CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

2019 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

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

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

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

	Notes	**As at 30 June 2019** ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited) (Restated)
Current liabilities			
Trade payables	*13*	**1,762,943**	1,619,356
Other payables	*14*	**3,240,029**	2,920,262
Contract liabilities		**297,244**	700,075
Bills payables	*15*	**520,113**	1,654,470
Amounts due to related companies		**20,185**	28,425
Contingent consideration payable		**16,517**	12,375
Lease liabilities		**75,245**	—
Tax liabilities		**145,952**	241,465
Borrowings		**60,000**	70,589
		6,138,228	7,247,017
Net current assets		**6,905,324**	6,556,471
Total assets less current liabilities		**18,182,978**	15,969,820
Non-current liabilities			
Other payables	*14*	**198,944**	182,404
Contingent consideration payable		**3,383**	19,899
Lease liabilities		**126,637**	—
Deferred tax liabilities		**339,519**	237,917
		668,483	440,220
Net assets		**17,514,495**	15,529,600
Capital and reserves			
Share capital		**10,899,412**	10,899,412
Reserves		**5,574,204**	4,152,848
Equity attributable to owners of the Company		**16,473,616**	15,052,260
Non-controlling interests		**1,040,879**	477,340
Total equity		**17,514,495**	15,529,600

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2018 that is presented in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

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

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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

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

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

As a lessee

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

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

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS16.C8(b)(ii) transition.

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

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

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

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

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

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

Note:

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

(a) Finished drugs — research and development, manufacture and sale of pharmaceutical products;

(b) Vitamin C — manufacture and sale of vitamin C products in bulk form;

(c) Antibiotics — manufacture and sale of antibiotic products in bulk form; and

(d) Others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), glucose products and provision of healthcare services

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

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

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

For the six months ended 30 June 2019 (Unaudited)

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

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

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

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

Inter-segment sales are charged at prevailing market rates.

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

4. PROFIT BEFORE TAX

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

Note: For the six months ended 30 June 2018 and 2019, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss and other comprehensive income.

5. INCOME TAX EXPENSE

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

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

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

The calculation of the 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 PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB6,430,372,000 (31 December 2018: RMB5,576,655,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDEND

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

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

7. EARNINGS PER SHARE

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

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

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

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

8. TRADE RECEIVABLES

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

The Group allows a general credit period of 90 days (31 December 2018: 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

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

9. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

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

10. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (31 December 2018: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

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

11. TRADE RECEIVABLES DUE FROM RELATED COMPANIES

The Group allows a general credit period of 90 days (31 December 2018: 90 days) to its related companies. The trade receivables due from related companies at the end of the reporting period are aged within 90 days based on invoice dates which approximated the respective revenue recognition dates.

12. STRUCTURED BANK DEPOSITS

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

13. TRADE PAYABLES

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

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

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

14. OTHER PAYABLES

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

15. BILLS PAYABLES

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

RESULTS

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

DIVIDEND

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

INDUSTRY REVIEW

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

BUSINESS REVIEW

(1) Finished Drug Business

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

Innovative Drug Products

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

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

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

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

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

cerebral haemorrhage area. For overseas market development, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with over 100 patients enrolled. The development of new indications and markets as mentioned above will be able to bring new growth opportunities to NBP.

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

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

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

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

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

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina. It has won the Second Prize for State Technical Invention Award and has been included in the "Guidelines for the Prevention and Treatment of Hypertension of China 2018", the "Guidelines for Rational Use of Drugs of Coronary Heart Disease" (2nd Edition), "Guidelines for Rational Use of Drugs for Hypertension" (2nd Edition), the "Guidelines for Geriatric Hypertension Management in China 2019" and the "Interpretation of Clinical Pathway of Therapeutic Drugs (County-level Volume)". The results of the research study for the comparison of levamlodipine maleate (Xuanning) and amlodipine besylate for the treatment of hypertension (a major project in the "12th Five-Year Plan") has fully demonstrated the better

clinical efficacy and lower side effects of Xuanning. The new drug application of Xuanning has been filed with U.S. FDA, which is the first NDA submission to the U.S, FDA by a Chinese pharmaceutical enterprise in the U.S..

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

Duomeisu (多美素) (doxorubicin hydrochloride liposome injection)

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

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

Jinyouli (津優力) (PEG-rhGCSF injection)

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. It has been awarded the Golden Prize for China Patent and was awarded the First Prize for Shandong Science & Technology Progress during the period. Jinyouli is well supported by evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China, covering lung cancer, breast cancer and lymphoma, earning unanimous recommendations from domestic and foreign guidelines.

The principal marketing strategy of Jinyouli is to expand the coverage of hospitals and customers and increase the frequency of brand and academic promotion by making use of different domestic academic platforms. In the first half of 2019, sales growth continued to be

strong. Jinyouli is aimed to become the leading brand for the long-acting version in China. In terms of therapeutic area, the Group will deepen the current areas and explore new areas such as digestive tract and urinary system and at the same time seek opportunities in immunotherapy and combo usage with target therapy.

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

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

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

Ailineng (艾利能) (elemene injection)

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

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

Nuolining (諾利寧) (imatinib mesylate tablets)

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

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

Common Generic Drug Products

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

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

(2) Vitamin C Business

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

(3) Antibiotics Business

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

(4) Others

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

(5) Research and Development

The Group firmly believes in the importance of investing in research and development so that the Group can have strong product and technology innovation capability as well as a rich pipeline of drugs under development. The R&D expenses in the first half of 2019 amounted to RMB942 million, representing a 68.5% increase year-on-year and accounting for approximately 10.7% of finished drug business revenue. At present, there are more than 300 projects in the pipeline, of which 40 are new small molecule drugs and 30 are new target macromolecule biologics, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, oncology, diabetes, psychiatry & neurology diseases and anti-infectives.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Results

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

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

Operating profit margin slightly decreased from 21.5% in the first half of 2018 to 20.9% in the current period. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business in the current period resulting from the Group's increased efforts in market development; (iii) significant increase in research and development expenses; and (iv) lower profit margin of the vitamin C business in the current period due to decrease in average selling prices.

Selling and Distribution Expenses

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

Administrative Expenses

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

Research and Development Expenses

R&D expenses was RMB942 million in the current period as compared to RMB559 million in the first half of 2018. The increase in R&D expenses was primarily attributable to (i) increased number of drug candidates under development; (ii) increased spending on ongoing and newly initiated clinical trials; and (iii) increased spending on quality and efficacy consistency evaluation of generics.

Liquidity and Financial Position

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

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

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

Pledge of Assets

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

Employees

As at 30 June, 2019, the Group had approximately 18,039 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2019 except the deviation from code provision A.2.1 as set out below.

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

REVIEW OF INTERIM RESULTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2019.

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

Hong Kong, 19 August 2019

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. ZHANG Cuilong, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Dr. LU Hua, Dr. LI Chunlei, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Prof. LO Yuk Lam, Dr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.