石藥集團有限公司

CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2018

INTERIM REPORT

# CONTENTS

# CORPORATE INFORMATION

## Board of Directors

### *Executive Directors*

CAI Dongchen *(Chairman and CEO)*
WANG Zhenguo *(Vice-Chairman and Rotating CEO)*
PAN Weidong *(Vice-Chairman)*
WANG Huaiyu
LU Hua
LI Chunlei
ZHANG Cuilong
WANG Qingxi
CHAK Kin Man

### *Non-executive Director*

LEE Ka Sze, Carmelo

### *Independent Non-executive Directors*

CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Chuan

## Committees

### *Audit Committee*

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

### *Nomination Committee*

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

### *Remuneration Committee*

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

## Legal Advisers

Woo Kwan Lee & Lo

## Auditor

Deloitte Touche Tohmatsu

## Company Secretary

LEE Ka Sze, Carmelo

## Authorised Representatives

PAN Weidong
CHAK Kin Man

## Registered Office

Suite 3206
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

## Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## Website

www.cspc.com.hk

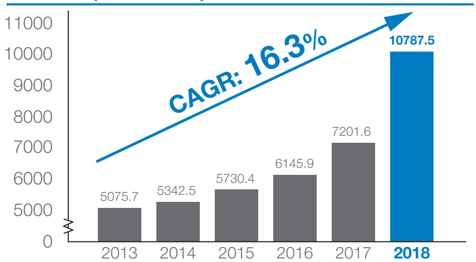
## FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | Change in % | Change in % excluding foreign currency effects |
|---|---|---|---|---|
| | **2018** | 2017 | | |
| | ***HK$'000*** | *HK$'000* | | |
| | **(Unaudited)** | (Unaudited) | | *(Note)* |
| Revenue by business units: | | | | |
| Finished drugs | | | | |
| *Innovative drugs* | **4,874,411** | 2,948,765 | **65.3%** | **51.9%** |
| *Common generic drugs* | **3,307,401** | 2,324,616 | **42.3%** | **30.7%** |
| Bulk drugs | | | | |
| *Vitamin C* | **1,294,749** | 760,497 | **70.3%** | **56.5%** |
| *Antibiotics* | **771,830** | 619,611 | **24.6%** | **14.4%** |
| *Caffeine and others* | **539,081** | 548,086 | **-1.6%** | **-9.7%** |
| Total revenue | **10,787,472** | 7,201,575 | **49.8%** | **37.6%** |
| Gross profit | **6,891,026** | 4,124,857 | **67.1%** | **53.5%** |
| Research and development expenses | **688,374** | 324,656 | **112.0%** | **94.8%** |
| Operating profit | **2,323,097** | 1,675,884 | **38.6%** | **27.3%** |
| Profit attributable to shareholders | **1,853,130** | 1,312,930 | **41.1%** | **29.7%** |
| Basic earnings per share | **HK29.68 cents** | HK21.69 cents | **36.8%** | **25.7%** |

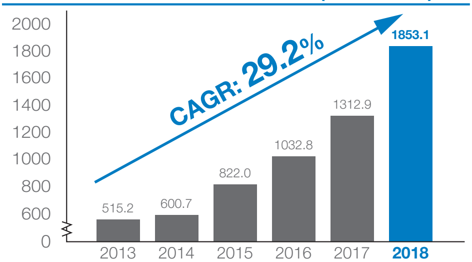
*Note:* Majority of the Group's sales are conducted in the People's Republic of China (the "PRC") and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the same period in the prior year to current period local currency results.

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

**Turnover (HK$ million)**




**Profit attributable to shareholders (HK$ million)**



## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

For the first half of 2018, the Group reported sales of approximately HK$10,787 million, representing a 49.8% growth (or a 37.6% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$1,853 million, representing a 41.1% growth (or a 29.7% growth on a constant currency basis) year-on-year. Basic earnings per share amounted to HK29.68 cents.

### Finished Drug Business

The finished drug business continued to achieve satisfactory growth in the first half of 2018, with sales reaching approximately HK$8,182 million, representing a 55.2% growth (or a 42.5% growth on a constant currency basis) year-on-year.

### *Innovative Drug Products*

During the period, the gradual deepening of the medical reform and full implementation of the new reimbursement drug list have created more market expansion opportunities for the Group's innovative drug products. Under the favourable business environment, the Group endeavored to expand its dedicated sales force of each product and strengthened academic-based promotion, accelerating the market development in major cities and hospitals. Moreover, the Group leveraged on the policies on national hierarchical medical system and medical treatment combination to penetrate into county-level hospitals and community medical institutions for end-user market development, adding new growth driver to the innovative drug products. With these efforts and the launch of major product "Keaili"(克艾力)(paclitaxel for injection (albumin-bound)) during the period, innovative drug products continued the strong growth, with sales for the period reaching approximately HK$4,874 million, representing a 65.3% growth (or a 51.9% growth on a constant currency basis) year-on-year.

### ***Innovative Drug Products*** *(Continued)*

The following is an overview of the Group's major innovative drug products:

#### ***"NBP"（恩必普）***

"NBP" is a Class 1 new drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide. The drug is mainly used for the treatment of acute ischemic stroke and currently available in the forms of soft capsule and injection.

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for China Patent" and the "China Grand Awards for Industry". "NBP" is listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2014)" and is also included in the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke in China" and the "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)", which serves to recognise the clinical efficacy of "NBP" for treating acute ischemic stroke and provide a solid basis for its academic-based promotion. The inclusion of both forms of "NBP" into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsules for recovery use).

"NBP" was also making good progress in expanding into new treatment areas. In addition to vascular dementia (currently under phase II-III clinical trial), "NBP" also participated in six studies under the "13th Five-Year Plan", including the studies of butylphthalide's clinical benefits for new treatment areas such as cerebral small vessel disease, aortic atherosclerotic cerebral infarction and acute ischemic intravenous thrombolysis or endovascular treatment. Initiating these studies will enhance the academic influence of China's originator drugs in neurology field and advance the standard regarding stroke treatment and chronic diseases prevention in China. In March 2018, "Butylphthalide Soft Capsules" was granted orphan drug designation for the treatment of amyotrophic lateral sclerosis ("ALS") by the U.S. Food and Drug Administration. This indication has also been undergoing a multi-centre, randomized, double-blind and placebo-controlled clinical study in China since July 2015, which was the first clinical study on ALS in China. The study is currently under the follow-up period with all subjects enrolment completed. In addition, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with subjects enrolled. The development of new indications and markets as mentioned above will bring new growth opportunities to "NBP".

During the period, the Group further expanded its dedicated sales force of "NBP" and gradually developed the lower-tier medical market of county-level hospitals and community medical centres. The number of hospitals with sales access has increased quickly and sales has maintained a high rate of growth.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *"Oulaining"(歐來寧)*

"Oulaining" is available in the forms of capsule and lyophilized powder injection. Its major ingredient is oxiracetam, and the drug is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. At present, "Oulaining" is included in the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China", the "Guidelines for Diagnosis and Treatment of Carbon Monoxide Poisoning" and the "Interpretation of Clinical Pathway and Therapeutic Drugs". With the gradual completion of the drug reimbursement list supplementary additions in various provinces in China, the injection form has been newly included into the reimbursement list of Jilin Province and the capsule form included into the list of Guizhou Province and Shandong Province on top of the existing provinces reimbursing "Oulaining", further expanding the market potential. Besides, fundamental and clinical studies of oxiracetam for the treatment of dementia led by authoritative experts of neurology in China have been initiated to further enhance the evidence-based medical proof of the product.

During the period, the Group progressively changed the sales model of "Oulaining" to internal sales force and strengthened the promotion of the capsule form, maintaining sustainable growth of the product.

### *"Xuanning"(玄寧)*

"Xuanning" is available in the forms of tablet and dispersible tablet. Its major ingredient is maleate levamlodipine, and the drug is mainly used for the treatment of hypertension and chronic stable angina and variant angina. The product has been awarded the "State Technological Invention Award (Second Class)" and "National Invention Exhibition Gold Award" and is included in the "Guidelines for the Rational Use of Drugs for Hypertension". 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") released last year fully demonstrated the better clinical efficacy and lower side effects of "Xuanning". The conclusion of the study will also provide solid data support for the new drug application of "Xuanning" in the U.S..

During the period, the Group progressively changed the sales model of "Xuanning" to internal sales force and stepped up efforts in exploring lower-tier market below the county level, successfully speeding up the growth of sales.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *"Duomeisu"（多美素）*

"Duomeisu" (doxorubicin hydrochloride liposome injection) is a chemotherapy drug. The drug has been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines" of the U.S. for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of cancers such as breast cancer, bone and soft tissue sarcoma and AIDS-related Kaposi sarcoma with improving progress. Since product launch, the Group has adhered to the marketing strategies of conducting clinical studies and holding academic conferences to enhance the clinical recognition of "Duomeisu". The Group has also worked with domestic well-known experts and top-notch medical teams in initiating various large-scale clinical study projects to expand the scope of application of "Duomeisu". With all these efforts, "Duomeisu" has become the leading brand of doxorubicin hydrochloride liposome injection in China.

During the period, the implementation of new tender results and critical illness insurance coverage in certain provinces provided "Duomeisu" with a higher market potential. Meanwhile, the Group continued its efforts in expanding its sales team and endeavoring market development so as to achieve an accelerated sales growth.

### *"Jinyouli"（津優力）*

"Jinyouli" (PEG-rhGCSF injection) 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. "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. The study has involved 1,537 cases, covering tumors including lung cancer, breast cancer and lymphoma, winning unanimous recommendations from domestic and foreign guidelines.

During the period, the implementation of new tender results and the national reimbursement drug list provided "Jinyouli" with a larger room for market expansion. The Group also continued its efforts in expanding its sales force and endeavoring market development so as to achieve an accelerated sales growth.

### *"Ailineng"(艾利能)*

"Ailineng" (elemene injection) is an anti-tumour drug developed in China and mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy of oncology therapies. After years of clinical use, it has been widely recognised by the medical market. The new and upgraded liquid formulation of the product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume, and thus the rate of adverse clinical reaction is significantly reduced. The Group is now cooperating with oncologists in China to strengthen the development of clinical evidence of "Ailineng".

During the period, the Group put more efforts into professional market promotion and adhered to its market strategies of market segmentation and academic-based promotion, maintaining a stable growth of sales.

### *"Nuolining"(諾利寧)*

"Nuolining" (imatinib mesylate tablets) is the Group's first approved small molecule targeted cancer drug, which 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. As recommended by various domestic and foreign guidelines, "Nuolining" is 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, thus the accumulation of patients enables imatinib to have a huge market potential.

With the change of the sales model to internal sales force, coupled with the continuous market promotion and hospital expansion, sales realised faster growth in the period.

### *"Keaili" (克艾力)*

"Keaili" (paclitaxel for injection (albumin-bound)) is a first-to-market generic of chemotherapy drug for targeted therapy in China. The drug was listed as a major project of new drug innovation technology in the "12th Five-Year Plan" during its research and development stage and passed the drug consistency evaluation after launch this year. Compared with paclitaxel drug of the conventional form, paclitaxel for injection (albumin-bound) has obvious clinical advantages, including higher efficacy, better safety and tolerance, as well as greater convenience for clinical use. It is recommended by a number of guidelines/consensus for the treatment of solid tumors, including breast cancer, non-small-cell lung cancer, pancreatic cancer, ovarian cancer, melanoma, gastric cancer and bladder cancer. As compared with the imported originator drug, the price of "Keaili" is significantly lower, enabling patients to use drug with comparable efficacy more economically and greatly relieving their financial burden. The Group is now conducting joint clinical studies with domestic experts for the application of "Keaili" in different tumours and the development of clinical application evidence, further enhancing the competitiveness of the product. The Group will also continue its marketing strategies of clinical study and academic conference in order to gain greater market recognition of "Keaili" and increase its market share.

After the launch of "Keaili" during the period, the Group swiftly established a dedicated sales force and actively rolled out marketing campaigns and hospital development with an outstanding sales performance achieved.

### *Common Generic Drug Products*

During the period, the Group continued with the strategy of enhancing its 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 relatively higher sales growth included "Ouyi"（歐意）(aspirin enteric-coated tablets), "Ouyi"（歐意）(omeprazole capsules/injections), "Linmeixin"（林美欣）(glimepiride dispersible tablets) and "Ouwei"（歐維）(mecobalamin tablets). The Group's high-end antibiotic product "Zhongnuo Shuluoke"（中諾舒羅克）(meropenem for injection) and healthcare supplement product "Guoweikang"（果維康）(vitamin C tablets) have also maintained rapid growth during the period. Furthermore, the Group actively pushed forward with the quality and efficacy consistency evaluation of generic drugs. Currently, products which have passed the consistency evaluation included "Xinweihong"（新維宏）(azithromycin tablets), "Qimaite"（奇邁特）(tramadol hydrochloride tablets) and "Zuoshuxi"（左舒喜）(captopril tablets). Products passing consistency evaluation are expected to significantly lower the financial burden of patients, reduce medical insurance expense and boost the efficiency in the use of health insurance funds. The Group will fully utilize opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products, and will also establish strategic cooperation with core distributors to expand and penetrate into the low-tier medical institutions for the end-user market.

During the period, sales of common generic drug products maintained stable growth in general, with sales reaching approximately HK$3,307 million, representing a 42.3% growth (or a 30.7% growth on a constant currency basis) year-on-year.

## Bulk Drug Business

### *Vitamin C*

Overcapacity in the vitamin C market still lingered. The market was also impacted by supply from new competitors during the first half of the year. Nevertheless, due to the increased market uncertainty created by the continued tightening of national environmental policies, product prices still maintained at a relatively high level during the period. Apart from the efforts to attain quality improvement and production cost reduction, the Group will also develop high-quality and high-end customers, adjust customer structure and expand end-user market share in order to improve products' profitability.

### *Antibiotics*

During the period, the overall market supply and demand in the antibiotics market maintained a balance, with both sales volume and price of major products being stable. Nevertheless, as affected by the ongoing policy of restricted use of antibiotics, preparation products have limited room for growth in end-user markets. The Group will continue to proactively implement various measures for technology advancement, management enhancement and customer structure optimization to strive for continuous improvement in product quality and market competitiveness.

### *Caffeine and Others*

During the period, caffeine market maintained a stable competitive landscape with stable product prices.

## Research and Development

The Group continued to increase its investment in the research and development of products. Currently there are more than 200 new products in the pipeline, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, metabolic diseases (such as diabetes), oncology, psychiatry and neurology, as well as anti-infection. Among these product candidates, there are 25 in the areas of new target macromolecule biologics, cell-based immunotherapy and stem cell therapy; 30 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system).

1. 9 small molecule new drugs are under clinical trials in China, including "DBPR108 tablets", "SKLB1028 capsules", "Ammuxetine hydrochloride tablets", "Butylphthalate soft capsules" (indication: vascular dementia) and "CSPCHA115 capsules".

2. 3 small molecule new drugs are under clinical trials in the U.S., namely "Levamlodipine maleate tablets", "Butylphthalide soft capsules" (indication: acute ischemic stroke) (15 clinical centres initiated with subjects enrolled) and "CSPCHA115 capsules".

3. 5 macromolecule new drugs are under clinical trials in China, including "Pegylated recombinant human interferon-α2a for injection", "HER2/CD3 bispecific antibody", "EpCAM/CD3 bispecific antibody" and "Combo of PD-1 monoclonal antibody and albumin-bound paclitaxel".

## Research and Development *(Continued)*

4. 5 products of new preparation are under clinical trials, namely “Mitoxantrone liposome for injection” (clinical trials in both China and the U.S.), “Amphotericin B cholesterol sulfate complex for injection”, “Vinorelbine tartrate liposome for injection”, “Alprostadil liposome for injection” and “Irinotecan liposome for injection” (clinical trials in the U.S.).

5. 24 early-to-market generic drugs are currently pending production approval, including “Dronedarone hydrochloride tablets”, “Bortezomib for injection”, “Clopidogrel hydrogen sulfate tablets”, “Metformin hydrochloride extended-release tablets”, “Ticagrelor tablets”, “Sunitinib malate capsule” and “Pramexole hydrochloride tablets”.

6. 15 early-to-market generic drugs are under bioequivalence tests, including “Rivaroxaban original tablets”, “Linagliptin tablets”, “Nintedanib esilate soft capsules” and “Benzonatate soft capsules”.

7. 6 drugs are currently pending the U.S. ANDA approval, including “Pregabalin capsules”, “Pramipexole hydrochloride tablets” and “Duloxetine hydrochloride extended-release capsules”. Besides, “Celecoxib capsules” and “Memantine hydrochloride tablets” have obtained ANDA approval during the period.

8. “Mitoxantrone hydrochloride liposome injection”, antibody-drug conjugate drug “DP303c” and “Butylphthalide soft capsules” (indication: ALS) have been granted the orphan drug designation in the U.S..

The Group has been increasing its investment in strengthening the pipeline of biologics. Apart from investment in in-house research and development, the Group has also been proactively seeking for external cooperation and acquisition opportunities. In January of this year, the Group has acquired certain equity interests in Wuhan YZY Biopharma Co., Ltd., which is a leading enterprise in research for bispecific antibodies in China. Later in June of this year, the Group has entered into a product co-development and strategic collaboration agreement with Shanghai Junshi Biosciences Co., Ltd. in relation to the clinical development, registration and commercialization of the PD-1 monoclonal antibody in combination with albumin-bound paclitaxel for the treatment of breast cancer.

The Group will continue to look for acquisition targets with strong research and development capability and product candidates under development. The future acquisition efforts will mainly focus on drugs of new small molecule and macromolecule which are close to product approval and launch so as to supplement the pipeline of product launch in the next few years and leverage the Group’s strong marketing and market development capabilities to achieve rapid sales growth of new products.

## FINANCIAL REVIEW

### Results

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2018 (Unaudited)** | 2017 (Unaudited) | Change in % |
| Revenue *(HK$'000)* | | | |
| Finished drugs | **8,181,812** | 5,273,381 | 55.2% |
| Bulk drugs | **2,605,660** | 1,928,194 | 35.1% |
| Total | **10,787,472** | 7,201,575 | 49.8% |
| Operating profit *(HK$'000)* | **2,323,097** | 1,675,884 | 38.6% |
| Operating profit margin | **21.5%** | 23.3% | |
| Profit attributable to shareholders *(HK$'000)* | **1,853,130** | 1,312,930 | 41.1% |
| Basic earnings per share *(HK cents)* | **29.68** | 21.69 | 36.8% |

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 55.2% to HK$8,182 million for the current period. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching approximately HK$4,874 million, representing a growth of 65.3%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 40.9% in the first half of 2017 to 45.2% in the current period. Product prices of vitamin C remained at high level in the current period, as a result the profitability of vitamin C business greatly increased. With this outstanding business performance, profit attributable to the shareholders for the first half of 2018 increased by 41.1% to HK$1,853 million.

### Liquidity and Financial Position

For the first half of 2018, the Group's operating activities generated a cash inflow of HK$2,018 million (2017: HK$1,271 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 decreased from 40 days in 2017 to 37 days. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 173 days in 2017 to 150 days. Current ratio of the Group was 1.9 as at 30 June 2018, slightly lower than 2.4 half year earlier. Capital expenditure for the current period amounted to HK$967 million, which were mainly spent to construct production facilities and improve production efficiency.

## FINANCIAL REVIEW

### Liquidity and Financial Position *(Continued)*

The Group's financial position remained solid. As at 30 June 2018, bank balances and cash amounted to HK$4,400 million (2017: HK$5,238 million) and total borrowings amounted to HK$939 million (2017: HK$987 million), resulting in a net cash position of HK$3,461 million (2017: HK$4,251 million). Total borrowings represented bank loans of HK$939 million, of which HK$880 million are repayable within one year and HK$59 million are repayable between one to two years. Gearing ratio slightly decreased from 6.4% half year earlier to 5.6% as at 30 June 2018.

97.5% of the Group's borrowings are denominated in Renminbi and 2.5% in United States dollars. The Group's sales are denominated in Renminbi for domestic sales in China and in United States 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 considered necessary.

### Pledge of Assets

As at 30 June 2018, structured bank deposits amounting to HK$2,359,431,000 (31 December 2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

### Employees

As at 30 June 2018, the Group had approximately 17,100 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and individual employee.

## USE OF PROCEEDS FROM PLACING OF NEW SHARES

On 20 October 2017, the Company completed the placing of 189,000,000 new shares of the Company pursuant to a placing agreement dated 12 October 2017. Net proceeds, after deducting the relevant expenses, of approximately HK$2,345 million raised were intended to be applied for general working capital purposes and capital expenditure and to fund future investment opportunities as may be identified from time to time as mentioned in the Company's announcements dated 12 and 20 October 2017. As at 30 June 2018, the net proceeds of approximately HK$2,345 million have been fully utilized by the Group in the following manners:

| **Actual use of proceeds** | **Amount used (approx.)** |
|---|---|
| Investments (including acquisition of various equity interests and limited partnership interests) | HK$622 million |
| Capital expenditure in respect of construction and acquisition of manufacturing facilities | HK$680 million |
| Replenishment of working capital | HK$270 million |
| Repayment of bank loans *(note)* | HK$773 million |

*Note:* Part of the net proceeds was used to repay certain bank loans for the financial benefits of the Group given that there was no immediate funding requirement for other purposes.

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
**CSPC PHARMACEUTICAL GROUP LIMITED**
**石藥集團有限公司**
*(incorporated in Hong Kong with limited liability)*

## Introduction

We have reviewed the condensed consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 64, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

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

## Conclusion

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
20 August 2018

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2018*

| | NOTES | For the six months ended 30 June<br>**2018**<br>***HK$'000***<br>**(Unaudited)** | <br>2017<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|
| Revenue | 3 | **10,787,472** | 7,201,575 |
| Cost of sales | | **(3,896,446)** | (3,076,718) |
| Gross profit | | **6,891,026** | 4,124,857 |
| Other income | | **82,547** | 47,438 |
| Other gains or losses | | **53,455** | (16,214) |
| Selling and distribution expenses | | **(3,597,875)** | (1,858,606) |
| Administrative expenses | | **(404,500)** | (296,326) |
| Research and development expenses | | **(688,374)** | (324,656) |
| Other expenses | | **(13,182)** | (609) |
| Operating profit | | **2,323,097** | 1,675,884 |
| Finance costs | | **(36,143)** | (15,489) |
| Share of results of joint ventures | | **23,609** | 4,861 |
| Profit before tax | 4 | **2,310,563** | 1,665,256 |
| Income tax expense | 5 | **(468,906)** | (346,614) |
| Profit for the period | | **1,841,657** | 1,318,642 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | **1,853,130** | 1,312,930 |
| Non-controlling interests | | **(11,473)** | 5,712 |
| | | **1,841,657** | 1,318,642 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share | 7 | | |
| — Basic | | **29.68** | 21.69 |
| — Diluted | | **N/A** | 21.69 |

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

*For the six months ended 30 June 2018*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit for the period | **1,841,657** | 1,318,642 |
| **Other comprehensive (expense) income:** | | |
| ***Items that will not be reclassified to profit or loss:*** | | |
| Exchange differences arising on translation of financial statements to presentation currency | **(226,688)** | 350,992 |
| Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency | **(1,329)** | 2,489 |
| Fair value gain on investments in financial assets measured at fair value through other comprehensive income | **81,463** | — |
| Other comprehensive (expense) income for the period | **(146,554)** | 353,481 |
| Total comprehensive income for the period | **1,695,103** | 1,672,123 |
| Total comprehensive income (expense) for the period attributable to: | | |
| Owners of the Company | **1,727,467** | 1,664,032 |
| Non-controlling interests | **(32,364)** | 8,091 |
| | **1,695,103** | 1,672,123 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2018*

| | Notes | As at 30 June 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **7,289,980** | 6,662,523 |
| Prepaid lease payments | | **571,024** | 573,080 |
| Goodwill | | **166,966** | 121,736 |
| Other intangible assets | | **846,309** | 103,176 |
| Interests in joint ventures | | **119,943** | 109,978 |
| Financial assets measured at fair value through other comprehensive income/available-for-sale investments | 9 | **607,694** | 316,742 |
| Deferred tax assets | | **20,929** | 20,721 |
| | | **9,622,845** | 7,907,956 |
| **Current assets** | | | |
| Inventories | | **3,232,545** | 2,900,781 |
| Trade and other receivables | 10 | **2,947,322** | 2,334,279 |
| Bills receivables | 10 | **2,121,471** | 1,477,001 |
| Trade receivables due from related companies | 12 | **58,039** | 69,536 |
| Amounts due from joint ventures | 12 | **345,707** | 276,830 |
| Prepaid lease payments | | **18,358** | 18,263 |
| Other financial assets | | **580** | 732 |
| Structured bank deposits | 13 | **3,113,895** | 1,315,789 |
| Restricted bank deposits | 14 | **10,744** | 3,480 |
| Bank balances and cash | 14 | **4,399,824** | 5,238,033 |
| | | **16,248,485** | 13,634,724 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

*As at 30 June 2018*

| | Notes | As at 30 June 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade, other payables and contract liabilities | 15 | **5,815,736** | 4,513,383 |
| Bills payables | 16 | **1,690,817** | 59,809 |
| Trade payable due to a joint venture | 12 | **6,994** | 9,319 |
| Amounts due to related companies | 12 | **29,867** | 43,419 |
| Tax liabilities | | **192,794** | 206,685 |
| Borrowings | 17 | **879,974** | 927,282 |
| | | **8,616,182** | 5,759,897 |
| **Net current assets** | | **7,632,303** | 7,874,827 |
| **Total assets less current liabilities** | | **17,255,148** | 15,782,783 |
| **Non-current liabilities** | | | |
| Other payables | 15 | **199,526** | 183,976 |
| Deferred tax liabilities | | **304,579** | 131,602 |
| Borrowings | 17 | **59,312** | 59,809 |
| | | **563,417** | 375,387 |
| **Net assets** | | **16,691,731** | 15,407,396 |
| **Capital and reserves** | | | |
| Share capital | 18 | **12,922,199** | 12,922,199 |
| Reserves | | **3,191,188** | 2,400,174 |
| Equity attributable to owners of the Company | | **16,113,387** | 15,322,373 |
| Non-controlling interests | | **578,344** | 85,023 |
| **Total equity** | | **16,691,731** | 15,407,396 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2018*

| | Equity attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Other reserve | Statutory reserve | Capital contribution reserve | Investment revaluation reserve | Share options reserve | Translation reserve | Accumulated profits | Sub-total | Non-controlling interests | Total |
| | *HK$'000* | *HK$'000* *(note i)* | *HK$'000* *(note ii)* | *HK$'000* *(note iii)* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2017 (Audited) | 10,569,620 | (5,523,729) | 769,815 | 57,443 | – | 1,814 | (1,041,222) | 5,273,885 | 10,107,626 | 83,696 | 10,191,322 |
| Profit for the period | – | – | – | – | – | – | – | 1,312,930 | 1,312,930 | 5,712 | 1,318,642 |
| Other comprehensive income for the period | – | – | – | – | – | – | 351,102 | – | 351,102 | 2,379 | 353,481 |
| Total comprehensive income for the period | – | – | – | – | – | – | 351,102 | 1,312,930 | 1,664,032 | 8,091 | 1,672,123 |
| Dividends recognised as distribution *(note 6)* | – | – | – | – | – | – | – | (726,482) | (726,482) | – | (726,482) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | (3,490) | (3,490) |
| Transfer to statutory reserve | – | – | 236,826 | – | – | – | – | (236,826) | – | – | – |
| Exercise of share options | 7,784 | – | – | – | – | (1,814) | – | – | 5,970 | – | 5,970 |
| Acquisition of subsidiaries and assets *(note 22)* | – | – | – | – | – | – | – | – | – | 8,927 | 8,927 |
| Acquisition of additional interest in a subsidiary | – | – | – | – | – | – | – | – | – | (8,997) | (8,997) |
| Revaluation in available-for-sale investments | – | – | – | – | 1,997 | – | – | – | 1,997 | – | 1,997 |
| At 30 June 2017 (Unaudited) | 10,577,404 | (5,523,729) | 1,006,641 | 57,443 | 1,997 | – | (690,120) | 5,623,507 | 11,053,143 | 88,227 | 11,141,370 |
| At 1 January 2018 (Audited) | **12,922,199** | **(5,523,729)** | **1,044,984** | **57,443** | **3,177** | **–** | **(223,394)** | **7,041,693** | **15,322,373** | **85,023** | **15,407,396** |
| Profit (loss) for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,853,130** | **1,853,130** | **(11,473)** | **1,841,657** |
| Other comprehensive income (expense) for the period | **–** | **–** | **–** | **–** | **81,463** | **–** | **(207,126)** | **–** | **(125,663)** | **(20,891)** | **(146,554)** |
| Total comprehensive income (expense) for the period | **–** | **–** | **–** | **–** | **81,463** | **–** | **(207,126)** | **1,853,130** | **1,727,467** | **(32,364)** | **1,695,103** |
| Dividends recognised as distribution *(note 6)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(936,453)** | **(936,453)** | **–** | **(936,453)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,463)** | **(2,463)** |
| Transfer to statutory reserve | **–** | **–** | **4,530** | **–** | **–** | **–** | **–** | **(4,530)** | **–** | **–** | **–** |
| Acquisition of subsidiaries *(note 22)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **528,148** | **528,148** |
| At 30 June 2018 (Unaudited) | **12,922,199** | **(5,523,729)** | **1,049,514** | **57,443** | **84,640** | **–** | **(430,520)** | **7,953,840** | **16,113,387** | **578,344** | **16,691,731** |

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

*For the six months ended 30 June 2018*

*Notes:*

(i) The balance in other reserve mainly included an amount of HK$5,038,291,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK$3,288,998,000 and the fair value of the consideration paid by the Company of HK$8,327,289,000 in the reverse acquisition on 29 October 2012.

(ii) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(iii) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 12, which comprise (1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; (2) the imputed interest arising on a non-interest bearing loan from CHL in 2012 and (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co. Ltd. from CHL in 2016.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2018*

| | Note | For the six months ended 30 June 2018 HK$'000 (Unaudited) | 2017 HK$'000 (Unaudited) |
|---|---|---|---|
| Net cash from operating activities | | **2,018,086** | 1,271,452 |
| Net cash used in investing activities: | | | |
| Placement of structured bank deposits | | **(2,346,076)** | — |
| Purchase of property, plant and equipment | | **(980,883)** | (369,236) |
| Advances to joint ventures | | **(257,268)** | (123,478) |
| Purchase of financial assets measured at fair value through other comprehensive income | | **(209,489)** | — |
| Acquisition of subsidiaries | 22 | **(177,547)** | (304,539) |
| Placement of restricted bank deposits | | **(7,571)** | (4,906) |
| Addition of intangible assets | | **(3,571)** | (760) |
| Purchase of available-for-sale investments | | **—** | (136,469) |
| Withdrawal of structured bank deposits | | **467,980** | — |
| Repayment from a joint venture | | **196,059** | — |
| Withdrawal of bank deposits with more than three months to maturity upon placement | | **37,205** | — |
| Interest received | | **31,507** | 7,906 |
| Proceeds on disposal of property, plant and equipment | | **603** | 8,868 |
| | | **(3,249,051)** | (922,614) |
| Net cash from (used in) financing activities: | | | |
| Dividend paid | | **(936,453)** | (726,482) |
| Repayment of borrowings | | **(97,420)** | (641,621) |
| Repayment to related parties | | **(19,981)** | — |
| Dividends paid to non-controlling interests | | **(2,463)** | (3,490) |
| Acquisition of additional interest in a subsidiary | | **—** | (8,997) |
| Receipt on issuance of shares upon exercise of share options | | **—** | 5,970 |
| Proceeds from discounted bills | | **1,469,416** | — |
| New borrowings raised | | **23,534** | 573,513 |
| Advance from related parties | | **7,147** | 235,123 |
| | | **443,780** | (565,984) |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

*For the six months ended 30 June 2018*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Net decrease in cash and cash equivalents | **(787,185)** | (217,146) |
| Cash and cash equivalents at 1 January | **5,163,353** | 3,234,678 |
| Effect of foreign exchange rate changes | **(14,567)** | 98,825 |
| Cash and cash equivalents at 30 June, represented by bank balances and cash | **4,361,601** | 3,116,357 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash in the condensed consolidated statement of financial position | **4,399,824** | 3,116,357 |
| Bank deposits with more than three months to maturity upon placement | **(38,223)** | – |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | **4,361,601** | 3,116,357 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

### 1. BASIS OF PREPARATION

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

The functional currency of the Company is Renminbi ("RMB"), the condensed consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

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 2017 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 2017 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance.

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

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

The Company and its subsidiaries (collectively referred to as the "Group") made certain acquisitions during the current interim period which are accounted for as business combination and details of the fair value of the assets acquired and liabilities recognised (determined on a provisional basis) at the date of acquisition are set out in note 22.

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives, tax rate expected to apply when the deferred tax liability is settled and other assumptions.

## 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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

**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 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) — Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

### 2.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers and the related amendments

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the manufacture and sales of pharmaceutical products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

### 2.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers and the related amendments *(Continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

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

### 2.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers and the related amendments *(Continued)*

#### *2.1.2 Summary of effects arising from initial application of HKFRS 15*

As at 1 January 2018, advance payments from customers included in other payables of HK$664,435,000 were reclassified to contract liabilities.

As at 30 June 2018, advance payments from customers of HK$591,414,000 were classified as contract liabilities and the amount shall remain as it is and included in other payables without application of HKFRS 15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

### 2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 9*

*Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

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

### 2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments *(Continued)*

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Classification and measurement of financial assets (Continued)*

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through OCI ("FVTOCI") criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

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

### 2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments *(Continued)*

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Classification and measurement of financial assets (Continued)*

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains or losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 2.2.2.

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, restricted bank balances and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies that are without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

2.2 **Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments** *(Continued)*

***2.2.1 Key changes in accounting policies resulting from application of HKFRS 9*** *(Continued)*

*Impairment under ECL model (Continued)*

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread on the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

### 2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments *(Continued)*

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Impairment under ECL model (Continued)*

Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 270 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

### 2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments *(Continued)*

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Impairment under ECL model (Continued)*

Measurement and recognition of ECL *(Continued)*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and trade receivables from related companies where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against accumulated profits as the amounts involved are insignificant.

#### *2.2.2 Summary of effects arising from initial application of HKFRS 9*

*Available-for-sale investments*

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale investments, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$316,742,000 were reclassified from available-for-sale investments to financial assets at FVTOCI, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$3,177,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported 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

(b) Vitamin C (bulk drugs)

(c) Antibiotics (bulk drugs)

(d) Caffeine (bulk drugs) and others

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products. Under HKFRS 15, revenue from manufacture and sales of pharmaceutical 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 operating and reportable segments.

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

| | Finished drugs | Vitamin C | Antibiotics | Caffeine and others | Segment total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| SEGMENT REVENUE | | | | | | | |
| External sales | 8,181,812 | 1,294,749 | 771,830 | 539,081 | 10,787,472 | – | 10,787,472 |
| Inter-segment sales | – | 33,323 | 41,340 | 2,600 | 77,263 | (77,263) | – |
| TOTAL REVENUE | 8,181,812 | 1,328,072 | 813,170 | 541,681 | 10,864,735 | (77,263) | 10,787,472 |
| SEGMENT PROFIT | 1,668,425 | 497,433 | 59,646 | 107,246 | 2,332,750 | | 2,332,750 |
| Unallocated income | | | | | | | 84,109 |
| Unallocated expenses | | | | | | | (93,762) |
| Operating profit | | | | | | | 2,323,097 |
| Finance costs | | | | | | | (36,143) |
| Share of results of joint ventures | | | | | | | 23,609 |
| Profit before tax | | | | | | | 2,310,563 |

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

**For the six months ended 30 June 2017 (Unaudited)**

| | Finished drugs *HK$'000* | Vitamin C *HK$'000* | Antibiotics *HK$'000* | Caffeine and others *HK$'000* | Segment total *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | | | |
| External sales | 5,273,381 | 760,497 | 619,611 | 548,086 | 7,201,575 | – | 7,201,575 |
| Inter-segment sales | – | 11,515 | 41,754 | 4,723 | 57,992 | (57,992) | – |
| TOTAL REVENUE | 5,273,381 | 772,012 | 661,365 | 552,809 | 7,259,567 | (57,992) | 7,201,575 |
| SEGMENT PROFIT | 1,391,525 | 192,395 | 24,608 | 113,089 | 1,721,617 | | 1,721,617 |
| Unallocated income | | | | | | | 7,906 |
| Unallocated expenses | | | | | | | (53,639) |
| Operating profit | | | | | | | 1,675,884 |
| Finance costs | | | | | | | (15,489) |
| Share of results of joint ventures | | | | | | | 4,861 |
| Profit before tax | | | | | | | 1,665,256 |

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

Inter-segment sales are charged at prevailing market rates.

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

## 4. PROFIT BEFORE TAX

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit before tax has been arrived at after charging (crediting): | | |
| Amortisation of intangible assets | **10,377** | 11,494 |
| Amortisation of prepaid lease payments | **9,397** | 8,532 |
| Depreciation of property, plant and equipment | **345,711** | 290,945 |
| Total depreciation and amortisation | **365,485** | 310,971 |
| Government grant income *(note ii)* | **(9,860)** | (8,091) |
| Interest income on bank balances | **(27,316)** | (7,906) |
| Interest income on structured bank deposits | **(42,948)** | — |
| Loss on disposal of property, plant and equipment | **9,194** | 7,248 |
| Net foreign exchange (gain) loss | **(18,814)** | 8,198 |

*Notes:*

(i) For the six months ended 30 June 2017 and 2018, 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.

(ii) Government grants include cash subsidies from the PRC government which are specific for (a) the purchase of plant and machineries and are recognised over the useful lives of the related assets and (b) the development of pharmaceutical products or improvement of production efficiency which are recognised upon compliance with the attached condition.

## 5. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| The tax charge comprises: | | |
| Current taxation | | |
| — PRC Enterprise Income Tax | **405,457** | 290,198 |
| — United States of America ("USA") Federal and State Income Tax | **6,984** | — |
| | **412,441** | 290,198 |
| Deferred taxation | **56,465** | 56,416 |
| | **468,906** | 346,614 |

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both periods.

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

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

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

5. **INCOME TAX EXPENSE** *(Continued)*

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$5,918,266,000 (31 December 2017: HK$5,054,129,000) 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**

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Dividends recognised as distribution during the period: | | |
| 2017 Final, paid — HK15 cents (2017: 2016 Final, paid — HK12 cents) per share | **936,453** | 726,482 |

The directors do not declare the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil).

7. **EARNINGS PER SHARE**

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.

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share | **1,853,130** | 1,312,930 |

## 7. EARNINGS PER SHARE *(Continued)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **6,243,018** | 6,053,338 |
| Effect of dilutive potential ordinary shares: | | |
| Share options granted by the Company | **N/A** | 414 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **N/A** | 6,053,752 |

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group had acquired property, plant and equipment of approximately HK$967,487,000 (2017: HK$365,189,000) in order to upgrade its manufacturing capabilities and additions through acquisition of subsidiaries of approximately HK$96,485,000 (2017: HK$167,946,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK$9,797,000 (2017: HK$16,116,000) for proceeds of approximately HK$603,000 (2017: HK$8,868,000), resulting in a loss of approximately HK$9,194,000 (2017: HK$7,248,000).

## 9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

| | **As at 30 June 2018** ***HK$'000*** **(unaudited)** | As at 31 December 2017 *HK$'000* (audited) |
|---|---|---|
| Listed equity investment in Hong Kong, at fair value *(note i)* | **83,503** | 61,266 |
| Unlisted equity investments in partnerships, at fair value/cost *(note ii)* | **331,546** | 239,402 |
| Unlisted equity investments, at fair value/cost *(note iii)* | **192,645** | 16,074 |
| | **607,694** | 316,742 |

*Notes:*

(i) The amount represents equity security listed in Hong Kong and the fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The Group does not have the intention to sell the investment in the short-term to earn a profit.

(ii) Unlisted equity investments in partnerships included five limited partnership enterprises (the "Partnership Enterprises"). The Partnership Enterprises specialise in making equity investment. The Group has an intention of holding them as long-term investments.

According to the Partnership Enterprise agreements, each Partnership Enterprise is managed by a general partner. The Group participates in the Partnership Enterprises as one of the limited partners whom does not have the power on selection nor removal of assets manager or general partner of the Partnership Enterprises. In addition, the Group does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The directors of the Company are of the opinion that the Group does not have any control nor significant influence to affect the variable returns through its investment in the partnership enterprises and therefore these investments are accounted for as financial assets.

As at 31 December 2017, the unlisted equity investments in partnerships are measured at cost less impairment at the end of the reporting period. Upon adoption of HKFRS 9 as at 1 January 2018, the unlisted equity investments in partnerships are measured at FVTOCI at the end of the reporting period.

9. **FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS** *(Continued)*

*Notes: (Continued)*

(iii) The amount represents investments in unlisted equity interests in entities established in the PRC. As at 31 December 2017, the unlisted equity investments are measured at cost less impairment at the end of the reporting period. Upon adoption of HKFRS 9 as at 1 January 2018, the unlisted equity investments are measured at FVTOCI at the end of the reporting period.

10. **TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES**

| | **As at 30 June 2018 *HK$'000* (Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Trade receivables | **2,452,524** | 1,863,900 |
| *Less:* loss allowance | **(12,673)** | (13,491) |
| | **2,439,851** | 1,850,409 |
| Prepayment for purchase of raw materials | **187,689** | 202,499 |
| Deposits and prepayment for utilities | **59,381** | 50,733 |
| Other tax recoverable | **97,909** | 92,827 |
| Others | **162,492** | 137,811 |
| | **2,947,322** | 2,334,279 |

The Group allows a general credit period of up to 90 days (31 December 2017: 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of loss allowance) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

| | **As at 30 June 2018 *HK$'000* (Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| 0 to 90 days | **2,208,674** | 1,590,027 |
| 91 to 180 days | **216,625** | 238,594 |
| 181 to 365 days | **14,552** | 21,788 |
| | **2,439,851** | 1,850,409 |

## 10. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(Continued)*

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (31 December 2017: less than 180 days) and not yet due at the end of the reporting period, and the management considers the default rate is low based on historical information and experience.

During the period, bills receivables issued by group companies for settlement of intra-group transactions were discounted to bank without recourse for proceeds of approximately HK$1,469,416,000, and the related liabilities were included in bills payables as at 30 June 2018.

## 11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9 for trade receivables and trade receivables due from related companies, which permits the use of the lifetime expected loss provision for these trade receivables.

The Group determines the ECL on these items by using a provision matrix, estimated based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. As at 1 January 2018, the additional loss allowance for trade receivables was insignificant.

For the purpose of impairment assessment for other receivables, loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for other receivables, the directors of the Company have taken into account the historical default experience and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the ECL allowance is insignificant at 1 January 2018 and 30 June 2018.

### Allowance for impairment

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

| | **2018**<br>***HK$'000*** |
|---|---|
| At 1 January (audited) | **13,491** |
| Impairment losses recognised on receivables | **336** |
| Reversal of impairment loss | **(1,069)** |
| Exchange realignment | **(85)** |
| At 30 June (unaudited) | **12,673** |

## 12. RELATED PARTY DISCLOSURES

Other than the acquisition of subsidiaries as disclosed in note 22, during the period, the Group had significant transactions and balances with related parties with details as follows:

### (I) RELATED COMPANIES

| Name of company | Nature of transactions/balances | For the six months ended 30 June 2018 HK$'000 (Unaudited) | 2017 HK$'000 (Unaudited) |
|---|---|---|---|
| CHL and its subsidiaries and associates *(note f)* (the "CHL Group") | Purchase of pharmaceutical products | **–** | 3,590 |
| | Sales of pharmaceutical products | **223,728** | 236,044 |
| | Rental expense | **12,337** | 11,333 |
| | Provision of utility services from the Group | **811** | – |
| | Interest expense on other loans | **224** | 986 |
| | Purchase of steam | **17,954** | 9,618 |
| | Warehouse service income | **4,833** | 4,043 |

| | As at 30 June 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|
| Balance due from/to the CHL Group | | |
| — trade receivables *(note b)* | | |
| aged 0-90 days | **58,039** | 64,147 |
| aged 91-180 days | **–** | 5,389 |
| | **58,039** | 69,536 |
| — other payables | **29,867** | 43,419 |
| — borrowings *(note c)* | | |
| — current | **–** | 8,971 |
| Guarantees provided to banks to secure general banking facilities granted to the Group *(note d)* | **208,224** | 198,253 |

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

### (II) JOINT VENTURES

| Name of company | Nature of transactions/balances | For the six months ended 30 June 2018 HK$'000 (Unaudited) | 2017 HK$'000 (Unaudited) |
|---|---|---|---|
| Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") | Purchase of raw materials | **16,937** | 19,792 |
| | Provision of utility services by the Group | **47,905** | 41,482 |
| | Sales of raw materials | **105,719** | 81,304 |

| Name of company | Nature of transactions/balances | As at 30 June 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| | Balance due from Huarong | | |
| | — other receivables *(note a)* | **89,622** | 74,834 |
| | — trade payable *(note e)* aged 0-90 days | **6,994** | 9,319 |
| Yantai Jiashi Pharmaceutical Technology Co., Ltd. ("Yantai Jiashi") | Balance due from Yantai Jiashi | | |
| | — other receivables *(note a)* | **256,085** | 201,996 |

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

### (II) JOINT VENTURES *(Continued)*

*Notes:*

a. Amounts are unsecured, non-interest bearing and repayable on demand, except for a loan of approximately HK$155,502,000 due to the Group by Yantai Jiashi as at 31 December 2017 which is unsecured, interest bearing at a fixed rate of 6% per annum and repayable on demand. The loan was repaid in January 2018.

b. The Group allows a general credit period of 90 days (2017: 90 days) for the sale.

c. The Group obtained loans from a related company which are unsecured, bear interest at 4.6% per annum and repayable within 1 to 3 years. The Group repaid all of the loans in the current period of approximately HK$8,971,000. (2017: HK$35,088,000).

d. CHL entered into guarantee agreements with banks to secure the general banking facilities granted to the Group amounting to approximately HK$208,224,000. (2017: HK$198,253,000).

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

f. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significance influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

### (III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Short-term benefits | **5,276** | 5,845 |
| Post-employment benefits | **575** | 502 |
| | **5,851** | 6,347 |

## 13. STRUCTURED BANK DEPOSITS

As at 30 June 2018, the structured bank deposits of HK$3,113,895,000 (31 December 2017: HK$1,315,789,000) were placed with the banks in the PRC. Structured bank deposits amounting to HK$2,359,431,000 (31 December 2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

The structured bank deposits of HK$992,527,000 earn guaranteed return ranging from 1.30% to 3.00%, while the total expected return is up to 4.65% (31 December 2017: HK$1,004,780,000 with guaranteed return ranging from 1.00% to 2.85%, while the total expected return is up to 4.67%), depending on the market prices of the underlying commodities quoted in the market as specified in the relevant deposits placement.

The structured bank deposits of HK$2,121,368,000 earn no guaranteed return, while the total expected return is up to 5.70% (31 December 2017: HK$311,009,000 without guaranteed return, while the total expected return is up to 5.40%), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the relevant deposits placement.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The management of the Group considers the fair values of the structured bank deposits, which are based on the prices provided by the counterparty banks and represent the prices they would pay to redeem the deposits at the end of the reporting period.

## 14. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits, which include term deposits, carry interest at market interest rates, ranging from 0.01% to 1.95% (31 December 2017: 0.01% to 4.10%) per annum.

As at 30 June 2018 and 31 December 2017, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and other payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

## 15. TRADE, OTHER PAYABLES AND CONTRACT LIABILITIES

| | As at 30 June 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|
| Trade payables | **2,151,781** | 1,485,365 |
| Customers' deposits | **292,834** | 245,051 |
| Advance payments from customers *(note)* | **591,414** | 664,435 |
| Other tax payables | **195,779** | 159,531 |
| Selling expense payable and other accrued charges | **949,391** | 503,866 |
| Payables arising from construction and acquisition of property, plant and equipment | **964,150** | 985,234 |
| Government grants | **323,006** | 322,655 |
| Staff welfare payable | **180,962** | 188,388 |
| Contingent consideration payable | **38,287** | — |
| Others | **327,658** | 142,834 |
| | **6,015,262** | 4,697,359 |
| Analysed as: | | |
| Current | **5,815,736** | 4,513,383 |
| Non-current | **199,526** | 183,976 |
| | **6,015,262** | 4,697,359 |

*Note:* Upon the adoption of HKFRS 15, advance payments from customers are classified as contract liabilities at 1 January 2018 and 30 June 2018.

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 2018 HK$'000 (Unaudited) | As at 31 December 2017 HK$'000 (Audited) |
|---|---|---|
| 0 to 90 days | **1,756,669** | 1,098,644 |
| 91 to 180 days | **134,241** | 232,799 |
| More than 180 days | **260,871** | 153,922 |
| | **2,151,781** | 1,485,365 |

The general credit period on purchases of goods is up to 90 days (31 December 2017: 90 days).

## 16. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (31 December 2017: 180 days) and not yet due at the end of the reporting period.

## 17. BORROWINGS

| | **As at 30 June 2018 *HK$'000* (Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Unsecured | | |
| — floating-rate RMB bank loans | **59,312** | 59,809 |
| — fixed-rate United States dollar ("USD") bank loan | **23,547** | 54,712 |
| — fixed-rate RMB bank loans | **856,427** | 863,599 |
| — fixed-rate RMB loans from a related company *(note 12)* | **—** | 8,971 |
| | **939,286** | 987,091 |

As of 30 June 2018, floating-rate RMB bank loan of HK$59,312,000 (2017: HK$59,809,000) and fixed-rate USD bank loan of HK$23,547,000 (2017: HK$54,712,000) were guaranteed by CHL.

| | **As at 30 June 2018 *HK$'000* (Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| The carrying amounts of the above borrowings are repayable as follows: | | |
| Within one year | **879,974** | 927,282 |
| Within a period of more than one year, but not exceeding two years | **59,312** | 59,809 |
| | **939,286** | 987,091 |
| *Less:* Amounts due within one year shown under current liabilities | **(879,974)** | (927,282) |
| Amounts shown under non-current liabilities | **59,312** | 59,809 |

**17. BORROWINGS** *(Continued)*

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

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| Effective interest rate: | | |
| Floating-rate RMB bank loans | **4.10% per annum** | From 3.50% to 5.23% per annum |
| Fixed-rate USD bank loan | **From 2.90% to 4.6% per annum** | 2.9% per annum |
| Fixed-rate RMB bank loans | **4.35% per annum** | 4.35% per annum |
| Fixed-rate RMB loans from a related company | **4.60% per annum** | 4.60% per annum |

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

**18. SHARE CAPITAL**

| | **Number of shares** | **Share capital** *HK$'000* |
|---|---|---|
| **Issued and fully paid** | | |
| At 1 January 2017 | 6,052,518,403 | 10,569,620 |
| Exercise of share options *(note a)* | 1,500,000 | 7,784 |
| At 30 June 2017 | 6,054,018,403 | 10,577,404 |
| Issue of ordinary shares by private placement *(note b)* | 189,000,000 | 2,351,160 |
| Transaction costs attributable to issue of new shares | — | (6,365) |
| At 31 December 2017, 1 January 2018 and 30 June 2018 | 6,243,018,403 | 12,922,199 |

## 18. SHARE CAPITAL *(Continued)*

*Notes:*

(a) In March 2017, the Company issued 1,500,000 shares upon exercise of share options at an exercise price of HK$3.98 under the 2004 Scheme (as set out in note 19). These new shares ranked pari passu in all respects with other shares in issue.

(b) Pursuant to a placing agreement dated 12 October 2017, a total of 189,000,000 shares of the Company have been successfully placed at the price of HK$12.44 per share, representing a discount of approximately 6.75% to the closing market price of the Company's ordinary shares on the immediate preceding business day before the completion date. The net proceeds from this placing amounted to HK$2,344,795,000.

These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017 and ranked pari passu with other shares in issue in all respects.

## 19. SHARE OPTION SCHEME

### (i) 2004 share option scheme

The Company's share option scheme adopted on 6 July 2004 has expired on 5 July 2014.

On 17 April 2013, the Company granted a total of 150,000,000 options to its directors and eligible employees. The options granted will fully vest on the first anniversary of the date of grant. The exercise price of the options and closing price of the Company's shares on 17 April 2013, the date of grant, was HK$3.98. The share options granted on 17 April 2013 are exercisable from 17 April 2014 to 16 April 2023. The fair values of the options determined at the date of grant using the Binomial model were approximately HK$181,433,000. Details of the fair value measurements are set out in the Group's consolidated financial statements for the year ended 31 December 2013.

No share options were outstanding during the period and as at 30 June 2018 (31 December 2017: Nil). 1,500,000 share options were exercised by the grantees during the six months ended 30 June 2017.

## 19. SHARE OPTION SCHEME *(Continued)*

### (ii) 2015 share option scheme

Following the expiry of the 2004 Scheme, the shareholders of the Company approved the adoption of a new 2015 share option scheme (the "2015 Scheme") at an extraordinary general meeting on 9 December 2015. The purpose of the 2015 Scheme is to provide the Company with a flexible means of giving incentive to Directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors of the Company (the "Board"). The 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

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

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

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

## 20. CAPITAL AND OTHER COMMITMENTS

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

| | **As at 30 June 2018** *HK$'000* **(Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | **1,223,781** | 1,280,940 |
| Other commitments arising from unlisted equity investments | **601,455** | 404,822 |
| Other commitments arising from research and development projects | **272,646** | 131,388 |

## 21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| Financial assets/ financial liability | Fair value as at 30 June 2018 HK$'000 | Fair value as at 31 December 2017 HK$'000 | Fair value hierarchy | Valuation techniques and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Equity securities listed in the PRC | **580** | 732 | Level 1 | Quoted bid prices in an active market | N/A | N/A |
| Listed equity investment in Hong Kong | **83,503** | 61,266 | Level 1 | Quoted bid prices in an active market | N/A | N/A |
| Unquoted equity investments | **524,191** | N/A | Level 3 | Income approach – in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets. | Estimated discount rate | The higher the estimated discount rate, the lower the fair value, vice versa. |
| | | | | | Long-term pre-tax operating margin | The higher the long-term pre-tax operating margin, the higher the fair value, vice versa. |
| Structured bank deposits | **3,113,895** | 1,315,789 | Level 3 | Discounted cash flows – future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risks of various counterparties. | Estimated return | The higher the estimated return, the higher the fair value, vice versa. |
| Contingent consideration in a business combination | **38,287** | N/A | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration. | Estimated discount rate | The higher the estimated discount rate, the lower the fair value, vice versa. |
| | | | | | Probability of the achievement of certain milestone events | The higher the probability, the higher the fair value, vice versa. |

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

There were no transfers between levels in the current period.

Unrealised fair value gain of HK$81,463,000 included in other comprehensive income related to financial assets at FVTOCI held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

**Fair value measurements and valuation processes**

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

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

## 22. ACQUISITION OF SUBSIDIARIES

**For the six months ended 30 June 2018**

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

i) On 9 January 2018, the Group entered into an equity transfer agreement with independent third parties to acquire an aggregate 37% interest in Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") for a cash consideration of RMB203,574,000 (equivalent to approximately HK$251,326,000) and a contingent consideration up to RMB55,426,000 (equivalent to approximately HK$68,427,000), depending on the achievement of certain milestone events. On the same date, the Group also entered into a capital injection agreement pursuant to which the Group will inject RMB76,242,000 (equivalent to approximately HK$94,126,000) to YZY Biopharma upon completion of the aforesaid equity transfer. The acquisition was completed on 31 January 2018 and together with the capital injection, the Group holds a 39.56% interest in YZY Biopharma.

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

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

ii) On 3 March 2018, the Group entered into an equity transfer agreement to acquire 60% equity interest in CSPC Anwoqin Pharmaceutical (Taizhou) Co., Ltd. ("Anwoqin") from a non-wholly owned subsidiary of CHL for a cash consideration of RMB15,615,000 (equivalent to approximately HK$19,518,000). The acquisition was completed on 27 March 2018.

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

***Consideration transferred***

| | YZY Biopharma<br>*HK$'000* | Anwoqin<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| Cash consideration | 345,452 | 19,518 | 364,970 |
| Contingent consideration agreement *(note)* | 39,846 | — | 39,846 |
| | 385,298 | 19,518 | 404,816 |

*Note:* Based on the relevant agreement, the Group is required to pay an additional consideration up to RMB55,426,000 (equivalent to approximately HK$68,427,000) if milestone events in relation to two biospecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent arrangement amounted to HK$39,846,000 as at the date of acquisition and HK$38,287,000 at 30 June 2018.

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

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

| | YZY Biopharma<br>*HK$'000* | Anwoqin<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Fair value of assets and liabilities recognised at the date of acquisition:** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 96,325 | 160 | 96,485 |
| Prepaid lease payment | 12,605 | — | 12,605 |
| Intangible assets *(note)* | 780,815 | — | 780,815 |
| **Current assets** | | | |
| Inventories | 2,404 | 5,357 | 7,761 |
| Trade and other receivables | 63,731 | 14,705 | 78,436 |
| Bills receivables | — | 434 | 434 |
| Tax recoverable | 21,650 | — | 21,650 |
| Bank balances and cash | 170,894 | 16,529 | 187,423 |
| **Current liability** | | | |
| Trade and other payables | (138,875) | (4,655) | (143,530) |
| **Non-current liabilities** | | | |
| Other payables | (4,444) | — | (4,444) |
| Deferred tax liabilities | (120,080) | — | (120,080) |
| Borrowings | (32,716) | — | (32,716) |
| **Total identifiable net assets acquired** | 852,309 | 32,530 | 884,839 |

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

The fair value and classification of assets have been determined on a provisional basis awaiting further information and finalisation of the valuation. The fair value is being valued by Asset Appraisal Limited, an independent qualified professional valuer, not connected to the Group.

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to approximately HK$78,436,000 which represent the gross contractual amounts at the date of acquisition.

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

***Goodwill arising from acquisition (determined on a provisional basis)***

| | YZY Biopharma | Anwoqin | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Consideration transferred | 385,298 | 19,518 | 404,816 |
| *Plus:* Non-controlling interests | 515,136 | 13,012 | 528,148 |
| *Less:* Recognised amount of identifiable net assets acquired | (852,309) | (32,530) | (884,839) |
| Goodwill arising on acquisition | 48,125 | — | 48,125 |

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

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

***Non-controlling interests***

The non-controlling interests in YZY Biopharma and Anwoqin recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets and amounted to approximately HK$528,148,000.

***Net cash outflow on acquisition of subsidiaries***

| | YZY Biopharma | Anwoqin | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash consideration paid | 345,452 | 19,518 | 364,970 |
| Bank balances and cash acquired | (170,894) | (16,529) | (187,423) |
| Net cash outflow | 174,558 | 2,989 | 177,547 |

Had the acquisitions of the above entities been completed on 1 January 2018, total amount of the Group's revenue for the six months ended 30 June 2018 would have been approximately HK$10,797,684,000 and the profit for the six months ended 30 June 2018 would have been approximately HK$1,842,172,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2018, nor is it intended to be a projection of future results.

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

**For the six months ended 30 June 2017**

***(a) Business combinations***

During the six months ended 30 June 2017, the following business acquisitions took place:

(i) On 3 January 2017, the Group entered into an agreement to acquire 100% equity interest in Cenway Pharmaceutical (Inner Mongolia) Co. Ltd. ("Cenway") from an independent third party for a cash consideration of RMB68,000,000 (equivalent to approximately HK$75,978,000). The acquisition was completed on 12 January 2017 and the name of Cenway was changed to CSPC Neimenggu Zhongnuo Pharmaceutical Co. Ltd. ("NMG Zhongnuo") on the same date. NMG Zhongnuo is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's production capability; and

(ii) On 23 January 2017, the Group entered into an agreement to acquire 100% equity interest in Gold Faith Investments Limited ("Gold Faith") and its subsidiaries, Rockley Inc. ("Rockley") and Hebei Union Pharmaceutical Co., Ltd ("Union") (hereafter collectively referred to as the "Gold Faith Group"), from an independent third party for a cash consideration of RMB72,710,000 (equivalent to approximately HK$82,167,000). Gold Faith holds 100% equity interest in Rockley and Rockley holds 90% equity interest in Union. The acquisition was completed on 23 January 2017. Gold Faith Group is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's product portfolio.

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

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

**For the six months ended 30 June 2017** *(Continued)*

***(a) Business combinations*** *(Continued)*

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

| | NMG Zhongnuo | Goldfaith Group | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | 130,206 | 25,888 | 156,094 |
| Prepaid lease payments | — | 19,164 | 19,164 |
| Intangible assets | — | 9 | 9 |
| Available-for-sale investments | — | 126 | 126 |
| **Current assets** | | | |
| Inventories | 7,692 | 16,947 | 24,639 |
| Trade and other receivables | 74,299 | 20,111 | 94,410 |
| Bills receivables | 5,403 | 4,076 | 9,479 |
| Prepaid lease payments | — | 512 | 512 |
| Bank balances and cash | 986 | 25,705 | 26,691 |
| **Current liabilities** | | | |
| Trade and other payables *(note)* | (142,608) | (21,025) | (163,633) |
| Tax liabilities | — | (3) | (3) |
| **Non-current liability** | | | |
| Deferred tax liabilities | — | (2,283) | (2,283) |
| | 75,978 | 89,227 | 165,205 |

*Note:* Included in trade and other payables was an amount of approximately HK$7,752,000 due to the Group.

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to approximately HK$94,410,000, which represented the gross contractual amounts at the date of acquisition.

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

**For the six months ended 30 June 2017** *(Continued)*

***(a) Business combinations*** *(Continued)*

*Goodwill arising from acquisition*

| | NMG Zhongnuo *HK$'000* | Goldfaith Group *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Consideration transferred | 75,978 | 82,167 | 158,145 |
| *Plus:* Non-controlling interests | — | 8,927 | 8,927 |
| *Less:* Recognised amount of identifiable net assets acquired | (75,978) | (89,227) | (165,205) |
| Goodwill arising on acquisition | — | 1,867 | 1,867 |

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

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

*Non-controlling interests*

The non-controlling interests in Gold Faith Group recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Union and amounted to approximately HK$8,927,000.

*Net cash outflow on acquisition of subsidiaries*

| | NMG Zhongnuo *HK$'000* | Goldfaith Group *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Cash consideration paid | 75,978 | 82,167 | 158,145 |
| Bank balances and cash acquired | (986) | (25,705) | (26,691) |
| Net cash outflow | 74,992 | 56,462 | 131,454 |

22. **ACQUISITION OF SUBSIDIARIES** *(Continued)*

**For the six months ended 30 June 2017** *(Continued)*

***(a) Business combinations*** *(Continued)*

All of the acquired entities did not have any significant contribution to the Group's revenue or results for the six months ended 30 June 2017. Had the acquisitions of the above entities been completed on 1 January 2017, total amount of the Group's revenue for the six months ended 30 June 2017 would have been approximately HK$7,025,052,000 and the profit for the six months ended 30 June 2017 would have been approximately HK$1,319,604,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2017, nor is it intended to be a projection of future results.

***(b) Assets acquisitions***

During the six months ended 30 June 2017, the following assets acquisitions took place as they did not operate any business prior to the date of acquisitions, and have been accounted for as acquisitions of assets.

(i) On 3 March 2017, the Group entered into an agreement to acquire 100% equity interest in Hebei Shiwei Pharmaceutical Trading Co., Ltd. ("Hebei Shiwei") from China Charmaine Pharmaceutical Company Limited, which is a wholly-owned subsidiary of CHL for a cash consideration of RMB200,030,689 (equivalent to approximately HK$225,259,000). The acquisition was completed on 20 March 2017 and the name of Hebei Shiwei was changed to Shijiazhuang Ouyihe Medical Trading Co., Ltd. ("Ouyihe") on the same date. The acquisition enabled the Group to commence its wholesales business for a new line of pharmaceutical products immediately after completion of the acquisition and to save time for applying the pharmaceutical operation permit; and

(ii) On 9 May 2017, the Group entered into an agreement to acquire 100% equity interest in CSPC Dophen Corporation ("Dophen") from CHL for a consideration of USD9,700,000 (equivalent to approximately HK$75,314,000). The acquisition was completed on 9 May 2017. Dophen is principally engaged in research and development of pharmaceutical products. The acquisition was able to strengthen the Group's research and development capability of biopharmaceuticals and supplement its product pipeline.

## 22. ACQUISITION OF SUBSIDIARIES *(Continued)*

**For the six months ended 30 June 2017** *(Continued)*

***(b) Assets acquisitions*** *(Continued)*

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

| | **Ouyihe** *HK$'000* | **Dophen** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 11,847 | 11,851 |
| Intangible assets | — | 69,745 | 69,745 |
| **Current assets** | | | |
| Other receivables *(note)* | 181,282 | — | 181,282 |
| Bank balances and cash | 44,870 | 7,304 | 52,174 |
| **Current liabilities** | | | |
| Other payables | (897) | (13,582) | (14,479) |
| | 225,259 | 75,314 | 300,573 |
| **Net cash outflow on acquisition of assets** | | | |
| Cash consideration paid | 225,259 | — | 225,259 |
| Bank balances and cash acquired | (44,870) | (7,304) | (52,174) |
| Net cash outflow (inflow) | 180,389 | (7,304) | 173,085 |

*Note:* Other receivables comprised the amount due from the Group.

## 23. COMPARATIVE FIGURES

Research and development expenses amounting to HK$324,656,000 was reclassified from other expenses to research and development expenses in the condensed consolidated financial statements so as to conform with the current period's presentation.

Certain other losses amounting to HK$16,214,000 was reclassified from other income, administrative expense and other expenses to other gains or losses in the condensed consolidated financial statements so as to conform with the current period's presentation.

# OTHER INFORMATION

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

As at 30 June 2018, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

### *Long Positions*

| Name of director | Capacity | Number of issued ordinary shares held | | Percentage of shares in issue of the Company |
|---|---|---|---|---|
| Cai Dongchen | Beneficial owner | 86,538,000 | | |
| | Interest of controlled corporation | 1,342,619,120 | *(Note)* | |
| | | 1,429,157,120 | | 22.89% |
| Chak Kin Man | Beneficial owner | 4,000 | | 0.00006% |

*Note:*

The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally and 493,880,000 shares directly held by True Ally. True Ally is directly wholly-owned by Mr. Cai Dongchen.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 30 June 2018.

## OTHER INFORMATION

### Arrangements to Purchase Shares or Debentures

Other than the share option scheme disclosed below, at no time during the period was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Substantial Shareholders

As at 30 June 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the shares in issue of the Company.

#### *Long Positions*

| Name of substantial shareholder | Capacity | Number of issued ordinary shares held | | Percentage of shares in issue of the Company |
|---|---|---|---|---|
| Cai Dongchen | Beneficial owner | 86,538,000 | | |
| | Interest in controlled corporation | 1,342,619,120 | *(Note)* | |
| | | 1,429,157,120 | | 22.89% |
| True Ally Holdings Limited | Beneficial owner | 493,880,000 | | |
| | Interest in controlled corporation | 848,739,120 | | |
| | | 1,342,619,120 | *(Note)* | 21.51% |
| Massive Giant Group Limited | Beneficial owner | 634,809,620 | | 10.17% |
| Common Success International Limited | Beneficial owner | 423,206,414 | | 6.78% |

*Note:* The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally and 493,880,000 shares directly held by True Ally. True Ally is directly wholly-owned by Mr. Cai Dongchen.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares in issue of the Company or any other interests representing 5% or more of the shares in issue of the Company as at 30 June 2018.

## OTHER INFORMATION

### Share Option Scheme

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

### 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 2018 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 and the interim report have been reviewed by the external auditor and audit committee of the Company.

### Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

## OTHER INFORMATION

### 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 2018.

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

Mr. Lee Ka Sze, Carmelo, a non-executive director of the Company, has ceased to be a member of SFC (HKEC Listing) Committee with effect from 1 April 2018.

Mr. Chen Chuan, an independent non-executive director of the Company, has ceased to be an independent director of Jiangsu Wuzhong Industrial Co., Ltd (listed on Shanghai Stock Exchange) with effect from 20 April 2018.