

Therapeutic Area	Sales <i>(RMB' million)</i>	Change
Nervous system	3,874	+7.3%
Oncology	4,055	+2.3%
Anti-infectives	1,753	+23.9%
Cardiovascular	1,519	+4.8%
Respiratory system	253	+33.1%
Digestion and metabolism	362	+46.0%
Others	477	+33.9%

Nervous system

- NBP (恩必普) (butylphthalide soft capsules and butylphthalide and sodium chloride injection): Continued to promote lower-tier market penetration in counties and towns, and strengthen promotion of outpatient prescription and develop OTC market in order to maintain stable growth.
- Shuanling (舒安灵) (pentoxifylline extended-release tablets and pentoxifylline injection): Focused on the strengthening of clinical evidence and market development through the initiation of clinical studies in order to drive rapid growth.

Oncology

- Jinyouli (津優力) (PEG-rhGCSF injection): Continued efforts have been put in promoting clinical use of the product in more indications and expanding coverage in major municipal hospitals and county-level markets during the period. The product was selected at the centralised procurement of the Guangdong Alliance of 11 provinces in March 2022, the enhanced accessibility of the drug after the price reduction will expedite a broader clinical use.
- Keaili (克艾力) (paclitaxel for injection (albumin-bound)): Vigorous efforts have been made in expanding the clinical use of the product in more indication and penetrating into lower-tier market during the period. Keaili has completed contract renewal at the centralised procurement of Henan Alliance of 13 provinces in June 2022. With a significant price reduction, sales of the product are expected to be under pressure. We will deepen the lower-tier market penetration in cities and county-level markets and strive to promote a comprehensive coverage of the product in tumor diseases in order to further expand the market potential.
- Duomeisu (多美素) (doxorubicin hydrochloride liposome injection): The product currently has a market share of over 75% among the same type of products in the market. We will step up our efforts in lower-tier market penetration to seek a further expansion of the market potential.
- Duoenda (多恩達) (mitoxantrone hydrochloride liposome injection): It is a self-developed oncology nanodrug of the Group and is also the world's first mitoxantrone nanodrug on the market. The design of the product adopts unique drug loading and release technology to ensure the nanoparticles can be effectively enriched in the tumor and the drug can be released reasonably after administration, thereby increasing the bioavailability of the drug in the tumor and leading to significant improvement in efficacy and safety. The rational design of the product can also avoid skin toxicity and infusion-related reactions which are common in nanodrugs. Duoenda received marketing approval in China for the treatment of peripheral T-cell lymphoma (PTCL) in January 2022. Clinical studies have indicated that it has a significantly better efficacy than other drugs in treating patients with relapsed or refractory PTCL. Since its commercial launch in February, Duoenda has successfully covered over 200 hospitals and quickly gained market recognition.

Anti-infectives

- Anfulike (安復利克) (amphotericin B cholesteryl sulfate complex for injection): It obtained marketing approval in April 2021 and was included into the NRDL through medical insurance negotiation in December 2021. A designated sales team has been set up responsible for marketing of the product with focus on academic promotion to gain the recognition of Anfulike among medical professionals and promote its clinical use. Anfulike has already covered over 420 hospitals.
- Several products have been selected at the national centralised procurements (including ceftriaxone sodium for injection, cefazolin sodium for injection, etc.) with market potential in hospitals expanded.

Cardiovascular

- Xuanning (玄寧) (maleate levamlodipine tablets and dispersible tablets): Market competition has intensified with price reductions of other hypertension drugs in the market. Xuanning will continue to leverage its integrated sales model of direct, cooperative and retail sales to drive a steady growth.
- Encun (恩存) (clopidogrel bisulfate tablets): The product was selected at the centralised procurement in 2019, bringing in substantial revenue contribution. The Group will continue to strive to achieve a steady growth.
- Daxinning (達新寧) (dronedarone hydrochloride tablets): Launched in 2020, it is the first-to-market dronedarone hydrochloride tablets in China. The number of patients with atrial fibrillation is gradually increasing alongside the aging population in China, which provides a promising market potential for the product.
- Mingfule (銘復樂) (recombinant human TNK tissue-type plasminogen activator for injection): It is a new product of the Group through acquisition, and a third-generation thrombolytic drug with proprietary intellectual property. At present, it is mainly used for the thrombolysis treatment in patients with acute myocardial infarction and has been listed as a recommended thrombolytic drug in the Chinese Expert Consensus on Pre-hospital Thrombolysis, Guidelines for Rational Use of Drugs for STEMI and other authoritative guidelines. Mingfule has met the primary endpoint in a Phase III clinical study for the treatment of acute ischemic stroke with application for marketing approval to be submitted shortly, offering a huge potential market for the product.

Respiratory

- Major products include Qixiao (琦效) (arbidol hydrochloride tablets), Zhongnuo Like (中諾立克) (ambroxol hydrochloride oral solution), Zhongnuoping (中諾平) (ambroxol hydrochloride extended release tablets), Qixin (琦昕) (oseltamivir phosphate capsules) and Nuoyian (諾一安) (montelukast sodium tablets/chewable tablets).
- Qixin (琦昕) (oseltamivir phosphate capsules): It obtained marketing approval in August 2021 for the prevention and treatment of influenza. Qixin has been selected at the seventh batch of national centralised procurement during the period, a relatively rapid ramp-up in sales is expected.

Digestion and metabolism

- Major products include Linmeixin (林美欣) (glimepiride dispersible tablets), Shuanglexin (雙樂欣) (metformin hydrochloride tablets/extended-release tablets), Xinweiping (欣維平) (acarbose tablets) and Debixin (得必欣) (omeprazole enteric capsules).

Others

- Major products include Gubang (固邦) (alendronate sodium tablets/enteric tablets), Qimaite (奇邁特) (tramadol hydrochloride tablets) and Youdening (優德寧) (celecoxib capsules).

2. Bulk Product Business

Sales of the bulk product business increased by 22.7% to RMB2,352 million in the first half of 2022.

- Benefiting from the enhancement in production capacity, both the production and sales volumes of vitamin C products have increased during the period, enabling a further increase in market share. Despite product prices have shown a certain decline, sales of vitamin C products still increased by 29.4% to RMB1,399 million.
- Driven by the increase in sales volume of certain antibiotic products, sales of antibiotic and other products have increased by 14.1% to RMB953 million.

3. Functional Food and Other Business

Mainly driven by the increase in sales volume and prices of caffeine products, sales of the functional food and other business increased by 43.5% to RMB965 million during the period.

4. Research and Development

The R&D expenses for the first half of 2022 amounted to RMB1,884 million (charged to income statement), representing 16.8% increase year-on-year and accounting for approximately 15.3% of the revenue of the finished drug business. There are currently around 300 projects under development, of which over 40 are innovative small molecule drugs, over 40 are innovative large molecule drugs and over 30 are new-formulation drugs, mainly focusing on the therapeutic areas of oncology, immunology and respiratory, psychiatry and neurology, cardio-cerebrovascular, metabolism and anti-infectives. During the period, 4 innovative drug candidates have filed application for marketing approval, while more than 50 others are in clinical trial stage.

Clinical Pipeline Overview
Pivotal trial stage:

Drug candidate	Type	Target	Indication	Status
Recombinant fully human anti-RANKL monoclonal antibody for injection (JMT103)	Biological drug (monoclonal antibody)	RANKL	Giant cell tumor of bone	Marketing application submitted
Irinotecan liposome for injection	Nanodrug	DNA topoisomerase inhibitors	Pancreatic cancer	Marketing application submitted
Desvenlafaxine succinate extended release tablets	Chemical drug	5-Hydroxytryptamine and norepinephrine reuptake inhibitors	Depression	Marketing application submitted
Rezetinib mesylate capsules	Chemical drug	EGFR	Non-small cell lung cancer	Marketing application submitted
Recombinant human TNK tissue-type plasminogen activator for injection (rhTNK-tPA, Mingfule)	Biological drug (recombinant protein)	Plasminogen	Acute ischemic stroke	Preparing to submit marketing application
Amphotericin B liposome for injection	Nanodrug	Anti-infective, nonspecific drug	Invasive fungal infection	Preparing to submit marketing application
Recombinant fully human anti-PD-1 monoclonal antibody for injection	Biological drug (monoclonal antibody)	PD-1	Cervical cancer	Pivotal trial completed
DBPR108 tablets	Chemical drug	DPP-4 inhibitor	Diabetes	Pivotal trial completed
Recombinant anti-IgE monoclonal antibody for injection	Biological drug (monoclonal antibody)	IgE	Urticaria	Pivotal trial completed
Recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection (JMT101)	Biological drug (monoclonal antibody)	EGFR	EGFR exon 20 insertion mutation in non-small cell lung cancer	Pivotal trial
KN026 for injection	Biological drug (bispecific antibody)	HER2 bispecific antibody	Gastric Cancer	Pivotal trial
Recombinant humanized anti-HER2 monoclonal antibody-MMAE conjugate for injection (DP303c) SYSA1501 for injection	Biological drugs (ADC)	HER2 ADC	Breast cancer	Pivotal trial
SYS6006 for injection (SARS-CoV-2 mRNA vaccine)	Biological drug (vaccine)	Spike protein of SARS-CoV-2	COVID-19 prevention	Pivotal trial
Pertuzumab for injection	Biological drug (monoclonal antibody)	HER2	HER2 positive breast cancer	Pivotal trial
Duvelisib capsules	Chemical drug	PI3K- δ , PI3K- γ	CLL/SLL	Pivotal trial
SKLB1028 capsules	Chemical drug	FLT3, Abl, Lyn, EGFR	Acute myeloid leukaemia	Pivotal trial
HA121-28 tablets	Chemical drug	RET, EGFR, VEGFR, FGFR	Non-small cell lung cancer with RET gene fusion mutation	Pivotal trial
Daunorubicin cytarabine liposome for injection	Nanodrug	RNA polymerase inhibitor DNA polymerase inhibitor	Leukemia	Pivotal trial

Management Discussion and Analysis

Drug candidate	Type	Target	Indication	Status
Paclitaxel nanoparticles for injection (fast dissolving)	Nanodrug	Microtubule inhibitor	Breast cancer	Pivotal trial
Docetaxel for injection (albumin-bound)	Nanodrug	Microtubule inhibitor	Head and neck squamous cell carcinoma	Pivotal trial
TG103	Biological drug (monoclonal antibody)	GLP1-Fc	Weight loss	Pivotal trial
Butylphthalide soft capsules	Chemical drug		Vascular dementia	Pivotal trial

Other clinical stage:

Drug candidate	Type	Therapeutic Area
Ammuxetine hydrochloride enteric tablets	Chemical drug	Psychiatry
Butylphthalide soft capsules (China and US)	Chemical drug	Neurology
Simitinib hydrochloride tablets, SYHA1801 capsules, SYHA1803 capsules, SYHA1807 capsules, SYHA1811 tablets, SYHA1813 oral liquid, SYHA1815 tablets, SYHX1903 tablets, SYHX2001 tablets, SYHX2005 tablets, SYHX2009 tablets	Chemical drug	Oncology
SYHA1805 tablets, SYHA1402 tablets	Chemical drug	Metabolism
SYHX1901 tablets	Chemical drug	Immunity
JMT601 for injection (China and US)	Biological drug (bispecific antibody)	Oncology
SYSA1801 for injection (China and US)	Biological drug (ADC)	Oncology
ALMB0168 for injection, NBL-015 for injection	Biological drug (monoclonal antibody)	Oncology
ALMB0166 for injection	Biological drug (monoclonal antibody)	Central nervous system
CM310 for injection, CM326 for injection, NBL-012 for injection (China and US), ustekinumab injection	Biological drug (monoclonal antibody)	Immunity
Paclitaxel cationic liposome for injection, sirolimus for injection (albumin-bound), SYHA1908 for injection, cisplatin micelle injection	Nanodrug	Oncology
Prostaglandin liposome for injection	Nanodrug	Cardiovascular

Regulatory Updates

China

- In January 2022, Duoenda (mitoxantrone hydrochloride liposome injection), a self-developed oncology nanodrug of the Group, received marketing approval in China for the treatment of peripheral T-cell lymphoma (PTCL). Clinical studies have indicated that it has a significantly better efficacy than other drugs in treating patients with relapsed or refractory PTCL.

Management Discussion and Analysis

- In March 2022, COPIKTRA (duvelisib capsules) obtained drug registration approval for the treatment of adult patients with relapsed or refractory follicular lymphoma (FL) after at least two prior systemic therapies. The product is the first approved orally available dual PI3K- δ and PI3K- γ inhibitor worldwide, and is also the first approved PI3K selective inhibitor in China.
- In January 2022, the application for marketing approval of desvenlafaxine succinate extended-release tablets for the treatment of depression was submitted (being the first submission of this product type in China).
- In April 2022, the application for marketing approval of nanodrug irinotecan liposome for injection for the treatment of metastatic pancreatic cancer was submitted.
- In June 2022, the application for marketing approval of narlumosbart for injection (JMT103) (recombinant fully human anti-RANKL monoclonal antibody for injection) for the treatment of unresectable or surgically difficult giant cell tumor of bone was submitted with priority review granted. The product is the first IgG4 subtype fully human monoclonal antibody against RANKL filing BLA in the world.
- Since the beginning of 2022, 7 innovative drug candidates have obtained clinical trial approval for their first indications and 3 innovative drug candidates have obtained clinical trial approval for additional indication. First indications include: SYS6006 for injection (SARS-COV-2 mRNA vaccine), daunorubicin cytarabine liposome for injection (AML), cisplatin micelle injection (solid tumors), SYHA1908 for injection (solid tumors), ustekinumab injection (psoriasis), SYHX2005 tablets (solid tumors), SYHX2009 (solid tumors with NTRK or ROS1 gene rearrangement/fusion and positive resistance mutations); additional indications include: prostaglandin liposome for injection (contrast-induced acute kidney injury), TG103 injection (type-2 diabetes, overweight/obese), Duoenda (NMOSD).
- Since the beginning of 2022, 12 generic drugs have obtained drug registration approvals, including lenvatinib mesilate capsules, donepezil hydrochloride tablets, vortioxetine hydrobromide tablets, nifedipine controlled-release tablets, pramipexole dihydrochloride sustained-release tablets, lacosamide injection, zoledronic acid injection, doxofylline injection, tenofovir alafenamide fumarate tablets, esomeprazole sodium for injection, gabapentin capsules, moxifloxacin hydrochloride and sodium chloride injection.
- Since the beginning of 2022, 17 international PCT applications and 112 patent applications (95 domestic and 17 overseas) have been filed, and 24 patents (16 domestic and 8 overseas) have been granted.

The U.S.

- In January 2022, JMT601 (CPO107) was granted fast track designation by the U.S. Food and Drug Administration (FDA) for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma. The drug candidate is the world's first bispecific SIRP fusion protein with synergised target binding effect which has entered clinical stage of development. Therapeutic targets include CD20 and CD47.

- In July 2022, docetaxel for injection (albumin-bound) was granted orphan-drug designation by the FDA for the treatment of gastric cancer including cancer of gastroesophageal junction.

Major Clinical Trials Progress

SARS-CoV-2 mRNA vaccine (SYS6006)

SYS6006 is the Group's self-developed mRNA vaccine against SARS-CoV-2 mutant strains, with the following 6 clinical studies initiated:

- Safety and preliminary immunogenicity of SYS6006 in healthy population aged 18 to 59 years in a randomized, blinded, placebo-controlled and dose-escalation Phase I clinical study (study no.: SYS6006-001).
- Safety and preliminary immunogenicity of SYS6006 in healthy population aged 60 years or above in a randomized, blinded, placebo-controlled and dose-escalation Phase I clinical study (study no.: SYS6006-002).
- Immunogenicity and safety of SYS6006 in healthy population aged 18 years old or above in a randomized, blinded and placebo-controlled Phase II clinical study (study no.: SYS6006-003).
- Immunogenicity and safety of heterologous booster of SYS6006 or inactivated vaccine in population aged 18 years or above who have received SARS-CoV-2 vaccination in a randomized, open-label and active-controlled clinical study (study no.: SYS6006-IIT003) ("Booster Clinical Study").
- Safety and immunogenicity of heterologous booster of SYS6006 in population aged 18 years or above who have received inactivated SARS-CoV-2 vaccination in a single-center and open-label clinical study (study no.: SYS6006-007).
- Evaluate the safety and efficacy of heterologous or homologous booster of different technology routes of SARS-CoV-2 vaccination in a prospective, multi-center, randomized, controlled, open-label and blinded clinical trial.

The results of the Booster Clinical Study demonstrated that SYS6006 has a favourable safety profile, superior immunogenicity and neutralizing potency against Omicron BA.2 strain, as well as significant advantage as a booster dose against mutant strains. Information about the Booster Clinical Study and its results have been published in the Company's announcement (Title: Completion of a Clinical Study of Heterologous Booster Immunization of SARS-CoV-2 mRNA Vaccine (SYS6006)) dated 23 August 2022.

Other clinical studies mentioned above are also progressing smoothly and have achieved positive results. Information about the clinical studies and their results have been published in the Company's announcement (Title: Update on the Clinical Study Progress of SARS-CoV-2 mRNA Vaccine (SYS6006)) dated 23 August 2022.

The Group has achieved large-scale and stable production capacity of SARS-CoV-2 mRNA vaccines, and is also able to produce core raw materials and excipients internally.

Duoenda (多恩達) (mitoxantrone hydrochloride liposome injection)

- Two research findings were presented in E-poster at the American Society of Clinical Oncology (ASCO) in June 2022, namely Phase Ib clinical trial for the treatment of platinum-refractory or platinum resistant recurrent ovarian cancer and Phase Ib clinical trial for the treatment of recurrent/metastatic squamous cell carcinoma of head and neck respectively. Preliminary results indicate that Duoenda has a controlled safety profile and proven efficacy in both indications.
- A number of clinical trials in hematological tumors and solid tumors are currently underway to expand the indications for Duoenda.

Mingfule (銘復樂) (recombinant human TNK tissue-type plasminogen activator for injection)

- In July 2022, Mingfule has met its predefined primary endpoint (the proportion of excellent functional outcome defined as a mRS of 0 to 1 at 90 days) in a Phase III clinical study for the treatment of acute ischemic stroke, demonstrating that Mingfule is non-inferior to alteplase in efficacy and has a trend of enhancement in efficacy, while the safety profile was similar to alteplase.

Narlumosbart for injection (JMT103)

- In March 2022, JMT103 has met its predefined endpoint in a pivotal trial for the treatment of unresectable or surgically difficult giant cell tumor of bone, demonstrating that JMT103 has a better clinical efficacy with a tumor response rate of 93.5%, and a trend higher than that of the denosumab group. Moreover, JMT103 showed a good safety profile with controllable safety risks.

Prusogliptin tablets (DBPR108)

- In August 2022, DBPR108 has met its predefined endpoints in two Phase III pivotal clinical trials for the treatment of type 2 diabetes. Results of the monotherapy trial demonstrated that in respect of the primary efficacy endpoint of the change in HbA1c between the end of 24 weeks and the baseline period, the DBPR108 group was significantly superior to the placebo group and was non-inferior to the active group of sitagliptin. Results of the combination trial demonstrated that in respect of the primary efficacy endpoint of the change in HbA1c between the end of 24 weeks and the baseline period, the DBPR108 group was significantly superior to the placebo group. In addition, safety profile of the DBPR108 group in the study was similar to the sitagliptin group and placebo group.

Awards

- In January 2022, CSPC was rated excellent with number six in overall ranking and number one in the pharmaceutical industry in the evaluation results of the 2021 National Enterprise Technology Center released by the National Development and Reform Commission.
- In April 2022, the project “Key Technology and Industrialization Research of Albumin-bound Nanodrug Delivery” once again won the Science and Technology Progress First Class Award of Hebei Province (河北省科技進步一等獎), winning the highest honour of provincial science and technology award for two consecutive years.

5. Business Development

While continuing to enhance in-house innovation and R&D capabilities, we are also stepping up our business development efforts and building an internationalised BD ecosystem. The Group has established an internationalised business development team to identify potential opportunities, seek cooperation opportunities and look for partnership in respect of our in-house innovative products globally.

- In February 2022, the Group acquired 51% equity interest in Guangzhou Recomgen Biotech Co., Ltd. (now renamed as CSPC Recomgen Pharmaceutical (Guangzhou) Co., Ltd. with equity interest increasing to 54.8%). Mingfule (銘復樂) (recombinant human TNK tissue-type plasminogen activator for injection), a third-generation specific thrombolytic drug with intellectual property rights, is a marketed product of the company.
- In July 2022, the Group entered into an exclusive license agreement with Elevation Oncology, Inc., a biopharmaceutical company in the U.S., to out-license the development and commercialization rights outside of Greater China of the Group's SYSA1801 project (Claudin 18.2 ADC). The Group has received an upfront payment of US\$27 million and is also eligible to receive up to US\$148 million in potential development and regulatory milestone payments and up to US\$1.02 billion in potential sales milestone payments, as well as royalties up to double-digit percent of sales. This marks another important milestone of the Group's internationalisation and signifies the international recognition of the Company's innovation capability.

6. Impact of Covid-19 pandemic

In the first half of 2022, the prevention and control measures implemented during the outbreak of Covid-19 pandemic in Shanghai and certain other regions have caused certain disruptions to the sales and clinical research activities of the Group. With the gradual relaxation of pandemic prevention and control measures in June, overall business has gradually returned to normal. We will continue to keep track of the pandemic development and take appropriate measures to minimise the impact on our business.

Financial Review

Financial Results

Revenue and Gross Profit Margin

Revenue for the six months ended 30 June 2022 amounted to RMB15,610 million compared to RMB13,822 million in six months ended 30 June 2021. The increase was mainly due to the 9.4%, 22.7% and 43.5% growth in the finished drug business, bulk product business and functional food and others business, respectively. Gross profit margin decreased by 3.5 percentage point to 72.6%, which was mainly attributable to the change in revenue mix and decline in selling prices of vitamin C products.

Operating Expenses

Selling and distribution expenses for the six months ended 30 June 2022 amounted to RMB5,410 million compared to RMB5,320 million in the six months ended 30 June 2021. The increase was primarily attributable to the expansion of sales force and increased efforts in marketing and academic promotion of the finished drug products.

Management Discussion and Analysis

Administrative expenses for the six months ended 30 June 2022 amounted to RMB565 million compared to RMB497 million in the six months ended 30 June 2021. The increase was mainly due to the expanding operation of the Group and share-based compensation expense recognised in respect of the share awards granted to selected employees of the Group by Key Honesty Limited (a shareholder of the Company) on 1 April 2022.

R&D expenses for the six months ended 30 June 2022 amounted to RMB1,884 million compared to RMB1,613 million in the six months ended 30 June 2021. The increase was primarily attributable to the increased spending on ongoing and newly initiated clinical trials.

Other Income

Other income mainly consists of interest income on bank balances and government grant income. For the six months ended 30 June 2022, interest income on bank balances amounted to RMB98 million (first half of 2021: RMB75 million) and government grant income amounted to RMB65 million (first half of 2021: RMB30 million).

Other gains and losses

Other gains and losses mainly consist of fair value changes on financial assets measured at FVTPL and net foreign exchange gain or loss. For the six months ended 30 June 2022, fair value changes on financial assets measured at FVTPL amounted to loss of RMB34 million (first half of 2021: gain of RMB426 million) and net foreign exchange gain or loss amounted to gain of RMB52 million (first half of 2021: loss of RMB10 million).

Income tax expense

Income tax expenses for the six months ended 30 June 2022 amounted to RMB692 million compared to RMB554 million in the six months ended 30 June 2021, which represented provision of income tax expense based on the taxable income of certain subsidiaries and PRC withholding tax on dividend distributions by certain subsidiaries.

Non-HKFRS Measure

For the purpose of assessing the performance of the Group, the Company has also presented the underlying profit attributable to shareholders as an additional financial measure, which is not required by, or presented in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”). The Group believes that this non-HKFRS financial measure better reflects the underlying operational performance of the Group by eliminating certain non-cash and/or non-operating items which the Group does not consider indicative of the Group’s operational performance. However, the presentation of this non-HKFRS financial measure is not intended to be a substitute for, or superior to, the financial information prepared and presented in accordance with HKFRS.

Management Discussion and Analysis

Additional information is provided below to reconcile the profit attributable to shareholders as reported and the underlying profit attributable to shareholders (a non-HKFRS financial measure):

	Six months ended 30 June	
	2022 (RMB'000)	2021 <i>(RMB'000)</i>
Profit attributable to shareholders	2,966,205	3,062,569
Adjustment for:		
– Fair value loss (gain) on financial assets measured at FVTPL <i>(i)</i>	33,517	(425,631)
– Share-based compensation expense <i>(ii)</i>	71,866	4,347
– Effect of corresponding income tax	(2,825)	30,552
Underlying profit attributable to shareholders	<u>3,068,763</u>	<u>2,671,837</u>

Notes:

- i. Fair value loss (gain) on financial assets measured at FVTPL (a non-cash item) is arisen from the measurement of the Group's investments in certain partnerships, funds and listed equity securities at fair value.
- ii. Out of the total share-based compensation expense (a non-cash item) recognised in the current period, RMB64 million was in respect of the share awards granted to selected employees of the Group by Key Honesty Limited, a shareholder of the Company, on 1 April 2022.

Liquidity and Financial Position

For the first half of 2022, the Group's operating activities generated a cash inflow of RMB4,257 million (first half of 2021: RMB2,743 million). Turnover days of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) were 42 days compared to 40 days in 2021. Turnover days of inventories (ratio of balance of inventories to cost of sales) decreased from 134 days in 2021 to 111 days. Current ratio was 2.7 as of 30 June 2022, slightly lower than 2.8 half year ago. Capital expenditure for the period amounted to RMB620 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As of 30 June 2022, the Group had bank deposits, balances and cash of RMB9,164 million (31 December 2021: RMB9,684 million), structured bank deposits of RMB4,345 million (31 December 2021: RMB1,443 million) and bank borrowings of RMB396 million (31 December 2021: nil). As of 30 June 2022, gearing ratio (ratio of bank borrowings to total equity) was 1.3% (31 December 2021: nil).

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

Management Discussion and Analysis

Pledge of Assets

As of 30 June 2022, bank deposits amounting to RMB270 million have been pledged to secure a banking facility granted to the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as of 30 June 2022.

Employees

The Group employed a total of 25,147 employees as of 30 June 2022. The majority of them are employed in mainland China. The Group continues to offer competitive remuneration packages, discretionary share options, share awards and bonuses to eligible staff, based on the performance of the Group and the individual employee.

In order to recognize the contributions and to retain and motivate the employees of the Group for the Group's continual operation and development, Key Honesty Limited ("Key Honesty"), a shareholder of the Company which is indirectly wholly-owned by Mr. Cai Dongchen (Chairman of the Board), has granted conditional share awards to selected employees of the Group in respect of a total of 218,250,000 existing issued shares of the Company currently held by Key Honesty on 1 April 2022. The respective awarded shares will be vested and transferred to the grantees in batches within 3 to 5 years from the date of grant at a transfer price of HK\$2.95 per share subject to the fulfilment of certain conditions.

Report on Review of Condensed Consolidated Financial Statements

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 19 to 54, which comprise the condensed consolidated statement of financial position as of 30 June 2022 and the related condensed consolidated statement of profit or loss, 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” (“HKSRE 2410”) 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

24 August 2022

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	3	15,610,026	13,822,275
Cost of sales		(4,271,542)	(3,297,610)
Gross profit		11,338,484	10,524,665
Other income		232,734	162,113
Other gains or losses		49,711	464,857
Selling and distribution expenses		(5,410,159)	(5,320,143)
Administrative expenses		(564,819)	(497,030)
Research and development expenses		(1,884,077)	(1,612,964)
Other expenses		(33,515)	(79,659)
Share of results of associates		(26,954)	(19,471)
Share of results of joint ventures		27,777	21,021
Gain on disposal of a joint venture		—	24,273
Finance costs		(9,722)	(4,784)
Profit before tax	4	3,719,460	3,662,878
Income tax expense	5	(692,377)	(553,767)
Profit for the period		3,027,083	3,109,111
Profit for the period attributable to:			
Owners of the Company		2,966,205	3,062,569
Non-controlling interests		60,878	46,542
		3,027,083	3,109,111
		RMB cents (Unaudited)	RMB cents (Unaudited)
Earnings per share	7		
— Basic		24.89	25.62
— Diluted		24.89	25.62

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	3,027,083	3,109,111
Other comprehensive income (expenses):		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on investments in financial assets measured at fair value through other comprehensive income, net of income tax	8,365	(13,621)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	44,435	12,697
Other comprehensive income (expense) for the period, net of income tax	52,800	(924)
Total comprehensive income for the period	3,079,883	3,108,187
Total comprehensive income for the period attributable to:		
Owners of the Company	3,019,005	3,061,645
Non-controlling interests	60,878	46,542
	3,079,883	3,108,187

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	8,810,183	8,529,370
Right-of-use assets	9	1,268,264	1,034,549
Investment property		32,827	33,687
Goodwill		221,591	149,983
Other intangible assets	10	1,464,217	467,854
Interests in associates		667,947	650,956
Interests in joint ventures		296,539	292,505
Amounts due from joint ventures	15	269,365	253,953
Other financial assets	11	1,987,463	1,979,345
Deferred tax assets		118,401	43,000
Deposits, prepayments and other receivables	13	773,259	569,871
Bank deposits	17	100,000	400,000
		16,010,056	14,405,073
Current assets			
Inventories		2,624,301	2,480,369
Trade receivables	12	3,856,099	3,309,148
Deposits, prepayments and other receivables	13	565,944	580,425
Bills receivables	14	1,979,942	3,099,188
Amounts due from related companies	15	166,027	100,135
Amount due from an associate	15	—	400
Amounts due from joint ventures	15	227,389	39,783
Structured bank deposits	16	4,344,535	1,443,413
Bank balances and cash	17	9,064,220	9,283,642
		22,828,457	20,336,503

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current liabilities			
Trade payables	18	1,496,370	1,481,359
Other payables	19	5,365,345	4,680,829
Contract liabilities		255,078	428,404
Bills payables	20	298,192	141,258
Amounts due to related companies	15	90,009	58,910
Amounts due to joint ventures	15	114,023	136,127
Lease liabilities		92,534	38,424
Tax liabilities		363,124	260,732
Bank borrowings	21	384,577	—
		<u>8,459,252</u>	<u>7,226,043</u>
Net current assets		<u>14,369,205</u>	<u>13,110,460</u>
Total assets less current liabilities		<u>30,379,261</u>	<u>27,515,533</u>
Non-current liabilities			
Other payables	19	242,602	250,198
Lease liabilities		193,659	55,620
Deferred tax liabilities		516,071	381,484
Bank borrowings	21	11,790	—
		<u>964,122</u>	<u>687,302</u>
Net assets		<u>29,415,139</u>	<u>26,828,231</u>
Capital and reserves			
Share capital	22	10,899,412	10,899,412
Reserves		17,141,885	15,087,260
Equity attributable to owners of the Company		28,041,297	25,986,672
Non-controlling interests		1,373,842	841,559
Total equity		<u>29,415,139</u>	<u>26,828,231</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Equity attributable to owners of the Company								Equity attributable to non-controlling interests				
	Share capital	Treasury share reserve	Share-based payments reserve	Other reserves	Statutory reserve	Capital contribution reserve	Translation reserve	Accumulated profits	Sub-total	Share-based payments reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (note i)	RMB'000 (note ii)	RMB'000 (note iii)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021 (Audited)	10,899,412	(100,706)	13,767	(3,687,320)	1,875,242	46,794	(36,246)	13,321,345	22,332,288	2,080	766,705	768,785	23,101,073
Profit for the period	-	-	-	-	-	-	-	3,062,569	3,062,569	-	46,542	46,542	3,109,111
Other comprehensive (expense) income for the period, net of income tax	-	-	-	(13,621)	-	-	12,697	-	(924)	-	-	-	(924)
Total comprehensive (expense) income for the period	-	-	-	(13,621)	-	-	12,697	3,062,569	3,061,645	-	46,542	46,542	3,108,187
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	(896,880)	(896,880)	-	-	-	(896,880)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(12,500)	(12,500)	(12,500)
Recognition of equity-settled share based payments	-	-	3,475	-	-	-	-	-	3,475	872	-	872	4,347
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(845)	(845)	-	845	845	-
Disposal of financial assets at fair value through other comprehensive income (note 11)	-	-	-	(240,108)	-	-	-	240,108	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	25,503	-	-	(25,503)	-	-	-	-	-
At 30 June 2021 (Unaudited)	10,899,412	(100,706)	17,242	(3,941,049)	1,900,745	46,794	(23,549)	15,700,794	24,499,683	2,952	801,592	804,544	25,304,227
At 1 January 2022 (Audited)	10,899,412	(85,600)	17,671	(4,050,831)	1,917,652	46,794	(28,446)	17,270,020	25,986,672	3,570	837,989	841,559	26,828,231
Profit for the period	-	-	-	-	-	-	-	2,966,205	2,966,205	-	60,878	60,878	3,027,083
Other comprehensive income for the period, net of income tax	-	-	-	8,365	-	-	44,435	-	52,800	-	-	-	52,800
Total comprehensive income for the period	-	-	-	8,365	-	-	44,435	2,966,205	3,019,005	-	60,878	60,878	3,079,883
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	(1,019,165)	(1,019,165)	-	-	-	(1,019,165)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(20,475)	(20,475)	(20,475)
Recognition of equity-settled share-based payments	-	-	5,609	-	-	63,586	-	-	69,195	2,671	-	2,671	71,866
Repurchase and cancellation of ordinary shares	-	-	-	-	-	-	-	(14,211)	(14,211)	-	-	-	(14,211)
Shares vested under share award scheme	-	1,890	(15,100)	-	-	-	-	13,210	-	-	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(199)	(199)	-	(36,043)	(36,043)	(36,242)
Acquisition of a subsidiary (note 23)	-	-	-	-	-	-	-	-	-	-	473,384	473,384	473,384
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	51,868	51,868	51,868
Transfer to statutory reserves	-	-	-	-	26,236	-	-	(26,236)	-	-	-	-	-
At 30 June 2022 (Unaudited)	10,899,412	(83,710)	8,180	(4,042,466)	1,943,888	110,380	15,989	19,189,624	28,041,297	6,241	1,367,601	1,373,842	29,415,139

Notes:

- (i) The balance in other reserves mainly included an amount of RMB4,030,633,000 which represented 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 reserve was appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.
- (iii) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 15, which comprised (1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during a reorganisation of the Robust Sun Group in 2012; (2) the imputed interest arising from a non-interest bearing loan from CHL in 2012; (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co. Ltd. from CHL in 2016; and (4) deemed capital contribution arising from the grant of share awards to employees of the Company and its subsidiaries in 2022 by a shareholder.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net cash from operating activities		4,257,134	2,742,651
Net cash used in investing activities:			
Purchase of property, plant and equipment		(813,859)	(580,191)
Purchase of right-of-use assets		13,354	—
Purchase of other intangible assets		(156,353)	(81,839)
Purchase of other financial assets		(49,075)	(150,125)
Acquisition of a subsidiary	23	(301,718)	—
Capital injection to associates		(50,000)	(76,833)
Capital injection to joint ventures		(100,000)	(40,000)
Repayment from an associate		—	73,310
Repayment from joint ventures		—	536,033
Placement of structured bank deposits		(1,846,000)	(1,823,500)
Placement of restricted bank balances		(5,270)	—
Placement of bank deposits		(1,870,000)	(860,000)
Withdrawal of structured bank deposits		614,033	1,303,744
Withdrawal of restricted bank deposits		—	36,571
Withdrawal of bank deposits		200,000	30,000
Increase in structured bank deposits with maturity within three months		(1,618,000)	(895,000)
Dividend received from a joint venture		123,743	45,000
Dividend received from an associate		6,055	—
Distributions from other financial assets		17,406	522,665
Proceeds from disposal of a subsidiary		—	150,914
Proceeds from disposal of a joint venture		—	34,650
Interest received		98,475	75,007
Government grants received related to acquisition			
of property, plant and equipment		4,666	20,804
Proceeds from disposal of property, plant and equipment		29,347	3,806
Payment of contingent consideration		—	(24,346)
		(5,703,196)	(1,699,330)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net cash used in financing activities:			
Interest on lease liabilities		(4,843)	(4,225)
Payment of lease liabilities		(59,852)	(62,696)
Dividends paid to non-controlling interests		(20,475)	(12,500)
Dividends paid		(1,019,165)	(896,880)
Interest on bank borrowings		(4,879)	(559)
New bank borrowings		333,580	—
Repayment of bank borrowings		—	(99,000)
Advances drawn on bill receivables discounted with recourse		15,997	—
Acquisition of additional interest in a subsidiary		(36,242)	—
Shares repurchased		(14,211)	—
Capital contribution from non-controlling interests		51,868	—
		(758,222)	(1,075,860)
Net decrease in cash and cash equivalents		(2,204,284)	(32,539)
Cash and cash equivalents at 1 January		9,059,709	7,259,458
Effect of foreign exchange rate changes		9,592	(2,678)
Cash and cash equivalents at 30 June, represented by bank balances and cash	17	6,865,017	7,224,241

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2021 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 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Principal Accounting Policies

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

Other than additional amounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

2. Principal Accounting Policies *(continued)*

Application of amendments to HKFRSs *(continued)*

The application of the amendments to HKFRSs in the current interim 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.

3. Revenue and Segment Information

(i) Disaggregation of revenue

Geographical information

The revenue from the external customers by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC	13,076,544	12,062,313
United States of America ("USA")	775,458	584,352
Asia other than PRC and India	1,006,542	742,583
Europe	596,630	323,074
Other regions	154,852	109,953
	15,610,026	13,822,275

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

3. Revenue and Segment Information *(continued)*

(ii) Segment information

Information reported to the executive directors, being the chief operating decision maker (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group’s reportable segments under HKFRS 8 *Operating Segments* are as follows:

- (a) Finished drugs — research and development, manufacture and sale of pharmaceutical products and license fee income;
- (b) Bulk products — manufacture and sale of vitamin C, antibiotic and other products in bulk powder form; and
- (c) Functional food and others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), provision of healthcare service and others.

Revenue is recognised at a point in time upon control of the goods has been transferred, being when the goods have been delivered to the customer’s specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

3. Revenue and Segment Information *(continued)*

(ii) Segment information *(continued)*

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

Six months ended 30 June 2022 (Unaudited)

	Bulk products			Functional	Segment total	Eliminations	Consolidated
	Finished drugs	Vitamin C	Antibiotics and others	food and others			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE							
External sales	12,292,908	1,398,898	953,423	964,797	15,610,026	–	15,610,026
Inter-segment sales	–	2,640	141,864	32,706	177,210	(177,210)	–
TOTAL REVENUE	<u>12,292,908</u>	<u>1,401,538</u>	<u>1,095,287</u>	<u>997,503</u>	<u>15,787,236</u>	<u>(177,210)</u>	<u>15,610,026</u>
SEGMENT PROFIT	<u>3,008,121</u>	<u>321,077</u>	<u>92,736</u>	<u>264,686</u>			3,686,620
Unallocated income							163,176
Unallocated expenses							(121,437)
Share of results of associates							(26,954)
Share of results of joint ventures							27,777
Finance costs							(9,722)
Profit before tax							<u>3,719,460</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

3. Revenue and Segment Information *(continued)*

(ii) Segment information *(continued)*

Six months ended 30 June 2021 (Unaudited)

	Bulk products			Functional food and others	Segment total	Eliminations	Consolidated
	Finished drugs	Vitamin C	Antibiotics and others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE							
External sales	11,233,382	1,080,770	835,857	672,266	13,822,275	–	13,822,275
Inter-segment sales	–	5,767	63,554	8,814	78,135	(78,135)	–
TOTAL REVENUE	11,233,382	1,086,537	899,411	681,080	13,900,410	(78,135)	13,822,275
SEGMENT PROFIT							
	2,591,280	359,335	46,059	154,623			3,151,297
Unallocated income							547,096
Unallocated expenses							(56,554)
Share of results of associates							(19,471)
Share of results of joint ventures							21,021
Gain on disposal of a joint venture							24,273
Finance costs							(4,784)
Profit before tax							3,662,878

Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, fair value changes on financial assets measured at fair value through profit or loss (“FVTPL”), finance costs, central administrative expenses, share of results of joint ventures and associates and gain on disposal of a joint venture. 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.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. Profit Before Tax

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	389,425	349,621
Depreciation of right-of-use assets	68,025	68,920
Depreciation of investment property	860	859
Amortisation of other intangible assets	23,324	11,080
Total depreciation and amortisation	481,634	430,480
Government grant income (included in other income)	(64,808)	(30,338)
Impairment losses recognised (reversed) under expected credit loss model (included in other gains or losses)	14,492	(16,971)
Impairment loss on intangible assets (included in other expenses)	—	50,000
Interest income on bank balances (included in other income)	(98,475)	(75,007)
Fair value changes on financial assets measured at FVTPL (included in other gains or losses)	33,517	(425,631)
Fair value changes on structured bank deposits (included in other gains or losses)	(51,155)	(33,832)
Loss on disposal of property, plant and equipment (included in other gains or losses)	4,541	2,209
Net foreign exchange (gain) loss (included in other gains or losses)	(51,540)	9,627
Share-based compensation expense	71,866	4,347

Note: For the six months ended 30 June 2022 and 2021, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5. Income Tax Expense

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The tax charge comprises:		
Current taxation		
– PRC Enterprise Income Tax	707,703	422,262
– PRC withholding tax on dividends distributed by subsidiaries	51,330	15,000
– USA Federal and State Income Tax	5,782	959
	764,815	438,221
Deferred taxation	(72,438)	115,546
	692,377	553,767

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 2023.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5. Income Tax Expense *(continued)*

Deferred tax liabilities of RMB266,294,000 (31 December 2021: RMB257,624,000) has been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB5,325,880,000 (31 December 2021: RMB5,152,480,000). Deferred taxation has not been provided for the remaining accumulated profits of the PRC subsidiaries amounting to approximately RMB17,567,194,000 (31 December 2021: RMB14,682,479,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. Dividends

(a) Interim dividend

The board of directors has declared the payment of an interim dividend of HK\$10 cents per share for 2022 (2021: HK\$8 cents (equivalent to RMB6.6 cents) amounting to approximately RMB793,883,000) after the end of the reporting period, which has not been recognised as a liability at the end of the reporting period.

(b) Final dividend approved during the reporting period

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period:		
2021 Final, paid — HK\$10 cents (equivalent to RMB8.6 cents) (2021: 2020 Final, paid — HK\$9 cents (equivalent to RMB8.3 cents)) per share	1,020,529	898,321
Less: Dividend for shares held by share award scheme	(1,364)	(1,441)
	<u>1,019,165</u>	<u>896,880</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	2,966,205	3,062,569

	Six months ended 30 June	
	2022	2021
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	11,917,148	11,954,570
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	945	1,415
Weighted average number of ordinary shares for the purpose of diluted earnings per share	11,918,093	11,955,985

The weighted average number of ordinary shares for the calculation of basic earnings per share for both periods have been adjusted for the shares held by the trustee pursuant to the share award scheme.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

8. Property, Plant and Equipment

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At beginning of the period:		
Cost	12,392,066	11,013,176
Accumulated depreciation	(3,862,696)	(3,242,734)
Net carrying amount	<u>8,529,370</u>	<u>7,770,442</u>
At beginning of the period, net of accumulated depreciation	8,529,370	7,770,442
Additions	619,585	660,542
Acquired on acquisition of subsidiaries	82,223	—
Disposals	(33,888)	(6,015)
Depreciation provided during the period	(389,425)	(349,621)
Exchange adjustments	2,318	(800)
At end of the period, net of accumulated depreciation	<u>8,810,183</u>	<u>8,074,548</u>
At end of the period:		
Cost	13,039,537	11,647,303
Accumulated depreciation	(4,229,354)	(3,572,755)
Net carrying amount	<u>8,810,183</u>	<u>8,074,548</u>

9. Right-of-Use Assets

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net carrying amount at beginning of the period	1,034,549	1,163,898
Additions	266,095	—
Acquired on acquisition of subsidiaries	34,000	—
Depreciation provided during the period	(68,025)	(68,920)
Exchange adjustments	1,645	(496)
Net carrying amount at end of the period	<u>1,268,264</u>	<u>1,094,482</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

10. Other Intangible Assets

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At beginning of the period:		
Cost	727,354	693,184
Accumulated amortisation and impairment	(259,500)	(184,442)
Net carrying amount	467,854	508,742
At beginning of the period, net of accumulated amortisation and impairment	467,854	508,742
Additions	56,353	11,839
Acquired on acquisition of subsidiaries	962,574	—
Amortisation provided during the period	(23,324)	(11,080)
Impairment loss recognised during the period	—	(50,000)
Exchange adjustments	760	(173)
At end of the period, net of accumulated amortisation and impairment	1,464,217	459,328
At end of the period:		
Cost	1,745,894	704,736
Accumulated amortisation and impairment	(281,677)	(245,408)
Net carrying amount	1,464,217	459,328

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

11. Other Financial Assets

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Unlisted investments in partnerships and funds	1,662,247	1,693,705
Listed equity securities	72,923	66,725
Unlisted equity securities	252,293	218,915
	<u>1,987,463</u>	<u>1,979,345</u>
Analysed as:		
Financial assets measured at FVTPL	1,711,220	1,733,068
Financial assets measured at FVTOCI (Note)	276,243	246,277
	<u>1,987,463</u>	<u>1,979,345</u>

Note: The Directors have elected to designate these investments to be measured at fair value through other comprehensive income ("FVTOCI") as they believe that recognising their short-term fluctuations in fair value through profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Directors consider that the Group does not have any control nor significant influence to affect the variable returns through its investment in those enterprises or similar activities.

In the current interim period, the Group received RMB17,406,000 (six months ended 30 June 2021: RMB522,665,000) upon distribution by the partnerships and funds, which was also the fair value as at the date of distribution.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

12. Trade Receivables

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	3,920,050	3,358,607
Less: allowance for impairment	(63,951)	(49,459)
	<u>3,856,099</u>	<u>3,309,148</u>

The Group allows a general credit period of 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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
0 to 90 days	3,608,526	3,122,761
91 to 180 days	235,004	175,494
181 to 365 days	10,211	8,578
More than 365 days	2,358	2,315
	<u>3,856,099</u>	<u>3,309,148</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

13. Deposits, Prepayments and Other Receivables

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Prepayments	142,857	177,753
Prepayment for acquisition of other intangible assets	404,289	304,289
Deposits paid for property, plant and equipment and right-of-use assets	368,970	265,582
Other tax recoverable	171,683	199,534
Others	251,404	203,138
	<u>1,339,203</u>	<u>1,150,296</u>
Analysed as:		
Current	565,944	580,425
Non-current	773,259	569,871
	<u>1,339,203</u>	<u>1,150,296</u>

14. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (31 December 2021: 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 and forward-looking information that is available without undue cost or effort.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Related Party Disclosures

During the current interim 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	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CHL and its subsidiaries and associates (the "CHL Group") (note a)	Sales of pharmaceutical products	358,494	290,490
	Recharge of utility expenses	2,209	1,683
	Purchase of steam	—	19,305
	Purchase of pharmaceutical products	6,735	84,948
	Payment of lease liabilities	56,415	47,973
		624,853	444,399
		As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
	Balance due from/to the CHL Group		
	— trade receivables (note b)		
	aged 0 — 90 days	129,123	92,520
	aged 91 — 180 days	23,033	3,974
	aged more than 180 days	—	2,834
		152,156	99,328
	— other receivables (note c)	13,871	807
	— trade payables (note b)		
	aged 0 — 90 days	(30,516)	(21,292)
	aged 91 — 180 days	(2,523)	(5,420)
	aged more than 180 days	(37,663)	(29,787)
		(70,702)	(56,499)
	— other payables (note c)	(19,307)	(2,411)
	— lease liabilities	(237,229)	(42,319)
		(256,536)	(44,730)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Related Party Disclosures *(continued)*

(II) Joint ventures

Name of company	Nature of transactions/balances	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Purchase of raw materials	123,165	38,455
		As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
	Balance due from/to Huarong		
	— trade receivables <i>(note b)</i>		
	aged 0 — 90 days	491	270
	aged 91 — 180 days	—	80
	aged more than 180 days	292	—
		783	350
	— other receivables <i>(note c)</i>	3,557	2,388
	— trade payables <i>(note b)</i>		
	aged 0 — 90 days	(101,379)	(84,238)
	aged 91 — 180 days	(486)	(3,750)
	aged more than 180 days	(6,424)	(2,542)
		(108,289)	(90,530)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Related Party Disclosures *(continued)*

(II) Joint ventures *(continued)*

Name of company	Nature of transactions/balances	As at	As at
		30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Yantai Jiashi Pharmaceutical Technology Co., Ltd. and its subsidiaries ("Yantai Jiashi Group")	Balance due from/to Yantai Jiashi Group — other receivables — other payable	114,287 —	26,586 (45,523)
		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Bioworkshops Limited and its subsidiaries ("Bioworkshops Group")	Provision of research and development services	—	19,359
		As at	As at
		30 June	31 December
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Audited)
	Balance due from/to Bioworkshop Group		
	— trade receivables <i>(note b)</i>		
	aged 0 — 90 days	158	1,610
	— other receivables — non-current <i>(note d)</i>	269,365	253,953
	— other receivables — current <i>(note c)</i>	108,604	8,849
	— other payables <i>(note c)</i>	(5,734)	(74)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Related Party Disclosures (continued)

(II) Joint ventures (continued)

Name of company	Nature of transactions/balances	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	
		(Unaudited)	
CSPC Zhongcheng	Purchase of raw materials	137,289	
Pharmaceutical	Provision of utility services	692	
Logistics Co., Limited	Sales of pharmaceutical products	57,682	
and its subsidiaries	Warehouse service income	27	
(note e)	Payment of lease liabilities	12,962	
		<u>137,970</u>	

(III) Associate

Name of company	Nature of transactions/balances	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	
		(Unaudited)	
Wuhan YZY Biopharma	Capital injection	—	9,118
Co., Ltd (“YZY Biopharma”)		<u>—</u>	<u>9,118</u>
		<i>RMB'000</i>	
		(Unaudited)	
		As at	
		31 December	
		2021	
		<i>RMB'000</i>	
		(Audited)	
	Balance due from YZY Biopharma		
	— other receivable (note c)	—	400
		<u>—</u>	<u>400</u>

Notes:

- 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.
- The general credit period for trade receivables and payables is 90 days (31 December 2021: 90 days).
- The amounts are unsecured, non-interest bearing and repayable on demand.
- The amount is unsecured and with imputed interest computed using the prevailing market interest rate of 4.75% (2021: 4.75%) per annum for comparable long term borrowings.
- This joint venture was disposed of during the six months ended 30 June 2021.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Related Party Disclosures *(continued)*

(IV) Compensation of key management personnel

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	6,331	6,378
Post-employment benefits	526	557
Share-based compensation expense	874	—
	7,731	6,935

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

16. Structured Bank Deposits

As at 30 June 2022, structured bank deposits of RMB4,344,535,000 carry guaranteed return ranging from 1.15% to 2.2% per annum and have a total expected return up to 3.8% per annum. As at 31 December 2021, structured bank deposits of RMB1,243,413,000 carried guaranteed return of 1.4% per annum and had a total expected return up to 3.41% per annum, and RMB200,000,000 carried no guaranteed return and had a total expected return up to 3.1% per annum, depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

17. Bank Deposits/Bank Balances and Cash

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank deposits	2,270,000	600,000
Restricted bank deposits	29,203	23,933
Bank balances and cash	6,865,017	9,059,709
	<u>9,164,220</u>	<u>9,683,642</u>
Analysed as:		
Current	9,064,220	9,283,642
Non-current	100,000	400,000
	<u>9,164,220</u>	<u>9,683,642</u>

Bank deposits carry interest at market interest rates ranging from 3.31% to 4.13% per annum (31 December 2021: 3.26% to 4.13% per annum). Bank deposits of RMB270,000,000 (31 December 2021: nil) have been pledged to secure a banking facility granted to the Group.

Restricted bank deposits represent deposits required to be placed in banks for securing short-term banking facilities and are classified as current assets. Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.01% to 4.13% (31 December 2021: 0.01% to 3.60%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
0 to 90 days	1,328,755	1,262,830
91 to 180 days	47,547	82,438
More than 180 days	120,068	136,091
	<u>1,496,370</u>	<u>1,481,359</u>

The general credit period on purchases of goods is up to 90 days (31 December 2021: 90 days).

19. Other Payables

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Other tax payable	117,849	102,507
Selling expense payable	3,179,049	2,500,679
Payables arising from construction cost and acquisition of property, plant and equipment	724,019	790,696
Government grants	422,189	467,545
Salaries, wages and staff welfare payable	508,821	416,749
Research and development expense payable	195,223	143,644
Others	460,797	509,207
	<u>5,607,947</u>	<u>4,931,027</u>
Analysed as:		
Current	5,365,345	4,680,829
Non-current	242,602	250,198
	<u>5,607,947</u>	<u>4,931,027</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

20. Bills Payables

All bills payables of the Group are aged within 365 days (31 December 2021: within 365 days) and not yet due at the end of the reporting period. Bills payables of RMB210,682,000 are secured by certain restricted bank deposits of the Group (31 December 2021: RMB141,258,000).

21. Bank Borrowings

	As at 30 June 2022 RMB'000 (Unaudited)
Discounted bills receivables with recourse (<i>note a</i>)	15,997
Variable-rate secured Hong Kong dollar ("HKD") bank loan (<i>note b</i>)	171,040
Variable-rate unsecured HKD bank loan (<i>note b</i>)	171,040
Variable-rate unsecured RMB bank loans (<i>note b</i>)	38,290
	<u>396,367</u>
The carrying amounts of the above borrowings are repayable as follows:	
Within one year	384,577
Within a period of more than one year, but not exceeding two years	11,790
	<u>396,367</u>
Less: Amounts due within one year shown under current liabilities	<u>(384,577)</u>
Amounts shown under non-current liabilities	<u>11,790</u>

Notes:

- a. The amounts represent borrowings secured by the bill receivables discounted to banks with recourse and the amounts are repayable within one year.
- b. The bank loans carry interest rates ranging from 1.42% to 5.46% (31 December 2021: nil) per annum.

As at 31 December 2021, the Group had no bank borrowings.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

22. Share Capital

	Number of shares	Share capital RMB'000
Issued and fully paid		
At 1 January 2021 and 30 June 2021	11,973,769,732	10,899,412
Shares repurchased and cancelled (<i>note</i>)	<u>(23,790,000)</u>	<u>—</u>
At 31 December 2021 and 1 January 2022	11,949,979,732	10,899,412
Shares repurchased and cancelled (<i>note</i>)	<u>(16,760,000)</u>	<u>—</u>
At 30 June 2022	<u><u>11,933,219,732</u></u>	<u><u>10,899,412</u></u>

Note: The Company has repurchased its own ordinary shares through the Stock Exchange as follows:

	Number of shares	Price per share		Aggregation consideration paid	
		highest HK\$	lowest HK\$	HK\$'000	RMB'000
Months of repurchase					
November 2021	3,100,000	8.10	8.02	25,005	20,754
December 2021	35,396,000	8.60	8.03	291,450	241,904
January 2022	2,054,000	8.49	8.44	17,409	14,166

23,790,000 and 16,760,000 of the above ordinary shares were cancelled upon delivery of share certificates in December 2021 and January 2022, respectively.

23. Acquisition of Subsidiaries

In January 2022, the Group entered into an agreement with an independent third party to acquire 100% interest in Zhuhai Zhifan Enterprise Management Consultancy Centre (Limited Partnership) ("Zhuhai Zhifan", together with its subsidiary, "Zhifan Group") for a cash consideration of RMB302,904,000. Zhuhai Zhifan is principally engaged in the holding of 51% equity interest in Guangzhou Recomgen Biotech Co., Ltd. (now renamed as CSPC Recomgen Pharmaceutical (Guangzhou) Co., Ltd.) ("Recomgen"), which is principally engaged in biopharmaceutical business. The acquisition has been accounted for using the acquisition method of accounting.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

23. Acquisition of Subsidiaries (continued)

The fair value of the identifiable assets and liabilities recognised at the date of acquisition were as follows:

	<i>RMB'000</i>
Property, plant and equipment	82,223
Right-of-use assets	34,000
Other intangible assets	962,574
Deposits	4,992
Inventories	30,572
Trade receivables	5,000
Deposits, prepayment and other receivables	24,925
Bank balances	1,186
Trade payables	(8,182)
Other payables	(254,314)
Contract liabilities	(40)
Borrowing	(46,790)
Tax liabilities	(1,328)
Deferred tax liabilities	(130,138)
	<hr/>
Total identifiable net assets at fair value	704,680
	<hr/> <hr/>

The fair value and classification of assets and liabilities (which were valued by an independent qualified professional valuer not connected to the Group) have been determined on a provisional basis awaiting further information and finalisation of the valuation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

23. Acquisition of Subsidiaries (continued)

Goodwill arising on acquisition

	<i>RMB'000</i>
Consideration transferred	302,904
Plus: non-controlling interests	473,384
Less: recognised amounts of net assets acquired	<u>(704,680)</u>
Goodwill arising on acquisition	<u><u>71,608</u></u>

Goodwill arose on the acquisition because the acquisition included the assembled workforce for research and development of thrombolytic drug and the associated intellectual property owned by Recomgen. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflows arising on acquisition of Zhifan Group

	<i>RMB'000</i>
Consideration paid in cash	302,904
Less: bank balances and cash acquired	<u>(1,186)</u>
	<u><u>301,718</u></u>

Impact of acquisition on the results of the Group

Since the acquisition, Zhifan Group has contributed RMB28,405,000 to the revenue of the Group and a loss of RMB27,342,000 to the profit of the Group for the six months ended 30 June 2022.

Had the acquisition of Zhifan Group taken place on 1 January 2022, the revenue and profit of the Group for the period would have been RMB15,614,026,000 and RMB3,016,542,000, respectively.

24. Long-Term Incentive Programs

(i) 2015 share option scheme

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

(ii) 2018 share award scheme

The share award scheme was adopted by the Company on 20 August 2018 and is valid and effective for a period of 10 years from its adoption. During the six months ended 30 June 2022, 1,740,000 awarded shares were vested and transferred at no cost, and no awarded shares were granted or lapsed. As at 30 June 2022, there are 1,520,000 awarded shares (31 December 2021: 3,260,000 awarded shares) outstanding. During the six months ended 30 June 2022, share-based compensation expense of RMB5,609,000 (six months ended 30 June 2021: RMB3,475,000) was recognised in profit or loss.

(iii) 2018 share option scheme of a subsidiary

A subsidiary of the Company has adopted a share option scheme in 2018 involving the existing shares of the subsidiary. During the six months ended 30 June 2022, 9,000 options with an exercise price of US\$32.7 per share were granted, 3,000 options with an exercise price of US\$26 per share and 500 options with an exercise price of US\$32.7 were lapsed, and no options were exercised. As at 30 June 2022, there are 110,000 options with an exercise price of US\$22 per share, 19,600 options with an exercise price of US\$26 per share and 8,500 options with an exercise price of US\$32.7 per share (31 December 2021: 110,000 options with an exercise price of US\$22 per share and 22,600 options with an exercise price of US\$26 per share) outstanding. During the six months ended 30 June 2022, share-based compensation expense of RMB2,671,000 (six months ended 30 June 2021: RMB872,000) was recognised in profit or loss.

(iv) Share awards granted by a shareholder

A shareholder of the Company has granted 218,250,000 awarded shares involving the existing shares of the Company to selected employees and officers of the Group on 1 April 2022. The awarded share will be vested and transferred within 3 to 5 years from the date of grant at a transfer price of HK\$2.95 per share subject to the fulfilment of certain conditions. As at 30 June 2022, there are 218,250,000 awarded shares (31 December 2021: nil) outstanding. During the six months ended 30 June 2022, share-based compensation expense of RMB63,586,000 (six months ended 30 June 2021: nil) was recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

25. Capital and Other Commitments

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	2,234,123	1,676,805
Other commitments in respect of unlisted investments in partnerships and funds	391,314	426,829
Other commitments in respect of research and development projects	130,314	258,836
	<u>2,755,751</u>	<u>2,362,470</u>

26. Fair Value Measurement of Financial Instruments

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

26. Fair Value Measurement of Financial Instruments *(continued)*

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2022 RMB'000	31 December 2021 RMB'000				
Equity securities listed in Hong Kong	72,923	66,725	Level 1	Quoted bid prices in an active market	N/A	N/A
Unquoted investments	1,914,540	1,912,620	Level 3	Recent transaction prices of underlying investments	N/A	N/A
				Discount cash flows – in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa
Bills receivables at FVTOCI	1,187,965	2,071,866	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of issuers	N/A	N/A
Structured bank deposits	4,344,535	1,443,413	Level 2	Expected yields of underlying investments in commodities, bonds and funds invested by bank at a discount rate that reflects the credit risk of the bank	N/A	N/A

There were no transfers between levels in the current interim period.

Unrealised fair value gain of RMB8,365,000 included in other comprehensive income for the six months ended 30 June 2022 is related to other financial assets measured at FVTOCI held at the end of current reporting period (six months ended 30 June 2021: unrealised fair value loss of RMB13,621,000) and are reported as changes of “other reserves”.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

26. Fair Value Measurement of Financial Instruments *(continued)*

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

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

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Other Information

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The interests and short positions of the directors of the Company 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 (the "SFO") as at 30 June 2022 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below.

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued shares of the Company
Cai Dongchen	Beneficial owner	221,132,960	
	Interest of controlled corporation	2,600,868,710 ⁽¹⁾	
		<u>2,822,001,670</u>	23.65%
Chak Kin Man	Beneficial owner	3,847,680	0.03%
Wang Qingxi	Beneficial owner	3,000,000 ⁽²⁾	0.03%

Notes:

(1) Mr. Cai Dongchen is deemed to be interested in 2,600,868,710 shares, comprising (i) 406,904,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 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(有限合伙)) ("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.

(2) The shares represent the unvested share awards granted to Mr. Wang Qingxi by a shareholder of the Company on 1 April 2022.

Save as disclosed above, none of the directors of the Company 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 2022 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the long-term incentive programs disclosed below, at no time during the six months ended 30 June 2022 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.

Other Information

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

Other persons' interests and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as at 30 June 2022 as recorded in the register required to be kept under Section 336 of the SFO are set out below.

Long Positions

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued shares of the Company
Cai Dongchen	Beneficial owner	221,132,960	
	Interest in controlled corporation	2,600,868,710 ⁽¹⁾	
		<u>2,822,001,670</u>	23.65%
True Ally Holdings Limited	Beneficial owner	948,249,600	
	Interest in controlled corporation	1,652,619,110 ⁽¹⁾	
		<u>2,600,868,710</u>	21.80%
Massive Giant Group Limited	Beneficial owner	1,218,834,470	10.21%
Common Success International Limited	Beneficial owner	728,796,313	6.11%
UBS Group AG	Interest in controlled corporation	883,584,529	7.40%
BlackRock, Inc.	Interest in controlled corporation	618,810,909	5.19%

Short Positions

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued shares of the Company
BlackRock, Inc.	Interest in controlled corporation	410,800	0.003%

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares *(continued)*

Note:

- (1) Mr. Cai Dongchen is deemed to be interested in 2,600,868,710 shares, comprising (i) 406,904,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 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, 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.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as at 30 June 2022 as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Long-Term Incentive Programs

Particulars of the Company's share option schemes and share award schemes are set out in note 24 to the condensed consolidated financial statements.

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 2022 except the deviation from code provision C.2.1 as set out below.

Code provision C.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. During the period from 1 January 2022 to 27 May 2022, Mr. Cai Dongchen, the Company's Chairman, also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai would 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. On 27 May 2022, Mr. Zhang Cuilong was appointed as the chief executive officer in place of Mr. Cai Dongchen. Mr. Cai Dongchen remains as an executive director and Chairman of the Company. Thereafter, Mr. Cai Dongchen no longer performs the roles of the chairman of the Company and the chief executive officer concurrently and the Company has complied with code provision C.2.1 of the CG Code.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. In response to specific enquiry made, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

Review of Interim Results

The interim results for the six months ended 30 June 2022 have been reviewed by the external auditor and audit committee of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2022, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares	Highest price per share paid <i>HK\$</i>	Lowest price per share paid <i>HK\$</i>	Aggregate consideration paid <i>HK\$'000</i>
January 2022	2,054,000	8.49	8.44	17,409

All of the above shares were cancelled upon delivery of the share certificates in January 2022.

The repurchase of shares were made for the benefit of the shareholders with a view to enhancing the earnings per share as well as maximizing shareholders' return.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2022.

Changes in Information of Directors

Changes in information of directors which are required to be disclosed under Rule 13.51(B)(1) of the Listing Rules are set out below.

- Mr. Wang Bo, an independent non-executive director of the Company, ceased to be an independent director of Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange) with effect from 20 May 2022.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 13 September 2022 to Wednesday, 14 September 2022, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 September 2022.