SHENZHEN HEPALINK PHARMACEUTICAL GROUP CO., LTD.

(深圳市海普瑞藥業集團股份有限公司)

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 9989)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors (the "**Board**") of Shenzhen Hepalink Pharmaceutical Group Co., Ltd. (the "**Company**" or "**Hepalink**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group** ", "**we**", "**our**" or "**us**") for the six months ended June 30, 2020 (the "**Reporting Period**"), together with comparative figures for the same period in 2019.

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2020, the Group recorded the following unaudited results:

	For the six months ended June 30,		
	2020	2019	Changes
	RMB'000	*RMB'000*	
Revenue	**2,635,599**	2,119,698	24.3%
Gross Profit	**1,085,833**	734,133	47.9%
Gross Profit Margin	**41.2%**	34.6%	
Profit attributable to equity holders of the parent	**581,059**	546,312	6.4%
Adjusted non-IFRS profit attributable to equity holders of the parent[(1)(2)]	**504,564**	65,629	668.8%

— The Group promoted in each main business and recorded revenue of approximately RMB2,635.6 million, representing an increase of approximately 24.3% as compared to the same period of last year;

— The Group focused on improving sale strategy and operational efficiency, as well as grasping long-term industry trends. The gross profit and gross profit margin increased significantly, and the gross profit recorded was approximately RMB1,085.8 million, representing an increase of approximately 47.9% as compared to the same period of last year;

— Adjusted non-IFRS profit attributable to equity holders of the parent[(1)(2)] was RMB504.5 million, representing a year-on-year increase of 668.8%;

— The Group continued to drive the research and development process of innovative drug pipelines: the Group actively prepared Oregovomab to initiate the phase III pivotal clinical trials; RVX-208 was granted the Breakthrough Therapy Designation by the FDA in February 2020 and the clinical plan for pivotal phase III was approved by the FDA in June 2020;

— With the continuous growth of CDMO business and improvement in profitability, during the Reporting Period, the gross profit margin of CDMO business increased 8.1 percentage points to 31.9% as compared to the same period of last year.

(1) Net profit attributable to shareholder of the listed company (net of non-recurring profit and loss) (define columns according to A-share disclosure guidelines)

(2) There is no deduction of H share listing expenses of RMB32 million

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2020

		Six months ended June 30,	
		2020	2019
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(unaudited)
REVENUE	*4*	**2,635,599**	2,119,698
Cost of sales		**(1,549,766)**	(1,385,565)
Gross profit		**1,085,833**	734,133
Other income and gains	*5*	**142,227**	606,286
Selling and distribution expenses		**(205,118)**	(187,836)
Administrative expenses		**(244,177)**	(226,576)
Impairment losses on financial assets		**(5,945)**	(2,285)
Other expenses		**(1,088)**	(222)
Finance costs	*6*	**(155,434)**	(119,518)
Share of profits and losses of associates		**76,092**	(179,284)
PROFIT BEFORE TAX	*7*	**692,390**	624,698
Income tax expense	*8*	**(113,126)**	(91,606)
PROFIT FOR THE PERIOD		**579,264**	533,092
Attributable to:			
Owners of the parent		**581,059**	546,312
Non-controlling interests		**(1,795)**	(13,220)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic			
— for profit for the period		**RMB0.47**	RMB0.44
Diluted			
— for profit for the period		**RMB0.47**	RMB0.44

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD	**579,264**	533,092
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	**24,536**	9,180
Share of other comprehensive loss of associates	**—**	(351)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**24,536**	8,829
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Net gains/(losses) on equity investments designated at fair value through other comprehensive income	**10,148**	(57)
Remeasurement gains on defined benefit pension schemes	**4,975**	—
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**15,123**	(57)
Other comprehensive income for the period, net of tax	**39,659**	8,772
Total comprehensive income for the period, net of tax	**618,923**	541,864
Attributable to:		
Owners of the parent	**620,697**	555,554
Non-controlling interests	**(1,774)**	(13,690)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020

	Notes	**June 30, 2020** ***RMB'000*** **(unaudited)**	December 31, 2019 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,690,065**	2,688,232
Right-of-use assets		**222,700**	237,298
Goodwill		**2,389,778**	2,354,908
Other intangible assets		**546,730**	559,378
Investments in associates		**1,433,652**	1,349,772
Equity investments designated at fair value through other comprehensive income		**673,729**	627,397
Financial assets at fair value through profit or loss		**1,289,995**	1,228,171
Deferred tax assets		**119,907**	117,749
Other non-current assets		**314,276**	189,072
Total non-current assets		**9,680,832**	9,351,977
CURRENT ASSETS			
Inventories		**2,972,515**	2,363,168
Trade and bills receivables	*11*	**1,596,080**	1,282,125
Contract assets		**25,536**	31,186
Prepayments, other receivables and other assets		**864,543**	629,560
Due from related parties		**78,317**	315,672
Financial assets at fair value through profit or loss		**3,914**	87,876
Derivative financial instruments		**11,459**	24,768
Pledged deposits		**51,590**	61,568
Time deposits		**—**	127,510
Cash and cash equivalents		**1,300,314**	1,076,537
Total current assets		**6,904,268**	5,999,970
CURRENT LIABILITIES			
Trade payables	*12*	**232,935**	228,661
Other payables and accruals		**513,439**	528,737
Dividends payable		**224,496**	—
Contract liabilities		**286,856**	200,268
Interest-bearing bank and other borrowings		**3,351,871**	3,939,340
Tax payable		**117,828**	63,424
Due to related parties		**1,775**	4,151
Lease liabilities		**33,316**	31,980
Total current liabilities		**4,762,516**	4,996,561

	Note	**June 30, 2020** ***RMB'000*** **(unaudited)**	December 31, 2019 *RMB'000* (audited)
NET CURRENT ASSETS		**2,141,752**	1,003,409
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,822,584**	10,355,386
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**3,445,404**	2,354,653
Deferred income		**19,780**	20,816
Deferred tax liabilities		**290,601**	302,004
Long-term employee benefits		**108,374**	109,003
Other non-current liabilities		**9,953**	9,783
Lease liabilities		**74,155**	87,253
Total non-current liabilities		**3,948,267**	2,883,512
Net assets		**7,874,317**	7,471,874
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**1,247,202**	1,247,202
Reserves		**6,505,302**	6,101,158
Total equity attributable to owners of the parent		**7,752,504**	7,348,360
Non-controlling interests		**121,813**	123,514
Total equity		**7,874,317**	7,471,874

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Hepalink is a global pharmaceutical company with business spanning the manufacture and sales of pharmaceutical products, development of Contract Development and Manufacturing Organization ("**CDMO**") services and innovative drugs. Our sales of pharmaceutical products consist of (i) finished dose pharmaceutical products, which mainly include enoxaparin sodium injection (ii) active pharmaceutical ingredient ("**API**") products, including heparin sodium API and enoxaparin sodium API; and (iii) other products, mainly including pancreatin API. We operate a CDMO business providing research and development ("**R&D**"), manufacturing, quality management and program management services, through our wholly-owned subsidiaries Cytovance Biologics, Inc. (the "**Cytovance**"), which specializes in the development and manufacture of recombinant pharmaceutical products and critical non-viral vectors and intermediates for gene therapy, and SPL Acquisition Corp. (the "**SPL**"), which provides services in the development and manufacture of naturally derived pharmaceutical products. The Group has obtained exclusive development and commercial rights in Greater China for certain clinical stage innovative drug candidates which are being developed for the treatment of diseases with an immune system axis. We are also developing a self-discovered proprietary drug candidate currently at preclinical stage.

Industry Review

In the first half of 2020, the world suffered widespread disruption in social and economic activities arising from the rapid and continued spread of the novel coronavirus disease ("**COVID-19**"). The global pandemic has severely impacted the economy, affecting most business sectors across both advanced and developing economies. The impacts on different industries and countries mainly depended on the severity of the pandemic, as well as monetary and fiscal measures taken by governments. The underlying impacts on various regions included soaring unemployment rate, falling consumer confidence and spending, as well as disruption in trade and supply chains.

The Group has been rigorously regulating and focusing on quality management and operational efficiency in order to continue consolidating its outstanding position in the global heparin market and heparin finished dose market. Despite being affected by the pandemic to a certain extent during the Reporting Period, the finished dose pharmaceutical products and API businesses achieved strong positive growth on the whole in light of the Group's leading market position. During the Reporting Period, the sales revenue of the Group increased by 24.3% to approximately RMB2,635.6 million (for the same period in 2019: approximately RMB2,119.7 million), while the gross profit increased by 47.9% to approximately RMB1,085.8 million (for the same period in 2019: approximately RMB734.1 million).

Based on our efforts in brand building and product quality, the business of the Group has a certain degree of resilience, enabling us to withstand the adverse impact arising from the COVID-19. Even in the context where the major market of finished dose enoxaparin sodium pharmaceutical products, European market, was facing major challenges, the Group's products still achieved significant growth successfully.

Business Review

During the Reporting Period, the Group recorded revenue of approximately RMB2,635.6 million, representing an increase of approximately 24.3% as compared to the same period in 2019. During the Reporting Period, the Group recorded a profit attributable to equity holders of the parent of approximately RMB581.1 million, representing a year-on-year increase of 6.4% as compared to approximately RMB546.3 million for the same period in 2019.

During the Reporting Period, operating income for each business segment is as follows:

Business Segment	Operating income from January to June 2020 In RMB millions (unaudited)	Operating income from January to June 2019 In RMB millions (unaudited)	Year-on-year increase/ decrease (%)
Sales of products	2,237.2	1,754.8	27.5%
Finished dose pharmaceutical products	631.3	460.6	37.1%
API	1,459.1	1,126.7	29.5%
Others[(1)]	146.8	167.5	(12.4%)
CDMO service	386.8	348.0	11.1%
Others[(2)]	11.6	16.9	(31.4%)
Total	2,635.6	2,119.7	24.3%

Notes:

(1) Other products mainly include pancreatin API.
(2) Other business mainly includes manufacture and marketing services, processing services, technical support services and other services.

Sales

The Group mainly operates three main business segments, including (i) the finished dose pharmaceutical products business, (ii) heparin API business, and (iii) the CDMO business.

Heparin Industrial Chain Business

Finished Dose Pharmaceutical Products Business

For the six months ended June 30, 2020, revenue from sales of finished dose enoxaparin sodium pharmaceutical products was approximately RMB631.3 million, representing an increase of approximately 37.1% as compared with RMB460.6 million for the same period of last year, and accounted for 24.0% of the Group's total revenue, representing an increase of 2.3 percentage points as compared to the same period of last year.

Finished dose enoxaparin sodium pharmaceutical product is one type of low molecular weight heparin ("**LMWH**") finished doses, which is widely used in clinical practice. Its main indications include prophylaxis of venous thromboembolic disease (prophylaxis of venous thrombosis), especially thrombosis related to orthopedics or general surgery; treatment of developed deep vein embolism with or without pulmonary embolism; used in hemodialysis and extracorporeal circulation to prevent thrombosis, etc. Finished dose enoxaparin sodium pharmaceutical product of the Group is the first generic drug in the European Union and was approved by the European Medicines Agency (the "**EMA**") through the Centralized Procedure (CP) in 2016.

Three enoxaparin sodium injections brands of the Group, namely Inhixa, Neoparin and Prolongin, have been approved in a total of 35 countries and are being sold in 19 countries. We have also supplied enoxaparin sodium injections to our customers in 14 other countries.

During the Reporting Period, whilst all the major markets of finished dose enoxaparin sodium pharmaceutical products in Europe were affected by the COVID-19 pandemic to varying degrees, the Group actively strengthened its marketing efforts, continued to promote the construction of hospital sales channels in European countries, and targeted to enhance the spillover effect from hospital to pharmacy. During the Reporting Period, the structure of sales channels was further optimized, which, on the one hand, promoted the increase in average sales price of the Company's finished doses, and on the other hand, promoted the growth of overall sales volume of finished dose enoxaparin sodium pharmaceutical products.

In June 2020, the Company's finished dose enoxaparin sodium pharmaceutical product was approved to be marketed in Switzerland, which was another major breakthrough for Hepalink in the entire European market. The access to the Swiss market is the certification and recognition of the quality of the Company's products, and will further accelerate Hepalink to achieve full coverage of the European market.

In the same month, Hepalink's manufacture base located in Pingshan Industrial Park, Shenzhen, has passed the EMA standards and requirements, and has been approved as the manufacture site for enoxaparin sodium API needed by Inhixa. This approval will further meet the demand for raw materials driven by the rapid growth of the Group's finished dose pharmaceutical products business in the European market and provide greater assurance for the global supply chain of enoxaparin finished dose.

API Business

For the six months ended June 30, 2020, the sales of heparin API business amounted to approximately RMB1,459.1 million, representing an increase of approximately 29.5% as compared with approximately RMB1,126.7 million for the same period of last year, and accounted for 55.4% of the Group's total revenue.

Heparin is a type of anticoagulant drug with various functions such as anticoagulation and anti-thrombosis. The heparin industry consists of the initial upstream procurement of porcine small intestines, the upstream extraction of crude heparin, the midstream manufacture of heparin APIs and downstream manufacture and supply of enoxaparin finished dose. Heparin Sodium API is mainly used for the manufacture of standard heparin finished doses and LMWH APIs, which in turn are used for the manufacture of LMWH finished doses. The Group has two major manufacture bases for Heparin Sodium API in the PRC and the United States of America. Apart from being partly supplied to Shenzhen Techdow Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, the Heparin Sodium APIs are mainly sold to overseas customers, including a number of world-renowned multinational pharmaceutical enterprises. According to Frost & Sullivan, as of June 2020, there were four major suppliers of heparin sodium API based in the PRC and five major suppliers globally. We were the largest heparin sodium API supplier in the global market and our heparin sodium API products had a market share of 40.7% of the global heparin sodium API supply market by sales revenue in 2018.

Since 2019, the Group has proactively adjusted its strategies to improve the profitability of its heparin API business. To avoid being affected by the hog prices in recent years, the Group entered into market-driven pricing agreements with heparin API business customers in the second half of 2019 in order to ensure stable gross profit margin space for the Group's heparin API business. During the Reporting Period, the new pricing model formulated by the Group began to take effect, which enabled the effective transmission of upstream cost fluctuations, and the gross profit level of the heparin API business improved significantly as compared to the same period of last year, the Group's overall sales revenue recorded an increase of nearly 30% as compared to the same period of last year.

CDMO Business

For the six months ended June 30, 2020, sales of CDMO business amounted to approximately RMB386.8 million, representing an increase of approximately 11.1% as compared to the same period of last year, and accounted for 14.7% of the Group's total revenue; the gross profit margin increased 8.1 percentage points to 31.9% as compared to the same period of last year.

The Company operates its CDMO business through two platforms, namely Cytovance and SPL. The business platforms give our customers access to a customized assemblage of Chemistry, Manufacturing and Controls ("**CMC**") services for supporting the vast spectrum recombinant and naturally derived large molecule pharmaceutical products and critical non-viral vectors and intermediates for gene therapy. Both platforms offer services across the drug development lifecycle from discovery and selection of lead compounds to CGMP-compliant clinical trial batches and commercial supply, including R&D services, manufacturing services, quality assurance, and program arrangement.

During the Reporting Period, the Group's CDMO business development increased steadily. The Group successfully cooperated with multinational customers, and maintained the momentum of revenue growth. The marginal effect of gross profit and gross profit margin growth was significant. Cytovance has sufficient orders in hand and has a number of commercialized and phase III clinical trial varieties with the improvement in CDMO and operational capacity, and the continuous optimization of speed of order delivery and customer structure. The increase in global pharmaceutical R&D expenses, the growth and delivery of orders, the growth in revenue contribution from middle-phase and late-phase varieties, and the new pDNA business are all injecting fresh impetus into the future performance of Cytovance. Currently, Cytovance expanded into gene therapy sector as it established new pDNA manufacturing facilities that can supply customers with pDNA producing and testing services of three levels. We believe there are broad prospects and significant unmet market needs in gene therapy sector. According to Frost & Sullivan, the market size of cell and gene therapy CDMO is estimated to increase at a CAGR of 24.9% from USD1.5 billion in 2019 to USD5.7 billion in 2024, which is expected to provide new impetus to the development of Cytovance. SPL has established experience in the development of naturally derived pharmaceutical products and has developed core competencies such as developing complex and scalable processes for the extraction, isolation and purification of naturally derived materials.

New Drug Pipelines

Oregovomab

Oregovomab, a murine monoclonal antibody, is an anti-CA125 immunotherapy drug candidate being developed by the joint-stock subsidiary OncoQuest Inc. ("**OncoQuest**"). It has completed a phase II clinical trial as a treatment combined with chemotherapy in patients with advanced primary ovarian cancer. The results of Phase II clinical trial have proven the safety and efficacy of Oregovomab in such combined treatment regime for advanced primary ovarian cancer patients. Phase II clinical results have shown a significant prolongation of median PFS, with a median PFS of 41.8 months, compared with 12.2 months in patients treated by chemotherapy alone ($p = 0.0027$). It also showed a significant improvement in OS ($p = 0.0043$). OncoQuest is currently in discussion with the U.S. Food & Drug Administration of the U.S. Department of Health and Human Services (the "**FDA**") regarding a phase III trial plan, which has been basically determined now. The controlled subsidiary Shenzhen OncoVent Biomedical Technology Co., Ltd. planned to participate in the phase III international multicenter clinical trial of Oregovomab in the combined treatment. Oregovomab has Orphan Drug Designation from the FDA and EMA. Oregovomab is also being evaluated for treatment of patients with advanced recurrent ovarian cancer: in a phase II clinical trial in combination with an investigational stage immune booster (poly ICLC/Hiltonol) for patients with advanced recurrent ovarian cancer, a phase Ib/IIa clinical trial in combination with PD-1 inhibitor (nivolumab) as a novel combination immunotherapy treatment for patients with recurrent ovarian cancer, and a phase II clinical trial as a combined treatment with a PARP inhibitor (niraparib) for patients with recurrent ovarian cancer. Currently, the work for phase III international multicenter clinical trial of Oregovomab is being actively prepared for initiation.

RVX-208 (Apabetalone)

RVX-208 is a selective inhibitor of bromodomain and BET proteins with selectivity for the second bromodomain. It is being developed by the joint-stock subsidiary Resverlogix Corp. (a public company listed on the Toronto Stock Exchange, stock code: RVX). RVX-208 has completed phase III clinical trial (BETonMACE) in combination with standard of care to reduce major adverse cardiovascular events among high-risk cardiovascular disease patients with type 2 diabetes mellitus, recent acute coronary syndrome, and low levels of high-density lipoprotein (HDL). RVX-208 was granted Breakthrough Therapy Designation by the FDA in February 2020 and the clinical plan for pivotal phase III was approved by the FDA in June 2020.

AR-301 (Salvecin)

AR-301 is a fully human monoclonal IgG1 antibody (mAb) that specifically targets S. aureus alpha-toxin. It is being developed by the joint-stock subsidiary Aridis Pharmaceuticals, Inc. (a company listed on the NASDAQ, stock code: ARDS). It is currently in a global phase III clinical trial as an adjunctive therapy to standard of care antibiotics in patients diagnosed with ventilator associated pneumonia (VAP) caused by S. aureus. Results of a phase I/II trial completed in the US in the earlier stage have shown that patients treated with AR-301 consistently demonstrated less time spent under mechanical ventilation and higher rates of S. aureus eradication as compared to those treated with antibiotics alone. AR-301 was granted Fast Track Designation by the FDA and Orphan Drug Designation by the EMA. Our controlled subsidiary Shenzhen Arimab Biomedical Co., Ltd. will soon initiate a phase III clinical trial of AR-301 in China as part of the global MRCT.

Other Progress

During the Reporting Period, the Group actively promoted the consistency evaluation work for enoxaparin sodium injection in China, and the National Center for Drug Inspection has completed the production site audit and inspection of the Group. It is expected that the consistency evaluation will be approved in the near future.

The Group's strategic investment in the field of biomedical innovation continues to make progress, including the completion of the phase IIa clinical trial of KY1005, a new drug under Kymab Limited ("**Kymab**"), developed for the treatment of moderate to severe atopic dermatitis indications (eczema), and achieved all main clinical endpoints, which demonstrated the safety of KY1005 and efficacy of treatment for eczema. Kymab, based in Cambridge, the UK, is a clinical stage biopharmaceutical company focused on the discovery and development of fully human monoclonal antibody drugs using its proprietary antibody platforms (IntelliSelect®) which contain the entire repertoire of human antibodies. The Group holds 8.6% of Kymab's equity interest. The Group continuously conducts business dialogues with its investee biopharmaceutical companies, seeking cooperation opportunities in product R&D and other aspects.

Outlook

The world has experienced many unexpected shocks in first half of 2020 which brought severe challenges to all industries. At the beginning of the second half of 2020, economic activities started to show signs of revival as a result of the gradually relaxing the restrictive measures by various markets in China and in Europe. However, the future evolution and development of the COVID-19 pandemic, its spread, incidence rate, long-term health impacts, geographical and population distribution, as well as its duration remains uncertain at this time. Therefore, it is difficult at the present time to predict vectors for recovery in any economic sector or even the global economy. The Group's business will be operating under the current uncertain environment and unpredictable market outlook, but we will continue to show resilience and strive for steady growth. If there are no material adverse external factors in the regions where the Group operates, we are cautiously optimistic about the completion of our 2020 targets.

Despite the shocks and uncertainties brought about by the COVID-19 pandemic, the demand of the global pharmaceutical supply chain has soared due to the threats to the public health and well-being of all countries caused by the global pandemic. In the face of the abrupt epidemic, countries with severe outbreaks have suffered from temporary interruptions of medical resources, and global shortages of antibiotics and antiviral drugs and other relevant drugs as well, which caused governments and multinational pharmaceutical companies to re-examine their medical resource management systems and actively prepare to increase their strategic pharmaceuticals and medical resource reserves. The Group pays close attention to the impact of increasing medical resource reserve policies on the demand side in different countries, which is expected to have a positive influence on the Group's API business. We will also leverage our advantages in global operation, capture market trends, and strengthen cooperative relationships with our customers to ensure an orderly and stable supply.

In the second half of 2020, the Group will strive to promote higher-quality development and start a new situation with stable growth in accordance with its annual operating goals by accelerating the conversion of old growth drivers into new growth drivers and delivering a solid performance across operation and expansion of the existing businesses and clinical trials and other key works of our new drugs pipeline. At the same time, the Group will seize the favorable opportunity of the pharmaceutical industry structural adjustment to continuously improve our domestic and overseas market layout.

In terms of the Group, we will continue to achieve orderly growth in our performance and expand steadily in the ever-changing domestic and global market environment to replenish resources and capture appropriate opportunities and to actively expand and continuously strengthen our existing businesses. Hepalink is ready to pursue all developments beneficial to the Group with the production, sales and management conditions for sustainable development despite the current unknowns and uncertainties. We are full of confidence in our future prospects.

Financial Review

Revenue

	For the six months ended June 30,				
	2020 Sales amount RMB'000 (unaudited)	**2020 % of Revenue**	**2019 Sales amount RMB'000 (unaudited)**	**2019 % of Revenue**	**Year-on-year increase/ decrease (%)**
Sale of goods	2,237,236	84.9%	1,754,785	82.8%	27.5%
Finished dose pharmaceutical products	631,337	24.0%	460,562	21.7%	37.1%
API	1,459,111	55.4%	1,126,718	53.2%	29.5%
Others[(1)]	146,788	5.6%	167,505	7.9%	(12.4%)
CDMO services	386,772	14.7%	348,010	16.4%	11.1%
Others[(2)]	11,591	0.4%	16,903	0.8%	(31.4%)
Total	**2,635,599**	**100.0%**	**2,119,698**	**100.0%**	**24.3%**

Notes:

(1) Other products mainly include Pancreatin API.

(2) Other business mainly includes manufacture and marketing services, processing services, technical support services and other services.

Revenue from manufacturing and sales of goods increased by RMB482.4 million to RMB2,237.2 million, accounting for 84.9% of the total revenue during the Reporting Period, as compared with RMB1,754.8 million or 82.8% of the Group's revenue in the corresponding period in 2019. The increase in revenue from manufacturing and sales of goods was mainly due to the year-on-year increase in sales revenue of API and finished dose pharmaceutical products during the Reporting Period. API business was benefited from the adjustment of the pricing model by the Group and customers in the second half of 2019, which achieved effective transmission of fluctuation in costs, with a year-on-year increase in average sales price and a year-on-year increase of 29.5% in sales revenue of API business. Although the sales of finished dose pharmaceutical products in the European market, the world's leading market, have been affected by the COVID-19 pandemic to some extent, the changes in the sales pipeline structure caused by the outflow of hospital prescriptions to higher-priced pharmacies drove the increase in the average sales price, and the increase of sales volume and average sales price jointly led to a year-on-year increase of 37.1% in the sales revenue of finished dose pharmaceutical products business.

Cost of sales

For the six months ended June 30, 2020, cost of sales increased by RMB164.2 million to RMB1,549.8 million, as compared with RMB1,385.6 million for the corresponding period in 2019. The increase in cost of sales was mainly due to the increase in cost of sales of finished dose pharmaceutical products and API during the Reporting Period.

Gross Profit

	For the six months ended June 30,			
	2020	**2020**	**2019**	**2019**
	Gross profit RMB'000 (unaudited)	**Gross profit margin *(%)***	**Gross profit RMB'000 (unaudited)**	**Gross profit margin *(%)***
Sale of goods	951,241	42.5%	635,195	36.2%
Finished dose pharmaceutical products	272,781	43.2%	208,086	45.2%
API	656,309	45.0%	390,975	34.7%
Others[(1)]	22,151	15.1%	36,134	21.6%
CDMO services	123,212	31.9%	82,709	23.8%
Others[(2)]	11,380	98.2%	16,299	96.0%
Total	**1,085,833**	**41.2%**	**734,133**	**34.6%**

Notes:

(1) Other products mainly include Pancreatin API.

(2) Other business mainly includes manufacture and marketing services, processing services, technical support services and other services.

For the six months ended June 30, 2020, gross profit increased by RMB351.7 million to RMB1,085.8 million, as compared with RMB734.1 million in the corresponding period in 2019. For the six months ended June 30, 2020, gross profit margin increased by 6.6 percentage points to 41.2%, as compared with 34.6% for the corresponding period in 2019. The increase in gross profit margin was mainly due to the increase in the average sales price and sales contribution of API, as well as the increase in gross profit of CDMO services.

Finance Costs

The Group's finance costs consist of interest on bank borrowings and corporate bonds and finance costs. For the six months ended June 30, 2020, finance costs increased by RMB35.9 million to RMB155.4 million, as compared with RMB119.5 million for the corresponding period in 2019, representing an increase of 30%. The increase in finance costs was mainly due to an increase in interest-bearing loans and borrowings as compared with the corresponding period in 2019.

Taxation

For the six months ended June 30, 2020, income tax expense was RMB113.1 million, as compared with an income tax expense of RMB91.6 million for the corresponding period in 2019, representing an increase of approximately 23.5%.

Profit Attributable to Equity Holders of the Company

For the six months ended June 30, 2020, profit attributable to equity holders of the Company was RMB581.1 million, as compared with RMB546.3 million for the corresponding period in 2019, representing an increase of approximately 6.4%.

Non-IFRS Measures

To supplement our consolidated financial information, which are presented in accordance with the IFRSs, we also use adjusted operating profit and adjusted net profit as additional financial measures, which are unaudited and not required by, or presented in accordance with, IFRSs. We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-IFRSs measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management compare our financial results across accounting periods and with those of our counterparts.

The Company believes that the adjusted non-IFRS net profit attributable to owners of the parent is useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted non-IFRS financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of the adjusted non-IFRS net profit attributable to owners of the parent is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. The adjusted non-IFRS net profit attributable to owners of the parent does not have a standardized definition prescribed under the IFRS and therefore may not be comparable to similar measures presented by other companies. Shareholders and potential investors should not view the adjusted non-IFRS net profit attributable to owners of the parent on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit attributable to equity holders of the parent	**581,059**	546,312
Non-recurring profit and loss		
Gains or losses from disposal non-current assets	**(14)**	573,925
Government grants through profit or loss	**32,797**	25,109
In addition to the effective hedging business related to the normal business operations of the Company, the changes in fair value gains and losses arising from holding financial assets for trading, derivative financial assets, financial liabilities for trading and derivative financial liabilities, as well as investment income from disposing financial assets for trading, derivative financial assets, financial liabilities for trading, derivative financial liabilities and other debt investments	**54,731**	(33,970)
Other non-operating income and expenses apart from those stated above	**(1,040)**	661
Effect on enterprise income tax	**(9,726)**	(85,002)
Effect on interest of minority shareholders (after tax)	**(253)**	(40)
Total	**76,495**	480,683
Adjusted non-IFRS net profit attributable to equity holders of the parent (net of non-recurring profit and loss)	**504,564**	65,629

Earnings per Share

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, by the weighted average number of ordinary shares of the Company in issue for the six months ended June 30, 2020, respectively. The diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company, by the weighted average number of ordinary shares of the Company in issue for the six months ended June 30, 2020 (with adjustments made for all potential dilution effect of the ordinary shares).

For the six months ended June 30, 2020, both basic earnings per share and diluted earnings per share were RMB0.47, as compared with RMB0.44 for the corresponding period in 2019, representing an increase of approximately 6.8%.

Liquidity and Financial Resources

Treasury Policies

The primary objective of the Group's capital management is to maintain its ability to continue as a going concern so that the Group can constantly provide returns for shareholders of the Company and benefits for other stakeholders by implementing proper product pricing and securing access to financing at reasonable costs. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and expected profitability and operating cash flows, expected capital expenditures and expected strategic investment opportunities. The Group closely monitors its debt-to-asset ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Risk

Foreign currency risk arises from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has transactional currency exposures and currency exposures from our interest-bearing bank borrowings. The Group has a foreign currency hedging policy to mitigate our foreign currency risk and monitors foreign exchange exposure from time to time to adjust our hedging measures.

For the six months ended June 30, 2020, the Group recorded a net foreign exchange gain of RMB42.4 million, and recorded a net foreign exchange gain of RMB19.5 million for the same period in 2019. Currently, the Group does not employ any financial instruments to hedge against foreign currency risk.

Liquidity and Financial Resources

The Group's liquidity remains strong. During the Reporting Period, the Group's primary source of funds was from its ordinary business. As at June 30, 2020, the Group's cash and bank balances were approximately RMB1,300.3 million (December 31, 2019: approximately RMB1,076.5 million).

Capital Structure

As at June 30, 2020, the Group recorded short-term loans of approximately RMB3,351.9 million (December 31, 2019: approximately RMB3,939.3 million) and long-term loans of approximately RMB3,445.4 million (December 31, 2019: approximately RMB2,354.7 million).

Pledge of Assets

As at June 30, 2020, the Group's assets of approximately RMB2,391.8 million were pledged to banks and other financial institutions to secure the credit facilities granted to the Group (December 31, 2019: approximately RMB2,228.7 million) .

Contingent Liabilities

As at June 30, 2020, neither the Group nor the Company had material contingent liabilities (December 31, 2019: nil).

Asset-liability Ratio

As at June 30, 2020, the Group's total assets amounted to approximately RMB16,585.1 million, (December 31, 2019: approximately RMB15,351.9 million), whereas the total liabilities amounted to approximately RMB8,710.8 million (December 31, 2019: approximately RMB7,880.1 million). The asset-liability ratio (i.e., total liabilities divided by total assets) was approximately 52.5% (December 31, 2019: approximately 51.3%).

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates to the interest-bearing bank borrowings with floating interest rates. The Group's policy is to manage our interest cost using a mix of fixed and variable rate debts. As at June 30, 2020, the Group had approximately 81% interest-bearing borrowings bore interest at fixed rates (December 31, 2019: approximately 75%).

Indebtedness

	As at June 30, 2020 RMB'000 (unaudited)	As at December 31, 2019 RMB'000 (audited)
Interest-bearing bank and other borrowings	**6,797,275**	6,293,993
Lease liabilities	**107,471**	119,233
Total financial indebtedness	**6,904,746**	6,413,226
Pledged bank deposits, cash and cash equivalents	**(51,592)**	(61,568)
Net financial indebtedness	**6,956,338**	6,474,794

The maturity profile of the Group's interest-bearing and other borrowings is set out as follows:

	As at June 30, 2020 RMB'000 (unaudited)	As at December 31, 2019 RMB'000 (audited)
Repayable:		
Within one year or on demand	**3,351,871**	3,939,340
After one year but within two years	**5,897**	422,308
After two years but within five years	**3,439,508**	1,932,345
Total	**6,797,276**	6,293,993

The Group's bank lending as at June 30, 2020 was approximately RMB4,225.1 million (December 31, 2019: RMB4,408.9 million). As at June 30, 2020, the Group's corporate bond was approximately RMB2,022.2 million (December 31, 2019: RMB1,154.4 million). As at June 30, 2020, the Group's total amount of other lending was RMB550.0 million (December 31, 2019: RMB730.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

1. Corporate Information

The Company is a joint stock company with limited liability established in the People's Republic of China (hereafter, the "**PRC**") on April 21, 1998. With the approval of the China Securities Regulatory Commission, the Company completed its initial public offering and was listed on the Shenzhen Stock Exchange (stock code: 002399.SZ) on May 6, 2010. The Company completed its public offering in Hong Kong and its H shares were listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (stock code: 9989) on July 8, 2020. The registered address of the office of the Company in the PRC is No.21 Langshan Road, Nanshan District, Shenzhen. The Company's principal place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Company is ultimately controlled by Mr. Li Li and Ms. Li Tan who are acting in concert.

The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in biopharmaceutical production, biopharmaceutical services, biopharmaceutical trading and biopharmaceutical research and development in Asia, Europe, North America and Australia, and investment business in Asia and North America.

These unaudited interim financial statements have been reviewed by the Audit Committee and approved for issuance by the Board on August 28, 2020.

2.1 Basis of Preparation

The interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the historical financial information and should be read in conjunction with the Group's historical financial information for the six years ended June 30, 2019, which has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. The interim condensed consolidated financial information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and methods of computation used in the condensed consolidation financial statements for the six months ended June 30, 2020 are the same as those followed in the preparation of the Group's historical financial information for the three years ended December 31, 2019 included in the accountant's report as set out in Appendix I to the prospectus of the Company dated June 24, 2020 (the "**Prospectus**").

The financial information relating to the six months ended June 30, 2019 that is included in the interim condensed consolidated statement of financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*COVID-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and impact of the revised IFRSs are described below:

(a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after January 1, 2020. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after June 1, 2020 with earlier application permitted. During the period ended June 30, 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment in advance on January 1, 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended June 30, 2020.

(d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) The finished dose pharmaceutical products segment includes enoxaparin sodium injection.

(b) The active pharmaceutical ingredient segment includes heparin sodium active pharmaceutical ingredients, and enoxaparin sodium active pharmaceutical ingredients.

(c) The CDMO segment includes R&D, manufacturing, quality management, program management and commercial manufacture under customers' specific order.

(d) The "others" segment.

Segment revenue and results

For the six months ended June 30, 2020 (unaudited)

Segment	Finished dose pharmaceutical products *RMB'000*	Active pharmaceutical ingredients *RMB'000*	CDMO *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	**631,337**	**1,459,111**	**386,772**	**158,379**	**2,635,599**
Intersegment sales	**870,732**	**966,250**	**15,524**	**81,635**	**1,934,141**
	1,502,069	**2,425,361**	**402,296**	**240,014**	**4,569,740**
Reconciliation:					
Elimination of intersegment sales					**(1,934,141)**
Revenue from contracts with customers					**2,635,599**
Segment results:	**299,272**	**680,467**	**125,585**	**46,885**	**1,152,209**
Reconciliation:					
Elimination of intersegment results					**(66,376)**
Other income and gains					**142,227**
Selling and distribution expenses					**(205,118)**
Administrative expenses					**(244,177)**
Impairment losses on financial assets					**(5,945)**
Other expenses					**(1,088)**
Finance costs					**(155,434)**
Share of profits and losses of associates					**76,092**
Group's profit before tax					**692,390**

For the six months ended June 30, 2019 (unaudited)

Segment	Finished dose pharmaceutical products *RMB'000*	Active pharmaceutical ingredients *RMB'000*	CDMO *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	460,562	1,126,718	348,010	184,408	2,119,698
Intersegment sales	1,081,506	536,656	—	107,228	1,725,390
	1,542,068	1,663,374	348,010	291,636	3,845,088
Reconciliation:					
Elimination of intersegment sales					(1,725,390)
Revenue from contracts with customers					2,119,698
Segment results:	290,391	420,973	82,709	62,004	856,077
Reconciliation:					
Elimination of intersegment results					(121,944)
Other income and gains					606,286
Selling and distribution expenses					(187,836)
Administrative expenses					(226,576)
Impairment losses on financial assets					(2,285)
Other expenses					(222)
Finance costs					(119,518)
Share of profits and losses of associates					(179,284)
Group's profit before tax					624,698

Geographical information

(a) Revenue from external customers

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Hong Kong	**19,419**	11,368
United States of America	**474,028**	467,363
Europe	**1,449,211**	1,293,668
Mainland China	**322,778**	147,766
Other countries/regions	**370,163**	199,533
	2,635,599	2,119,698

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at June 30,	As at December 31,
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Mainland China	**3,746,487**	3,528,739
United States of America	**3,690,667**	3,665,249
Europe	**160,048**	184,672

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the period ended June 30, 2019, revenue of approximately RMB632,922,000 derived from a single external customer accounted for more than 10% of the total revenue.

During the period ended June 30, 2020, revenue of approximately RMB511,035,000 derived from a single external customer accounted for more than 10% of total revenue.

4. Revenue

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended June 30, 2020 (unaudited)

Segments	Finished dose pharmaceutical products *RMB'000*	Active pharmaceutical ingredients *RMB'000*	CDMO *RMB'000*	Others *RMB'000*	Total *RMB'000*
Type of goods or services					
Sale of products	**631,337**	**1,459,111**	**—**	**146,788**	**2,237,236**
CDMO services	**—**	**—**	**386,772**	**—**	**386,772**
Others	**—**	**—**	**—**	**11,591**	**11,591**
Total revenue from contracts with customers	**631,337**	**1,459,111**	**386,772**	**158,379**	**2,635,599**
Geographical markets					
Hong Kong	**1,050**	**18,369**	**—**	**—**	**19,419**
United States of America	**—**	**75,021**	**292,517**	**106,490**	**474,028**
Europe	**490,059**	**890,702**	**59,104**	**9,346**	**1,449,211**
Mainland China	**118,465**	**171,908**	**—**	**32,405**	**322,778**
Other countries/regions	**21,763**	**303,111**	**35,151**	**10,138**	**370,163**
Total revenue from contracts with customers	**631,337**	**1,459,111**	**386,772**	**158,379**	**2,635,599**
Timing of revenue recognition					
Products transferred at a point in time	**631,337**	**1,459,111**	**—**	**146,788**	**2,237,236**
Services transferred at a point in time	**—**	**—**	**139,403**	**2,063**	**141,466**
Services transferred over time	**—**	**—**	**247,369**	**9,528**	**256,897**
Total revenue from contracts with customers	**631,337**	**1,459,111**	**386,772**	**158,379**	**2,635,599**

For the six months ended June 30, 2019 (unaudited)

Segments	Finished dose pharmaceutical products *RMB'000*	Active pharmaceutical ingredients *RMB'000*	CDMO *RMB'000*	Others *RMB'000*	Total *RMB'000*
Type of goods or services					
Sale of products	460,562	1,126,718	—	167,505	1,754,785
CDMO services	—	—	348,010	—	348,010
Others	—	—	—	16,903	16,903
Total revenue from contracts with customers	460,562	1,126,718	348,010	184,408	2,119,698
Geographical markets					
Hong Kong	656	10,712	—	—	11,368
United States of America	—	35,293	324,450	107,620	467,363
Europe	371,178	905,086	1,599	15,805	1,293,668
Mainland China	82,707	15,250	—	49,809	147,766
Other countries/regions	6,021	160,377	21,961	11,174	199,533
Total revenue from contracts with customers	460,562	1,126,718	348,010	184,408	2,119,698
Timing of revenue recognition					
Products transferred at a point in time	460,562	1,126,718	—	167,505	1,754,785
Services transferred at a point in time	—	—	15,219	1,307	16,526
Services transferred over time	—	—	332,791	15,596	348,387
Total revenue from contracts with customers	460,562	1,126,718	348,010	184,408	2,119,698

The following table shows the amounts of revenue recognised during the each of the periods ended June 30, 2019 and 2020 that were included in the contract liabilities at the beginning of each reporting period and recognised from performance obligations satisfied in previous periods:

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue recognised that was included in the contract liabilities balance at the beginning of period:		
Sale of products	**3,557**	7,910
CDMO services	**159,691**	104,933
	163,248	112,843

(ii) Performance obligations

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 180 days from delivery, except for PRC customers of the finished dose pharmaceutical products, where payment in advance is normally required.

CDMO services

For services under the Fee-for-service ("**FFS**") model, revenue is recognised over time and the performance obligation is part of a contract that has an original expected duration of one year or less. Therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under the FFS model.

For certain CDMO services, the directors of the Company have determined that performance obligations are satisfied upon acceptance of the deliverable products under customers' specific orders, and therefore, the performance obligation is recognised as revenue at a point in time.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at June 30, 2020 and December 31, 2019 are as follows:

	As at June 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**223,266**	176,576

All the performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. Other Income and Gains

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Other income		
Bank interest income	**7,429**	13,992
Government grants related to		
— Assets*	**1,126**	1,070
— Income**	**31,671**	24,039
Dividend income from financial assets at fair value through profit or loss	**357**	643
Dividend income from financial assets designated at fair value through other comprehensive income	**16,877**	—
	57,460	39,744
Other gains		
Foreign exchange gains, net	**42,446**	19,486
Gains on disposal of financial assets at fair value through profit or loss	**11,816**	761
Fair value gains/(losses), net:		
Fair value gains/(losses) on financial assets at fair value through profit or loss	**35,736**	(21,155)
Fair value losses on derivative instruments	**(13,309)**	(11,931)
Gain on deemed disposal of a subsidiary	**—**	573,865
(Losses)/gains on disposal of items of property, plant and equipment	**(14)**	2,409
Interest income from debt investments	**3,254**	—
Others	**4,838**	3,107
	84,767	566,542
	142,227	606,286

* The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognised in profit or loss over the useful lives of the relevant assets.

** The government grants and subsidies related to income have been received to compensate for the Group's research and development costs. Certain of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in the statement of profit or loss on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Other government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

6. Finance Costs

An analysis of finance costs is as follows:

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	**91,373**	88,160
Corporate bonds	**47,643**	25,202
Lease liabilities	**1,710**	1,225
Other finance cost	**14,708**	4,930
	155,434	119,518

7. Profit before Tax

Our Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold	**1,278,152**	1,119,825
Cost of services provided	**271,614**	265,740
Depreciation of property, plant and equipment	**104,539**	74,633
Depreciation of right-of-use assets	**16,942**	15,974
Amortisation of other intangible assets	**30,207**	35,376
Research and development costs*	**34,912**	58,328
Auditor's remuneration	**3,350**	2,480
Expense related to public offering	**31,966**	—
Employee benefit expense (including directors' and supervisors' remuneration):		
Salaries and other benefits	**287,325**	275,985
Pension scheme contributions, social welfare and other welfare	**42,479**	36,010
Rental expenses from short-term leases	**270**	757
Bank interest income	**(7,429)**	(13,992)
Finance costs	**155,434**	119,518
Dividend income from financial assets at fair value through profit or loss	**(357)**	(643)
Dividend income from financial assets at fair value through other comprehensive income	**(16,877)**	—
Foreign exchange gains, net	**(42,446)**	(19,486)
Gains on disposal of financial assets at fair value through profit or loss	**(11,816)**	(761)
Fair value losses on derivative instruments	**13,309**	11,931
Fair value (gains)/losses on financial assets at fair value through profit or loss	**(35,736)**	21,155
Gain on deemed disposal of a subsidiary	**—**	(573,865)
Losses/(gains) on disposal of items of property, plant and equipment	**14**	(2,409)
Interest income from debt investments	**3,254**	—
Impairment losses on financial assets	**5,945**	2,285
Write-down of inventories to net realisable value	**17,099**	(280)

* Research and development costs are included in "Administrative expenses" in the consolidated statements of profit or loss.

8. Income Tax Expense

The major components of the income tax expense for the period are as follows:

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax expense		
PRC	**82,154**	38,478
United States of America	**52,211**	21,488
Elsewhere	**929**	227
Underprovision in prior years from elsewhere	**376**	—
	135,670	60,193
Deferred tax expense		
PRC	**22,189**	52,463
United States of America	**8,728**	—
Elsewhere	**(36,005)**	(21,050)
	(22,544)	31,413
Total tax charge for the period	**113,126**	91,606

9. Dividends

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends declared by the Company	**224,496**	124,720

On May 21, 2020, the Company's shareholders approved the 2019 Profit Distribution Plan at the annual general meeting, which amounted to RMB224,496,307 (tax inclusive) pursuant to a dividend of RMB1.8 (tax inclusive) for every 10 shares of the Company.

On May 21, 2019, the Company's shareholders approved the 2018 Profit Distribution Plan at the annual general meeting, pursuant to which, an aggregate amount of RMB124,720,170 (tax inclusive) was subsequently paid in September 2019 to the shareholders of the Company on the record date for determining the shareholders' entitlement to the 2018 Profit Distribution Plan, which amounted to a dividend of RMB1 (tax inclusive) for every 10 shares of the Company.

10. Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic and diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the each of the periods ended June 30, 2019 and 2020 as adjusted to reflect the subsequent changes in capital at nil consideration.

The calculation of basic and diluted earnings per share is based on:

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**581,059**	546,312

	For the six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares in issue during the period, used in the basic and diluted earnings per share calculation	**1,247,201,704**	1,247,201,704

11. Trade and Bills Receivables

	As at June 30,	As at December 31,
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**1,622,937**	1,281,020
Bill receivables	**—**	22,826
Allowance for expected credit losses	**(26,857)**	(21,721)
	1,596,080	1,282,125

The Group's trading terms with its customers are mainly on credit. The credit period is generally from one month to three months. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at June 30, 2020 and December 31, 2019, based on the billing date and net of allowance for expected credit losses, is as follows:

	As at June 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**1,529,320**	1,221,105
90 to 180 days	**20,183**	13,363
180 days to 1 year	**27,197**	39,523
1 year to 2 years	**15,608**	3,972
Over 2 years	**3,772**	4,162
	1,596,080	1,282,125

The movements in the allowance for expected credit losses of trade receivables are as follows:

	As at June 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
At beginning of the year/period	**21,721**	26,162
Impairment losses, net	**5,011**	(2,367)
Write-off	**—**	(2,581)
Exchange realignment	**125**	507
	26,857	21,721

12. Trade Payables

	As at June 30, 2020 ***RMB'000*** **(unaudited)**	As at December 31, 2019 *RMB'000* (audited)
Trade payables	**232,935**	228,661

An aging analysis of the trade payables as at December 31, 2019 and June 30, 2020, based on the invoice date, is as follows:

	As at June 30, 2020 ***RMB'000*** **(unaudited)**	As at December 31, 2019 *RMB'000* (audited)
Within 1 year	**228,491**	226,579
1 year to 2 years	**4,082**	1,617
2 years to 3 years	**329**	262
Over 3 years	**33**	203
	232,935	228,661

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

13. Share Capital

	As at June 30, 2020 ***RMB'000*** **(unaudited)**	As at December 31, 2019 *RMB'000* (audited)
Registered, issued and fully paid 1,247,201,704 ordinary shares	**1,247,202**	1,247,202

Use of Proceeds from the H Share Listing of the Company

The H shares of the Company were listed on the Hong Kong Stock Exchange on July 8, 2020 (the "**Listing Date**"), and the Company obtained net proceeds of RMB3,538.3 million. According to the plan on use of proceeds as set out in the Prospectus, approximately 30% of the net proceeds (or approximately RMB1,061.5 million) is intended to be used for improving capital structure and repaying the existing debt; approximately 30% of the net proceeds (or approximately RMB1,061.5 million) is intended to be used for expansion of the sales and marketing network and infrastructure in the European Union and other global markets, such as the PRC; approximately 20% of the net proceeds (or approximately RMB707.7 million) is intended to be used for expanding our development and manufacturing capacity and broadening our product and services offering of Cytovance; and approximately 20% of the net proceeds (or approximately RMB707.7 million) is intended to be used for investment in innovative drugs.

As at the date of this announcement, RMB782.3 million had been used by the Company to improve capital structure and repay the existing debt; the remaining unutilized net proceeds were deposited with licensed financial institutions as deposits and structured principal-protected wealth management products. We expected to progressively utilize the net proceeds from the H share listing within three years in accordance with the above purposes consistently as those stated in the Prospectus. The plan is as follows:

- approximately 30% of the net proceeds (or approximately RMB1,061.5 million) is intended to be used for improving capital structure and repaying the existing debt. The unexpended balance will be used within next 12 months;

- approximately 30% of the net proceeds (or approximately RMB1,061.5 million) is intended to be used for expansion of the sales and marketing network and infrastructure in the European Union and other global markets, such as the PRC, which will be used within next two years;

- approximately 20% of the net proceeds (or approximately RMB707.7 million) is intended to be used for expanding our development and manufacturing capacity and broadening our product and services offering of Cytovance, which will be used within next three years; and

- approximately 20% of the net proceeds (or approximately RMB707.7 million) is intended to be used for investment in innovative drugs, which will be used within next three years.

Significant Investment Held

During the Reporting Period, the Group did not hold any significant investment.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As at June 30, 2020, the Group had 2,074 employees, where their salaries and allowances were determined based on their performance, experience and the then prevailing market rates. Other employee benefits include the Mandatory Provident Fund, insurance and medical care, subsidized training, and employee share incentive schemes. During the Reporting Period, the total staff costs (including director's emoluments) were approximately RMB329.8 million (for the same period in 2019: approximately RMB312.0 million).

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Compliance with Corporate Governance Code

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"). From the Listing Date to the date of this announcement, the Company has complied with all the applicable code provisions in the Corporate Governance Code.

The Board currently comprises five executive directors and three independent non-executive directors, with the independent non-executive directors representing one-third of the number of the Board. Having such a percentage of independent non-executive directors on the Board can ensure their views carry significant weight and reflect the independence of the Board.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has devised its own code of conduct for the trading of securities by its directors, supervisors and members of senior management of the Group (who are likely to possess inside information about the securities of the Company due to their offices or employments in the Group) on terms that no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry by the Company, all directors, supervisors and members of senior management of the Group have confirmed that they have complied with the required standard set out in the Model Code from the Listing Date to the date of this announcement. The Company continues and will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

Review of Interim Results by the Audit Committee

The Audit Committee of the Company has reviewed the unaudited consolidated interim results of the Group for the six months ended June 30, 2020.

The Audit Committee has considered and reviewed the unaudited consolidated interim results of the Group for the six months ended June 30, 2020 and the accounting principles and practices adopted by the Group, and has discussed with management on issues in relation to internal control, risk management and financial reporting. The Audit Committee is of the opinion that the unaudited consolidated interim results of the Group for the six months ended June 30, 2020 are in compliance with the relevant accounting standards, laws and regulations and have been officially disclosed in due course.

Interim Dividends

The Board has resolved not to declare interim dividends for the six months ended June 30, 2020 (2019: nil).

Events after the Reporting Period

Save for the listing of H shares of the Company on the Hong Kong Stock Exchange on July 8, 2020 and the continuing impact of the COVID-19 pandemic, the Company has no events after the Reporting Period that need to be brought to the attention of the shareholders of the Company.

Publication of Interim Results Announcement and Interim Report 2020

This announcement will be published on the websites of the Company (http://www.hepalink.com/) and the Hong Kong Stock Exchange (http://www.hkexnews.hk). The Interim Report 2020 will be dispatched to the shareholders in due course and will be published on the websites of the Company and the Hong Kong Stock Exchange.

Appreciation

On behalf of the Board, I would like to express my gratitude to all shareholders for their trust, support and understanding, as well as to all the staff of the Group for their unremitting efforts.

By order of the Board
Shenzhen Hepalink Pharmaceutical Group Co., Ltd.
Li Li
Chairman

Shenzhen, the PRC
August 28, 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Li Li, Ms. Li Tan, Mr. Shan Yu, Mr. Sun Xuan and Mr. Bu Haihua; and the independent non-executive Directors of the Company are Dr. Lu Chuan, Mr. Chen Junfa and Mr. Wang Zhaohui.