NANJING SINOLIFE UNITED COMPANY LIMITED*

南京中生聯合股份有限公司

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

(Stock code: 3332)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS FOR THE FIRST HALF OF 2018

- Revenue decreased by 9.8% to RMB221.3 million (First half of 2017: RMB245.3 million)
- Gross profit decreased by 14.4% to RMB143.7 million (First half of 2017: RMB167.8 million)
- Profit for the period decreased by 89.9% to RMB4.1 million (First half of 2017: RMB40.5 million)
- Basic earnings per share decreased by 87.7% to RMB0.43 cent (First half of 2017: RMB3.51 cents)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (First half of 2017: nil).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Nanjing Sinolife United Company Limited* 南京中生聯合股份有限公司 (the "**Company**") is pleased to announce its unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 which are as follows:

* *For identification purposes only*

INTERIM 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
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*2, 3*	**221,323**	245,256
Cost of sales		**(77,618)**	(77,427)
Gross profit		**143,705**	167,829
Other income and gains	*3*	**4,879**	2,972
Selling and distribution expenses		**(102,669)**	(67,634)
Administrative expenses		**(36,344)**	(41,379)
Finance costs		**(1,975)**	–
Other expenses		**(1,183)**	(8,167)
Share of profits of a joint venture		**–**	143
Profit before tax	*4*	**6,413**	53,764
Income tax expense	*5*	**(2,338)**	(13,275)
Profit for the period		**4,075**	40,489
Attributable to:			
Owners of the parent		**4,075**	33,193
Non-controlling interests		**–**	7,296
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods, net of tax			
Exchange differences on translation of foreign operations		**319**	(1,042)
Total comprehensive income for the period		**4,394**	39,447
Attributable to:			
Owners of the parent		**4,394**	32,708
Non-controlling interests		**–**	6,739
Earnings per share:			
— Basic and diluted	*7*	**RMB0.43 cent**	RMB3.51 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018** *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment	*8*	**123,509**	99,139
Prepaid land lease payments		**10,340**	10,463
Goodwill		**148,354**	146,134
Other intangible assets		**71,361**	73,186
Deferred tax assets		**16,889**	16,036
Pledged deposit		**1,179**	–
Other non-current assets		**6,286**	6,144
Total non-current assets		**377,918**	351,102
Current assets			
Inventories		**186,091**	163,329
Trade receivables	*9*	**54,663**	49,340
Prepaid land lease payments		**247**	247
Prepayments, deposits and other receivables		**23,495**	34,626
Tax recoverable		**6,473**	5,129
Pledged deposits		**369**	1,603
Cash and cash equivalents		**201,681**	269,592
Total current assets		**473,019**	523,866
Total assets		**850,937**	874,968
Current liabilities			
Trade payables	*10*	**18,766**	14,164
Other payables and accruals		**34,142**	45,105
Interest-bearing loans and borrowings		**40,000**	49,500
Tax payables		**6,629**	8,648
Total current liabilities		**99,537**	117,417
NET CURRENT ASSETS		**373,482**	406,449
TOTAL ASSETS LESS CURRENT LIABILITIES		**751,400**	757,551

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018 (continued)

	Notes	**30 June 2018** *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings		**17,500**	27,500
Deferred tax liabilities		**13,821**	14,345
Provision		**657**	678
Total non-current liabilities		**31,978**	42,523
NET ASSETS		**719,422**	715,028
Equity attributable to owners of the parent			
Share capital		**94,630**	94,630
Reserves		**624,792**	620,398
TOTAL EQUITY		**719,422**	715,028

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

1.1 Basis of preparation

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 (the "**Period**") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

1.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 *Revenue from contracts with customers* and HKFRS 9 *Financial Instrument*s. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group applied HKFRS 15 to contracts that are initiated after the effective date and contracts that had remaining obligations as of the effective date. In respect of the prior periods, the Group retain prior period's figures as reported under the previous standards, recognising the cumulative effect of applying HKFRS 15 as an adjustment to the opening balance of equity as at 1 January 2018. The Group concluded that the transition adjustment to be made on 1 January 2018 to retained profits upon initial adoption of HKFRS 15 is nil.

The Group's contracts with customers for the sale of health food products and cosmetics and skin care products generally include one performance obligation. The Group has concluded that revenue from sale of the product should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product. Therefore, the adoption of the HKFRS 15 did not have an impact on the timing of revenue recognition. However, the impact of adoption of HKFRS 15 on accounting as noted below:

(a) Accounting for Loyalty points programme

The Group's operate a loyalty programme for Hejian brand health food products, prior to adoption of HKFRS 15. The Group recognised "deferred revenue" in relation to the fair value of points that issued but not expired. Upon HKFRS 15, the Group allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling prices and represented "contract liabilities" included in the other payables and accruals in the consolidated statement of financial position.

(b) Accounting for advances received from the customers

Generally, the Group receives short-term advances from its customers, under the adoption of HKFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effects of a financing component in contracts. Prior to the adoption of HKFRS 15, the Group represented these advances in "advances from customers", upon the adoption of HKFRS15, the Group reclassified these advances to "contract liabilities" included in the other payables and accruals in the consolidated statement of financial position.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group does not restate comparative information and recognise any transition adjustments against the opening balance of equity at 1 January 2018.

The impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principle and interest" on the principle amount outstanding (the "**SPPI**" criterion).

The new classification and measurement of the Group's financial assets is, as follow:

Debt instruments at amortised cost for the financial assets that are held within a business mode with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, financial assets included in prepayment, deposits and other receivables, pledged deposits and long-term deposits included in the other non-current assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principle and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains the same as it was under HKAS 39.

(b) *Impairment*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to asset's original effective interest rate.

For the trade receivables, other receivables and pledged deposits and long-term deposits, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due, however, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account of any credit enhancements held by the Group.

The Group concluded that the adoption of the ECL requirements of HKFRS 9 did not result in any impact on the amounts reported in the opening balance sheet on 1 January 2018 and the financial information during the six months ended 30 June 2018.

2. OPERATING SEGMENT INFORMATION

(a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of nutritional supplements and the sale of packaged health food products in the People's Republic of China ("**PRC**" or "**China**"), Australia and New Zealand.

(b) Geographical information

Most of the group companies are domiciled in the PRC and the majority of the non-current assets is located in the PRC and New Zealand. The Group's revenue from external customers is primarily derived in the PRC and New Zealand.

The following is an analysis of the Group's revenue from its major markets:

	30 June 2018 *RMB'000* **(unaudited)**	30 June 2017 *RMB'000* (unaudited)
Mainland China	**138,585**	154,086
New Zealand	**74,529**	75,600
Australia	**3,321**	9,524
Others	**4,888**	6,046
	221,323	245,256

(c) Non-current assets

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Mainland China	**172,586**	95,621
New Zealand	**31,846**	86,625
Australia	**778**	993
	205,210	183,239

The non-current asset information above is based on the locations of the assets and excludes goodwill, deferred tax assets, pledged deposit and other non-current assets.

(d) Information about major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue.

3. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

An analysis of revenue from contracts with customers, other income and gains is as follows:

	30 June 2018 *RMB'000* **(unaudited)**	30 June 2017 *RMB'000* (unaudited)
Type of goods or service		
Sale of goods	**221,158**	245,111
Rendering of services	**165**	145
Total revenue from contracts with customers	**221,323**	245,256
Timing of revenue recognition		
Goods transferred at a point in time	**221,158**	245,111
Service transferred over time	**165**	145
Total revenue from contracts with customers	**221,323**	245,256
Other income and gains		
Bank interest income	**2,029**	2,343
Short-term investment income	**–**	9
Government grants	**2,539**	596
Net exchange gain	**192**	–
Others	**119**	24
	4,879	2,972

4. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	30 June 2018 *RMB'000* **(unaudited)**	30 June 2017 *RMB'000* (unaudited)
Cost of inventories sold	**76,443**	75,008
Staff costs	**47,384**	48,548
Amortisation of prepaid land lease payments	**145**	123
Amortisation of intangible assets	**1,585**	1,868
Depreciation of property, plant and equipment	**3,451**	3,619
Operating lease payments on properties and retail shops	**6,963**	9,106
Research and development expenses	**1,790**	1,346

5. INCOME TAX EXPENSE

(a) The amounts of income tax expense in the interim condensed consolidated statement of profit or loss and other comprehensive income represent:

	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current		
— PRC	**2,961**	8,754
— New Zealand	**775**	7,426
	3,736	16,180
Deferred tax	**(1,398)**	(2,905)
Income tax expenses	**2,338**	13,275

Two of the Group's subsidiaries, which obtained the Certificate of High and New Technology Enterprises in 2015 and 2016, were approved by tax authorities to enjoy the preferential tax rate of 15%. Except for the aforementioned subsidiaries, the income tax of the Company and its subsidiaries established in the PRC is subject to the statutory rate of 25% of the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC. New Zealand income tax is calculated at 28% of the assessable profits of the subsidiary operating in New Zealand. Australia income tax is calculated at 30% of the assessable profits of the subsidiary operating in Australia. The subsidiary in Australia has suffered operating loss and no income tax provision was made in both current and comparing periods.

6. DIVIDEND

Dividend declared by the Company for the six months ended 30 June 2018 and 2017 as disclosed in the interim condensed consolidated statement of changes in equity were as follows:

	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividend approved during the Period	**–**	100,024

The Board did not recommend payment of any interim dividend in respect of the six months ended 30 June 2018 (Six months ended 30 June 2017: Nil).

No proposed dividend was declared by the Board for the year ended 31 December 2017. The proposed final dividend of RMB6.00 cents per share, amounted to RMB56,777,902, and a special dividend of RMB4.57 cents per share, amounted to RMB43,245,836, for the year ended 31 December 2016 was declared payable and approved by the shareholders at the annual general meeting of the Company on 5 June 2017.

7. EARNINGS PER SHARE

The basic earnings per share for the six months ended 30 June 2018 and 2017 are calculated based on the profit for the Period attributable to owners of the parent and the weighted average number of ordinary shares of 946,298,370 (2017: 946,298,370) in issue during the Period, as adjusted to reflect the rights issue during the Period.

	30 June 2018 *RMB'000* **(unaudited)**	30 June 2017 *RMB'000* (unaudited)
Earnings		
Profit for the Period attributable to owners of the parent used in the basic earnings	**4,075**	33,193

	30 June 2018 **(unaudited)**	30 June 2017 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share calculation	**946,298,370**	946,298,370

No adjustment is made to the diluted earnings per share for the six months ended 30 June 2018 and 2017 as there is no potential dilutive shares in issue.

8. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the Period, additions to property, plant and equipment amounted to RMB35,605,928 (Six months ended 30 June 2017: RMB11,779,678).

9. TRADE RECEIVABLES

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Trade receivables	**55,372**	50,049
Impairment	**(709)**	(709)
	54,663	49,340

The ageing analysis of trade receivables (net of impairment losses) as of the end of each reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**38,080**	37,273
Over 1 month but within 3 months	**11,247**	10,230
Over 3 months but within 1 year	**3,551**	1,813
Over 1 year	**1,785**	24
	54,663	49,340

In general, the entities in the Group have no credit period granted to retail customers, and invoices would be due once they have been issued. The credit period offered by the Group to its distributors is generally 30 to 90 days and the credit term granted to TV shopping platforms is 30 days. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

10. TRADE PAYABLES

The ageing analysis of trade payables as of the end of each reporting period is as follows:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**8,353**	7,421
Over 1 month but within 3 months	**6,390**	3,786
Over 3 months but within 1 year	**3,226**	1,653
Over 1 year	**797**	1,304
	18,766	14,164

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

To further increase the income from Good Health brand, the Group pooled resources to market Good Health products through various channels, including TV shopping platforms, distributors, chain pharmacies, travel channels, and e-commerce platforms. Furthermore, the Group strengthened its efforts to market and promote Good Health brand. The revenue generated by Hejian, Zhongsheng, Cobayer series products decreased compared with the same period of 2017. Due to a comparatively lower profit margin of the preliminary selling channels for Good Health series products, coupled with growing marketing and promotion expenses, the Group's profitability was exposed to pressure during the first half year of 2018. The Group's revenue decreased from RMB245.3 million in the first half of 2017 to RMB221.3 million for the six months ended 30 June 2018, representing a decrease of approximately 9.8%. The Group's net profit decreased from RMB40.5 million in the first half of 2017 to RMB4.1 million for the six months ended 30 June 2018, representing a decrease of approximately 89.9%.

During the Period, the Group succeeded in increasing the brand awareness in targeted markets by practising a strategic combination focused on Good Health brand, multiple marketing channels, and product diversification. In the domestic markets, the Group mainly adopted the retail brand model and TV shopping platforms for Zhongsheng and Good Health brands, as well as an online call center model. As for overseas markets, the Group expanded its brand presence mainly through distributors, chain pharmacies, travel channels, and other various models available for Good Health and Living Nature brands. In addition, the Group continued to develop and promote its brands by setting up flagship stores on large-sized e-commerce platforms operating at home and abroad. As at 30 June 2018, the Group offered 737 retained and new products in total, including 86 Zhongsheng series products, 56 Hejian series products, 59 Cobayer series products, 260 Good Health series products, and 276 Living Nature series products. Furthermore, the Group has launched 19 new products during the first half of 2018, including 1 Zhongsheng series product, 2 Hejian series products, 10 Good Health series products and 6 Living Nature series products.

To achieve fast-growing product development, the Group has adopted a market-oriented research and product development process to meet evolving customer demands and needs. The Group continues to cooperate with sizable research institutions on research and development in relation to new product developments, such as Zhongsheng Kanghe Poria Cocos & Male Flower of Eucommia Ulmoides, Hejian Probiotics Solid Beverage, Good Health Magnesium Easy To Swallow, and Living Nature Kekebaby Body & Hair Wash.

The Group continued to participate in a variety of marketing and promotional activities in the first half of 2018 to increase customer awareness of the products, including (i) seasonal promotions and discounts on major public holidays in China; (ii) participation in trade fairs such as the China International Nutritional Health Services Expo 2018 (中國國際營養健康產業博覽會), Imported Food Conference (進口食品展覽會) and China Health Industry Expo (中國大健康產業博覽會); (iii) cooperation with various domestic TV channels for TV shopping; and (iv) media advertising, print advertising in shopping malls and internet advertising.

The Group has a fast-growing retail network and diversified sales platform to serve a broad customer base. The Group has a diversified sales platform with wide geographic coverage of 17 cities in 10 provinces and centrally administered municipalities in the PRC as at 30 June 2018. The Group's diversified sales platform in the PRC primarily consists of retail stores under the Zhongsheng brand, in the form of 4 specialty stores and 20 district selling centres, 9 retail stores under the Good Health brand as well as an online call center. The Zhongsheng retail stores are mainly located in central business districts, well-established residential areas and local transportation centres. The Good Health retail stores are mainly located in large and premium shopping malls. The Group's overseas diversified sales platform mainly includes international distribution network broadly distributed in various countries, including the United Kingdom, Germany, the Netherlands, the United States, Korea, Japan, Singapore, South Africa, Vietnam, Thailand, Malaysia, Indonesia and the United Arab Emirates, and local large chain pharmacies, health goods supermarkets and tourist souvenir shops in New Zealand and Australia. In addition, the Group has continued to cooperate with Alibaba, Tmall International, JD.com, vip.com, Health Post, Health Element and other e-commerce platforms in the first half of 2018.

FINANCIAL REVIEW

Results

The revenue of the Group in the first half of 2018 was RMB221.3 million, representing a decrease of approximately 9.8% from RMB245.3 million over the same period in 2017. Profit for the first half of 2018 decreased by approximately 89.9% to RMB4.1 million in 2018 from RMB40.5 million in the first half of 2017. The Company's basic earnings per share were RMB0.43 cent (First half of 2017: RMB3.51 cents) based on the weighted average number of approximately 946.3 million (First half of 2017: 946.3 million) shares in issue during the first half of 2018.

Revenue

The revenue of the Group decreased by approximately 9.8% from RMB245.3 million in the first half of 2017 to RMB221.3 million for the six months ended 30 June 2018. Following overall strategic adjustments, the Group increased sales of Good Health series products through various channels, and revenue from Good Health series products grew by approximately 5.9% from RMB123.7 million for the first half year of 2017 to RMB131.0 million for the first half year of 2018. Despite the increase in revenue from Good Health series products, the Group's overall revenue growth was affected by the decrease in revenue from Zhongsheng series products, Hejian series products, and Cobayer series products.

Gross profit

The Group's gross profit decreased by approximately 14.4% from RMB167.8 million in the first half of 2017 to RMB143.7 million for the six months ended 30 June 2018. The Group's average gross profit margin decreased from approximately 68.4% in the first half of 2017 to approximately 64.9% for the six months ended 30 June 2018. Such decrease in gross profit was mainly due to (i) a decrease in revenue as compared to the same period last year; and (ii) further increase in the Group's total revenue generated from Good Health brand and the majority of the sales of Good Health brand through different distribution channels such as pharmacies, supermarkets and TV shopping platforms in various geographical locations generated a relatively low gross profit margin.

Other income and gains

The Group's other income and gains increased from RMB3.0 million in the first half of 2017 to RMB4.9 million in the first half of 2018, which was mainly due to the increase in government grants and other gains.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 51.9% from RMB67.6 million in the first half of 2017 to RMB102.7 million for the six months ended 30 June 2018, representing approximately 27.6% and 46.4% of the Group's revenue respectively. Such increase was primarily due to the increase in marketing and advertising expense from RMB23.2 million for the first half of 2017 to RMB51.4 million for the first half of 2018. The increase of marking and advertising expenses would increase brand awareness, which are expected to bring a positive impact on customer base and financial performance to the Group in the future.

Administrative expense

The Group's administrative expenses decreased by approximately 12.3% from RMB41.4 million for the first half of 2017 to RMB36.3 million for the six months ended 30 June 2018, representing approximately 16.9% and 16.4% of the Group's revenue respectively. Such decrease was primarily due to the decrease in staff costs from approximately RMB21.4 million in the first half of 2017 to approximately RMB16.9 million for the six months ended 30 June 2018.

Income tax expense

Income tax expense decreased by approximately 82.7% from RMB13.3 million in the first half of 2017 to RMB2.3 million for the six months ended 30 June 2018, which was in line with the decrease in profit before tax for the Period. The Group's effective tax rates for the six months ended 30 June 2017 and 2018 were approximately 24.7% and 36.5% respectively.

Profit for the Period

As a result of the foregoing, the Group's profit for the Period decreased from RMB40.5 million in the first half of 2017 to RMB4.1 million in the first half of 2018. The decrease was primarily due to (i) the Group's strategy on increasing the proportion of sales of Good Health products among the Group's overall sales, which products have a relatively lower gross profit margin, resulting in a decrease in the overall gross profit margin of the Group; (ii) a significant increase in the marketing expenses of the Group on the brand-building in order to increase the influence of Good Health brand in the market.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

For the first half of 2018, cash and cash equivalents of the Group decreased by RMB67.9 million, which comprised the net cash outflow in operating activities with the amount of RMB15.2 million, net cash outflow in investing activities with the amount of RMB30.5 million, net cash outflow in financing activities with the amount of RMB21.5 million and exchange loss of RMB0.7 million.

Inventories

The Group's inventories increased to RMB186.1 million as at 30 June 2018 (As at 31 December 2017: RMB163.3 million), which was primarily due to the increase in inventory level of overseas products in order to meet the online and offline product demands in the PRC market for the second half of 2018. The Group's inventories comprise raw materials, work in progress, finished goods and merchandise. During the first half of 2018, inventory turnover was approximately 411 days (First half of 2017: 247 days). The longer inventory turnover period during the six months ended 30 June 2018 was primarily the result of increase in inventory level of Good Health series products.

Trade receivables

The Group's trade receivables amounted to RMB54.7 million as at 30 June 2018 (As at December 2017: RMB49.3 million). During the first half of 2018, the Good Health series products were sold through distributors and TV shopping platforms, in which the distributors were generally granted with credit terms of 30 to 90 days, while the credit term granted to TV shopping platforms was 30 days. Turnover days for trade receivables increased to 42 days (First half of 2017: 36 days).

Trade payables

The Group's trade payables amounted to RMB18.8 million as at 30 June 2018 (As at 31 December 2017: RMB14.2 million). Turnover days for trade payables decreased to 39 days (First half of 2017: 51 days), which was primarily due to the Group's deliberate effort to shorten the turnover days resulting from its strategy to maintain good relationship with the suppliers.

Foreign exchange exposure

As the Group conducts PRC business transactions principally in Renminbi while the Group conducts overseas business transactions principally in Australian Dollar and New Zealand Dollar, the Group had not used any financial instruments for hedging purposes as at 30 June 2018. During the first half of 2018, the Group recorded a net exchange gain of approximately RMB0.2 million (First half of 2017: net exchange loss of approximately RMB7.8 million) which was primarily due to the conversion from Hong Kong Dollar to Renminbi.

Borrowings and pledge of assets

The Group had outstanding bank borrowings of RMB57.5 million as at 30 June 2018, which are partially secured by the charge over the Group's 100% equity interests of Shanghai Weiyi Investment & Management Limited Company* (上海惟翊投資管理有限公司).

Capital expenditure

The Group invested approximately RMB35.6 million in the first half of 2018 (First half of 2017: RMB11.8 million) for purchase of property, plant and equipment.

Capital commitments and contingent liabilities

As at 30 June 2018, the Group's capital commitments were approximately RMB57.3 million (As at 31 December 2017: RMB48.7 million), all of which were commitments for constructions of buildings. The Group had no material contingent liabilities as at 30 June 2018 (As at 31 December 2017: nil).

OUTLOOK

For the second half of 2018, the Group will continue to adopt a branding-focused directly-owned specialty store, distributor and online platform business model to attract majority of existing consumers and potential consumers, and provide customers with health solutions, in order to distinguish itself from the competitors in the nutritional supplements market.

The Group will continue to seize every opportunity to be the leading nutritional supplements provider in the market. From the beginning of the year to the date of this announcement, 1 new Zhongsheng series product, 10 new Good Health series products, 6 new Living Nature series products and 2 new Hejian series products have been launched to the markets, such as Zhongsheng Kanghe Poria Cocos & Male Flower of Eucommia Ulmoides Paste, Hejian Probiotic Solid Beverage, Good Health Magnesium Easy to Swallow and Living Nature Kekebaby Body & Hair Wash.

The Group will continue to participate in sizeable elderly health care exhibitions as well as well-known nutritional supplement products and health food exhibitions to be held in various PRC cities in the second half of 2018 in order to enhance consumer awareness of the Group's nutritional supplement products.

The Board and its Chairman have confidence in the future development of the Group. Having a positive and pragmatic attitude towards the business development by the expansion of sales network, the Group endeavours to strengthen national sales coverage, unswervingly implement the strategy to attract outstanding talents, expand professional management team and marketing team, as well as to build professional business management ideas and models. Barring unforeseen circumstances, the Group is optimistic about its performance in the second half of 2018.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are indispensable assets to the Group's success in the competitive market. By providing comprehensive training and corporate culture education periodically, the employees are able to obtain on-going training and development in the nutritional supplements industry. Furthermore, the Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees. The Group reviews its human resources and remuneration policies periodically to ensure that they are in line with market practice and regulatory requirements. As at 30 June 2018, the Group employed a work force of 820, including 424 employees of the Group, 138 employees of Good Health, 228 employees of Hejian and 30 employees of Living Nature. The total salaries and related costs for the six months ended 30 June 2018 amounted to approximately RMB47.4 million (First half of 2017: RMB48.5 million).

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

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules on the Stock Exchange as the code of conduct for Directors in their dealings in the Company's securities.

The Company has made specific enquiry with the Directors and all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018 and up to the date of this announcement.

CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2018 and up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (First half of 2017: nil).

REVIEW OF THE INTERIM RESULTS

The unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. Jiang Fuxin, Ms. Feng Qing and Mr. Vincent Cheng. Mr. Vincent Cheng serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting, internal control and risk management systems of the Company and to assist the Board to fulfill its responsibilities over audit.

PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.zs-united.com. The interim report of the Group for the six months ended 30 June 2018 containing all the relevant information required by the Listing Rules will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

By Order of the Board
Nanjing Sinolife United Company Limited*
Gui Pinghu
Chairman

Nanjing, the People's Republic of China, 30 August 2018

As of the date of this announcement, the executive Directors are Mr. Gui Pinghu, Ms. Zhang Yuan, Ms. Xu Li and Ms. Zhu Feifei; the non-executive Director is Mr. Xu Chuntao; and the independent non-executive Directors are Mr. Jiang Fuxin, Ms. Feng Qing and Mr. Vincent Cheng.

* *For identification purposes only*