CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1093)

2020 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Revenue by business units:			
Finished drugs	**10,231,025**	8,766,117	+16.7%
Vitamin C	**1,004,964**	1,157,854	-13.2%
Antibiotics	**478,020**	531,272	-10.0%
Others	**875,588**	722,753	+21.1%
Total revenue	**12,589,597**	11,177,996	+12.6%
Gross profit	**9,437,353**	7,812,611	+20.8%
Operating profit	**2,618,639**	2,339,895	+11.9%
Profit attributable to shareholders	**2,313,996**	1,878,284	+23.2%
Basic earnings per share	**RMB30.97 cents**	RMB25.11 cents	+23.3%
Interim dividend per share	**HK6 cents**	—	

The Board has also proposed a bonus issue of three new shares for every five existing shares held by shareholders of the Company, which is subject to shareholders' approval at the forthcoming extraordinary general meeting of the Company.

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**2,350,474**	1,888,267
Other comprehensive income		
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, net of tax	**323,429**	9,030
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1,471)**	(5,127)
Other comprehensive income for the period, net of income tax	**321,958**	3,903
Total comprehensive income for the period	**2,672,432**	1,892,170
Total comprehensive income for the period attributable to:		
Owners of the Company	**2,635,954**	1,882,187
Non-controlling interests	**36,478**	9,983
	2,672,432	1,892,170

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Current liabilities			
Trade payables	*13*	**1,169,971**	1,110,883
Other payables	*14*	**5,544,761**	3,691,652
Contract liabilities		**197,580**	503,755
Bills payables	*15*	**397,075**	316,137
Contingent consideration payable		**19,013**	18,130
Amounts due to related companies		**25,938**	10,854
Amount due to an associate		**64,627**	124,627
Amount due to a joint venture		**33,511**	104,678
Lease liabilities		**81,779**	74,235
Tax liabilities		**270,856**	258,823
Borrowing		**99,000**	23,000
		7,904,111	6,236,774
Net current assets		**8,585,926**	7,460,183
Total assets less current liabilities		**21,262,948**	20,081,548
Non-current liabilities			
Other payables	*14*	**155,519**	154,733
Contingent consideration payable		**—**	13,923
Lease liabilities		**108,570**	90,300
Deferred tax liabilities		**293,334**	304,427
		557,423	563,383
Net assets		**20,705,525**	19,518,165
Capital and reserves			
Share capital		**10,899,412**	10,899,412
Reserves		**9,068,566**	7,562,311
Equity attributable to owners of the Company		**19,967,978**	18,461,723
Non-controlling interests		**737,547**	1,056,442
Total equity		**20,705,525**	19,518,165

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 2019 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 2019 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of amendments to HKFRSs

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

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

For the six months ended 30 June 2020 (Unaudited)

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

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

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

Inter-segment sales are charged at prevailing market rates.

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

4. PROFIT BEFORE TAX

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

Note: For the six months ended 30 June 2019 and 2020, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated statement of profit or loss and other comprehensive income.

5. INCOME TAX EXPENSE

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

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

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

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

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

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 RMB8,696,950,000 (31 December 2019: RMB6,879,928,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. DIVIDENDS

(a) Interim dividend

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

(b) Final dividend approved during the reporting period

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

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

7. EARNINGS PER SHARE

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

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

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

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

8. TRADE RECEIVABLES

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

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

9. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

10. BILLS RECEIVABLES

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

11. TRADE RECEIVABLES DUE FROM RELATED COMPANIES

The Group allows a general credit period of 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

The structured bank deposits were placed with banks in the PRC. As at 30 June 2020, structured bank deposits of RMB50,000,000 (31 December 2019: RMB195,000,000) 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 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,033,746**	941,700
91 to 180 days	**29,225**	34,626
More than 180 days	**107,000**	134,557
	1,169,971	1,110,883

The general credit period on purchase of goods is 90 days.

14. OTHER PAYABLES

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

15. BILLS PAYABLES

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

RESULTS

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

DIVIDEND

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

BONUS ISSUE OF SHARES

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

INDUSTRY REVIEW

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

BUSINESS REVIEW

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

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

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

1) Obtained drug registration approvals for rivaroxaban tablets, montelukast sodium tablets, montelukast sodium chewable tablets, ornithine aspartate injections, bortezomib for injection, celecoxib capsules, acarbose tablets, memantine hydrochloride tablets and duloxetine hydrochloride enteric capsules in China;

2) Obtained ANDA approval for omega-3-acid ethyl esters 90 soft capsules in the U.S.;

3) New Drug Application for mitoxantrone hydrochloride liposome injection (new preparation) in China was submitted and accepted;

4) Completed patient enrolment of the bridging trial of Duvelisib (innovative drug) in China, currently under follow-up;

5) Passed the preliminary assessment of the application of Jinyouli and its related technology for the Second Prize of State Scientific and Technological Progress Award;

6) Obtained clinical trial approvals for irinotecan liposome injection, docetaxel for injection (albumin-bound), SYHA1805 tablets, SYHA1815 tablets and recombinant anti-IgE monoclonal antibody for injection in China, ALMB-0168 in Australia and Y150 (CD38/CD3 bispecific antibody) developed by Wuhan YZY in the U.S.; and

7) 12 generic drug products (18 specifications) have passed or been deemed to have passed the consistency of quality and efficacy evaluation of generic drugs.

Finished Drug Business

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

Nervous System Disease Products

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

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

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

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

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

Oncology products

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

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

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

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

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

Anti-infective products

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

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

Cardiovascular disease products

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

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

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

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

Respiratory disease products

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

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

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

Diabetes products

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

Products in other therapeutic areas

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

Vitamin C Business

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

Antibiotics Business

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

Other Businesses

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

Research and Development

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Results

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

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

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Liquidity and Financial Position

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

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

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

Pledge of Assets

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

Employees

As at 30 June 2020, the Group had approximately 17,292 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2020 except the deviation from code provision A.2.1 as set out below.

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.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Wednesday, 7 October 2020 to Monday, 12 October 2020, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the Extraordinary General Meeting to be held on Monday, 12 October 2020, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 6 October 2020.

The register of members of the Company will be closed from Monday, 19 October 2020 to Wednesday, 21 October 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the bonus shares, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 October 2020.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2020.

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

Hong Kong, 26 August 2020

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. 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.