四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.
四環醫藥控股集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 0460)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2019 (the "**Period**") together with the comparative figures for the six months ended 30 June 2018. These interim results have been reviewed by the external auditors of the Company, Messrs. Ernst & Young, in accordance with the International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the "**Audit Committee**").

INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Year-on-year Change	Six months ended from 1 July to 31 December	Period-to-period Change
	2019	2018		2018	
	RMB'000	*RMB'000*		*RMB'000*	
Key Income Statement Items					
Revenue	**1,662,310**	1,278,306	**30.0%**	1,639,099	**1.4%**
Gross profit	**1,368,044**	1,025,743	**33.4%**	1,353,345	**1.1%**
Research and development expenditure	**296,989**	236,735	**25.5%**	296,468	**0.2%**
Operating (loss)/profit	**(1,717,269)**	944,490	**(281.8%)**	1,081,453	**(258.8%)**
Adjusted operating profit (excluding the impairment loss on goodwill)	**1,126,634**	944,490	**19.3%**	1,081,453	**4.2%**
(Loss)/profit attributable to owners of the Company	**(2,019,947)**	765,671	**(363.8%)**	854,285	**(336.4%)**
Adjusted profit attributable to owners of the Company (excluding the impairment loss on goodwill)	**823,956**	765,671	**7.6%**	854,285	**(3.6%)**
Key Financial Indicators					
Gross profit margin	**82.3%**	80.2%		82.6%	
Net (loss)/profit margin	**(118.2%)**	61.5%		54.5%	
Adjusted net profit margin (excluding the impairment loss on goodwill)	**52.9%**	61.5%		54.5%	
(Loss)/earnings per share	**(21.33)**	8.08		9.02	
Adjusted earnings per share — Basic (RMB cents) (excluding the impairment loss on goodwill)	**8.70**	8.08		9.02	
Receivable turnover (days)	**53**	60		48	
Interim dividend per share (RMB cents)	**0.4**	0.4		N/A	

- Revenue of the Group increased by 30.0% to RMB1,662.3 million for the Period compared to that of the last corresponding period. Being supported by the versatile product portfolio, the Group has continued to take proactive measures to adjust sales and marketing strategies to maintain growth momentum in sales.

- Being contributed by the aforementioned measures, gross profit margin increased to 82.3% for the Period (six months ended 30 June 2018: 80.2%).

- Net loss margin was incurred for the Period. It was mainly attributable to an increase in overheads and research and development ("**R&D**") activities of the Group and the impairment loss on goodwill of RMB2,843.9 million. Adjusted net profit margin (excluding the impairment loss on goodwill) decreased to 52.9% from 61.5% of the last corresponding period.

- Expenditure for R&D and relevant activities increased by 25.5% year-on-year to approximately RMB297.0 million, representing 17.9% of the total revenue of the Group. This was mainly due to more efforts in R&D activities and expansion of the R&D team.

- Loss attributable to owners of the Company amounting to RMB2,019.9 million was incurred for the Period mainly as a result of the impairment loss on goodwill. Excluding the impairment loss on goodwill, adjusted profit attributable to owners of the Company increased by 7.6% to RMB824.0 million compared with that of the last corresponding period.

- The Group retained a solid liquidity position and has recorded RMB1,244.9 million of net cash flows from operating activities, a 24.0% increase compared with the last corresponding period.

- An interim dividend of RMB0.4 cents per share was declared by the Board (six months ended 30 June 2018: RMB0.4 cents per share).

* *Adjusted financial income items and indicators excluded the impairment loss on goodwill which is an one-off loss and did not exist in the last corresponding period. They are presented with intention to provide additional and useful information to investors and others to understand and evaluate the Group's consolidated results and to compare them across the accounting periods on a comparable basis.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2019 RMB'000 Unaudited	31 December 2018 RMB'000 Audited
Assets			
Non-current assets			
Property, plant and equipment	4	**2,771,670**	2,775,371
Right-of-use assets	4	**10,479**	–
Investment properties	4	**232,374**	209,206
Goodwill	4	**–**	2,843,903
Intangible assets	4	**1,218,727**	1,252,251
Land use rights	4	**839,199**	849,190
Investments accounted for using the equity method	5	**1,175,476**	1,168,623
Deferred tax assets	6	**341,657**	111,114
Financial assets at fair value through profit or loss	7	**189,252**	181,783
Other non-current assets		**305,123**	275,615
Total non-current assets		**7,083,957**	9,667,056
Current assets			
Inventories		**365,102**	301,117
Trade and other receivables	8	**815,187**	857,181
Financial assets at fair value through profit or loss	7	**562,161**	1,303,276
Cash and cash equivalents		**4,936,513**	3,314,845
Total current assets		**6,678,963**	5,776,419
Total assets		**13,762,920**	15,443,475

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 30 June 2019 *RMB'000* Unaudited	31 December 2018 *RMB'000* Audited
Equity			
Equity attributable to owners of the Company			
Share capital	*9*	**78,186**	78,233
Share premium	*9*	**4,084,846**	4,093,317
Other reserves		**163,072**	159,631
Retained earnings		**6,036,161**	8,179,232
		10,362,265	12,510,413
Non-controlling interests		**360,969**	263,950
Total equity		**10,723,234**	12,774,363
Liabilities			
Non-current liabilities			
Deferred tax liabilities	*6*	**247,777**	256,937
Lease liabilities		**6,688**	–
Contract liabilities	*11*	**4,215**	9,575
Other non-current liabilities	*12*	**74,891**	153,981
Total non-current liabilities		**333,571**	420,493
Current liabilities			
Trade and other payables	*13*	**2,236,736**	1,686,749
Contract liabilities	*11*	**330,652**	517,519
Income tax payable		**128,011**	37,671
Lease liabilities		**4,216**	–
Other current liabilities	*12*	**6,500**	6,680
Total current liabilities		**2,706,115**	2,248,619
Total liabilities		**3,039,686**	2,669,112
Total equity and liabilities		**13,762,920**	15,443,475

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

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		Unaudited	Unaudited
Revenue	*14*	**1,662,310**	1,278,306
Cost of sales		**(294,266)**	(252,563)
Gross profit		**1,368,044**	1,025,743
Other income	*14*	**124,457**	97,340
Other gains — net	*14*	**237,354**	304,108
Impairment loss on goodwill	*4*	**(2,843,903)**	–
Distribution expenses		**(120,263)**	(100,971)
Administrative expenses		**(227,823)**	(179,865)
Research and development expenses		**(249,655)**	(179,938)
Other expenses		**(5,480)**	(21,927)
Operating (loss)/profit		**(1,717,269)**	944,490
Finance expenses		**(2,518)**	(2,039)
Share of profits and losses of investments accounted for using the equity method		**(7,093)**	(21,405)
(Loss)/profit before tax		**(1,726,880)**	921,046
Income tax expense	*15*	**(237,217)**	(134,817)
(Loss)/profit for the period		**(1,964,097)**	786,229
Attributable to:			
Owners of the Company		**(2,019,947)**	765,671
Non-controlling interests		**55,850**	20,558
		(1,964,097)	786,229
(Loss)/earnings per share attributable to ordinary equity holders during the period			
Basic and diluted (loss)/earnings per share (expressed in RMB cents per share)	*16*	**(21.33)**	8.08

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
(Loss)/profit for the period	**(1,964,097)**	786,229
Other comprehensive income for the period, net of tax	**–**	–
Total comprehensive (loss)/income for the period	**(1,964,097)**	786,229
Attributable to:		
Owners of the Company	**(2,019,947)**	765,671
Non-controlling interests	**55,850**	20,558
	(1,964,097)	786,229

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 31 December 2017	78,233	4,093,317	166,210	6,719,232	11,056,992	279,078	11,336,070
Opening adjustment due to adoption of IFRS 9	–	–	(22,865)	22,865	–	–	–
Balance as at 1 January 2018	78,233	4,093,317	143,345	6,742,097	11,056,992	279,078	11,336,070
Profit for the period	–	–	–	765,671	765,671	20,558	786,229
Total comprehensive income for the period	–	–	–	765,671	765,671	20,558	786,229
Employee share award scheme: — Value of employee services *(Note 10(ii))*	–	–	173	–	173	–	173
Final 2017 dividend *(Note 17)*	–	–	–	(123,124)	(123,124)	–	(123,124)
Changes in interest in a subsidiary	–	–	190	–	190	(190)	–
Balance as at 30 June 2018 (unaudited)	78,233	4,093,317	143,708	7,384,644	11,699,902	299,446	11,999,348

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(CONTINUED)

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance as at 1 January 2019	**78,233**	**4,093,317**	**159,631**	**8,179,232**	**12,510,413**	**263,950**	**12,774,363**
(Loss)/profit for the period	**–**	**–**	**–**	**(2,019,947)**	**(2,019,947)**	**55,850**	**(1,964,097)**
Total comprehensive (loss)/ income for the period	**–**	**–**	**–**	**(2,019,947)**	**(2,019,947)**	**55,850**	**(1,964,097)**
Employee share award scheme: — Value of employee services *(Note 10(ii))*	**–**	**–**	**176**	**–**	**176**	**–**	**176**
Shares repurchased	**(47)**	**(8,471)**	**–**	**–**	**(8,518)**	**–**	**(8,518)**
Final 2018 dividend *(Note 17)*	**–**	**–**	**–**	**(123,124)**	**(123,124)**	**–**	**(123,124)**
Dividend paid to a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**(37,818)**	**(37,818)**
Changes in interest in subsidiaries without change of control	**–**	**–**	**3,265**	**–**	**3,265**	**78,987**	**82,252**
Balance as at 30 June 2019 (unaudited)	**78,186**	**4,084,846**	**163,072**	**6,036,161**	**10,362,265**	**360,969**	**10,723,234**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	**1,631,494**	1,261,941
Income tax paid	**(386,580)**	(257,625)
Net cash flows from operating activities	**1,244,914**	1,004,316
Cash flows from investing activities		
Capital contribution to associates	**(13,946)**	(135,750)
Acquisition of a subsidiary	**–**	(419,475)
Purchase of items of property, plant and equipment	**(133,443)**	(109,115)
Purchase of intangible assets	**(17,421)**	(4,286)
Purchase of land use rights	**(28,430)**	(69,264)
Purchase of financial assets at fair value through profit or loss	**(8,596,809)**	(11,659,558)
Proceeds from disposal of financial assets at fair value through profit or loss	**9,308,480**	11,845,490
Proceeds from disposal of property, plant and equipment	**805**	–
Advances of loans to a third party	**(14,370)**	–
Advances of loans to an associate	**(19,980)**	–
Interest received	**56,818**	65,182
Net cash flows generated from/(used in) investing activities	**541,704**	(486,776)
Cash flows from financing activities		
Repayment of borrowings	**(76,000)**	–
Proceeds from borrowings	**–**	210,906
Repurchase and cancellation of shares	**(8,518)**	–
Principal portion of lease payments	**(1,487)**	–
Capital contribution by non-controlling shareholders of a subsidiary	**82,252**	20,000
Dividends paid to the Company's shareholders	**(160,942)**	(123,124)
Interest paid	**(255)**	–
Net cash flows (used in)/generated from financing activities	**(164,950)**	107,782
Net increase in cash and cash equivalents	**1,621,668**	625,322
Cash and cash equivalents at beginning of the period	**3,314,845**	831,859
Cash and cash equivalents at end of the period	**4,936,513**	1,457,181

1. CORPORATE INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (the "**Company**") was incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the "**Group**") are research and development, manufacture and sale of pharmaceutical products in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The address of the principal place of business of the Group in Hong Kong is Room 4309, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 22/F, Building 4, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

The Company had its primary listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 October 2010.

The interim condensed consolidated financial statements are presented in thousand Renminbi ("**RMB**"), unless otherwise stated. The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 19 August 2019.

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

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2.2 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 in the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised standards effective as of 1 January 2019. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The Group has adopted the following new and revised standards for the first time for the current period's financial statements.

Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Leases
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRIC 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 Leases, the adoption of other new standards, interpretations and amendments do not have a material impact on the interim condensed consolidated financial statement of the Group.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics, relied on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review, and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase *RMB'000* (Unaudited)
Assets	
Increase in right-of-use assets	10,947
Liabilities	
Increase in lease liabilities	10,947

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	13,449
Weighted average incremental borrowing rate as at 1 January 2019	4.83%
Discounted operating lease commitments as at 1 January 2019	12,533
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,586)
Lease liabilities as at 1 January 2019	10,947

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets Plant and machinery *RMB'000*	**Lease liabilities** *RMB'000*
As at 1 January 2019	10,947	10,947
Additions	1,444	1,444
Depreciation charge	(1,912)	–
Interest expense	–	255
Payments	–	(1,742)
As at 30 June 2019	10,479	10,904

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from the product perspective. The Group is engaged in only one business segment, being the research and development and manufacturing and sale of pharmaceutical products in the PRC. During the six months ended 30 June 2019, all sales were from distributors and there were no sales to distributors of the Group from which the revenue amounted to 10% or more of the Group's revenue (six months ended 30 June 2018: Nil).

All of the Group's operations and customers, and about 84% of the Group's non-current assets are located in the PRC.

4. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS, INVESTMENT PROPERTIES, GOODWILL, INTANGIBLE ASSETS AND LAND USE RIGHTS

	Property, plant and equipment *RMB'000*	Right-of-use assets *RMB'000*	Investment properties *RMB'000*	Goodwill *RMB'000*	Intangible assets *RMB'000*	Land use rights *RMB'000*
Six months ended 30 June 2019						
Opening amount as at 1 January 2019	**2,775,371**	**10,947**	**209,206**	**2,843,903**	**1,252,251**	**849,190**
Additions	**136,579**	**1,444**	**–**	**–**	**14,817**	**40**
Disposals	**(3,095)**	**–**	**–**	**–**	**–**	**–**
Transfer to investment properties	**(26,185)**	**–**	**26,185**	**–**	**–**	**–**
Impairment *(Note (i))*	**–**	**–**	**–**	**(2,843,903)**	**–**	**–**
Depreciation and amortisation	**(111,000)**	**(1,912)**	**(3,017)**	**–**	**(48,341)**	**(10,031)**
Closing amount as at 30 June 2019 (unaudited)	**2,771,670**	**10,479**	**232,374**	**–**	**1,218,727**	**839,199**
Six months ended 30 June 2018						
Opening amount as at 1 January 2018	2,453,594	–	17,814	2,843,903	1,338,006	702,661
Additions	545,783	–	–	–	4,177	127,828
Disposals	(1,414)	–	–	–	–	–
Transfer to investment properties	(518)	–	518	–	–	–
Depreciation and amortisation	(92,062)	–	(538)	–	(48,487)	(8,749)
Closing amount as at 30 June 2018 (unaudited)	2,905,383	–	17,794	2,843,903	1,293,696	821,740

Note:

(i) The Group performed impairment test on goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group recognised the impairment loss on goodwill of approximately RMB2,843.9 million in respect of goodwill arisen from business combination of certain subsidiaries acquired in previous years. This was because the Chinese government promulgated the Monitoring Drug List in July 2019, which had an impact on prescription and procurement patterns and influenced sales prices of chemical medicines and biological products. As such, the Group conducted the impairment test and reassessed the recoverable amount of the cash-generating units to which the goodwill relates. The Group recognised the goodwill impairment based on the result of the impairment test.

The land use rights represent land use rights in the PRC with remaining lease periods ranging from 28 to 49 years.

As at 30 June 2019, the ownership certificates of buildings ("**Building Ownership Certificates**") of the Group with a net book value of RMB506,182,100 (31 December 2018: RMB446,560,000) have not yet been obtained by the Group. Land use rights certificates of land with a net book value of RMB428,067,000 (31 December 2018: RMB432,153,000) have not yet been obtained by the Group. The directors of the Company are of the opinion that there is no legal restriction for the Group to apply for and obtain the Building Ownership Certificates and the land use rights certificates. The absence of the Building Ownership Certificates and the land use rights certificates should not lead to any significant adverse impact on the operations of the Group.

5. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Share of net assets	**658,512**	651,659
Goodwill on acquisition	**516,964**	516,964
	1,175,476	1,168,623

6. DEFERRED TAX

The movements in deferred tax assets and liabilities during the six months ended 30 June 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(1) Deferred tax assets

	As at	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	**111,114**	127,514
Credited to profit	**230,543**	67,862
Closing balance at 30 June	**341,657**	195,376

(2) Deferred tax liabilities

	As at	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Opening balance at 1 January	**256,937**	264,396
Charged to profit	**(9,160)**	(13,518)
Closing balance at 30 June	**247,777**	250,878

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Set out below is an overview of financial assets, other than cash and cash equivalents, trade and other receivables, held by the Group as at 30 June 2019 and 31 December 2018.

	Notes	As at **30 June 2019** ***RMB'000*** **Unaudited**	 31 December 2018 *RMB'000* Audited
Non-current			
Financial assets at fair value through profit or loss ("**FVPL**"):			
Unlisted investments, at fair value	*(i)*	**189,252**	181,783
Current			
Financial assets at FVPL:			
Short-term investments	*(ii)*	**562,161**	1,303,276
Total		**751,413**	1,485,059

Notes:

(i) The amount represents equity investments in the unquoted equity shares of Jiangsu Antai Biotechnology Co., Ltd., KBP Biosciences Holdings Limited, Lindeman Asia No. 12 Investment Fund and Zhejiang Zhida Pharmaceutical Co., Ltd. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected, at initial recognition or transition, to classify them as financial assets at fair value through other comprehensive income.

(ii) The amount represents wealth management products issued by certain PRC reputable banking institutions with maturity within 6 months and a non-fixed return rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. These investments are all denominated in RMB. The fair values of these investments are based on an average estimated return rate of 3.92% (2018: 4.73%). The maximum exposure to credit risk at the reporting date was the carrying values of these investments. The credit quality of these investments that are neither past due nor impaired can be assessed by referring to the internal credit ratings of banking institutions.

8. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables — third parties	**261,090**	203,467
Notes receivable	**244,171**	273,271
Prepayments to suppliers	**179,014**	117,253
Amounts due from associates *(Note (i))*	**74,866**	74,019
Amounts due from other related parties	**9,600**	9,674
Other receivables	**58,122**	191,173
Impairment allowance for other receivables	**(11,676)**	(11,676)
	815,187	857,181

Note:

(i) The breakdown of amounts due from associates is as follows:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Beijing Ruiye Drugs Manufacture Co.,Ltd. ("**Beijing Ruiye**") *(Note (a))*	**1,306**	1,957
Tonghua Tianshi Pharmaceutical Co., Ltd. ("**Tonghua Tianshi**") *(Note (b))*	**73,560**	72,062
	74,866	74,019

(a) The receivable from an associate, Beijing Ruiye, was secured by the 15% equity interest in Beijing Ruiye's parent company, Beijing Ruiye Economic Technology Development Co., Ltd. Interest is charged at 5% annually.

(b) The receivable from an associate, Tonghua Tianshi, including a loan principal of RMB60,000,000 and interest amounting to RMB13,560,000, was unsecured and repayable in full on demand. Interest is charged at 4.75% annually.

The Group's credit terms granted to customers range from one month to one year. The Group seeks to maintain strict control over its outstanding receivables. 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.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**245,911**	190,879
3 to 6 months	**8,780**	7,978
6 to 12 months	**6,108**	4,544
More than 1 year	**291**	66
	261,090	203,467

9. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares *(thousands)*	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
As at 31 December 2017 (audited) (HK$0.01 per share)	9,471,082	78,233	4,093,317	4,171,550
As at 30 June 2018 (unaudited) (HK$0.01 per share)	9,471,082	78,233	4,093,317	4,171,550
As at 31 December 2018 (audited) (HK$0.01 per share)	9,471,082	78,233	4,093,317	4,171,550
Movement for the six months ended 30 June 2019:				
Repurchase and cancellation of shares *(Note (i))*	(5,400)	(47)	(8,471)	(8,518)
As at 30 June 2019 (unaudited) (HK$0.01 per share)	9,465,682	78,186	4,084,846	4,163,032

Note:

(i) During the Period, the Company repurchased 5,400,000 shares of its own shares on the Stock Exchange at a total consideration, including expenses, of HK$9,690,000 (equivalent to RMB8,518,000). As at 30 June 2019, these repurchased shares were cancelled.

10. SHARE-BASED PAYMENT

(i) Share award scheme

An award scheme for the purpose of incentivising the management of the Group (the "**Employee Share Award Scheme**" or the "**Scheme**") has been adopted by certain shareholders of the Company (namely, Plenty Gold Enterprises Limited ("**Plenty Gold**"), Dr. Che Fengsheng and Dr. Guo Weicheng) since 25 October 2010. On 25 January 2013, another shareholder of the Company (namely, MSPEA Pharma Holdings B.V.) also participated in the Employee Share Award Scheme. Trustee Co. (a private trust company established in the British Virgin Islands and wholly owned by Plenty Gold) has been appointed as the trustee to hold the reserved shares under the Employee Share Award Scheme. Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng, as settlors of a trust, have reserved and set aside a total of 33,750,000 shares; and MSPEA Pharma Holdings B.V. has reserved and set aside an additional 3,750,000 shares, all of which are being held by Trustee Co. as trustee for the Employee Share Award Scheme. The Employee Share Award Scheme involves granting of existing shares held by Trustee Co., and no new shares will be issued pursuant to the Employee Share Award Scheme.

The Company measures the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the major shareholders. No new shares will be issued by the Company under the Employee Share Award Scheme and there is no dilution impact on the earnings per share calculation as a result of the Employee Share Award Scheme.

Under the Employee Share Award Scheme, shares awards were granted to the eligible employees of the Group, which are exercisable into shares of the Company of a specific amount, held by Trustee Co., designated in each financial year during the period from the grant date up to the expiry date of the relevant shares awards granted.

The summary of the share awards granted to certain employees of the Group is as follows:

Grant date	Exercise price in HK$ per share award	Number of awards granted (in thousands)
20 March 2012	3.19	14,150
27 September 2013	3.19	19,750
21 October 2013	0.70	2,050
		35,950

On 28 June 2016, the Group modified the Employee Share Award Scheme. The remaining 31,448,000 share options, which were granted to but not yet exercised by 234 employees were replaced by new share awards with an exercise price of HK$1.57 per share award.

(ii) Share award movements

The following share awards were outstanding under the Scheme during the period:

	Average exercise price in HK$ per share award	Awards (in thousands)	
		2019	2018
At 1 January	1.57	**1,272**	2,904
Exercised	1.57	**(308)**	(990)
Forfeited	1.57	**–**	(18)
At 30 June		**964**	1,896

Share awards outstanding have the following expiry dates and exercise prices:

		Number of outstanding awards granted (in thousands)		Number of outstanding vested and exercisable awards (in thousands)	
Expiry date	**Exercise price in HK$ per share award**	**30 June 2019**	31 December 2018	**30 June 2019**	31 December 2018
28 June 2021	1.57	**964**	1,272	**–**	–

Out of the 964,000 (31 December 2018: 1,272,000) outstanding awards, no (31 December 2018: Nil) awards were exercisable at 30 June 2019.

During the Period, a total expense amounting to RMB176,000 (six months ended 30 June 2018: RMB173,000) was recognised in the condensed consolidated statement of profit or loss and other comprehensive income for share awards granted to employees with a corresponding change in equity.

11. CONTRACT LIABILITIES

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Advances from customers	**318,619**	504,171
Deferred revenue for sales of distribution rights *(Note (i))*	**16,248**	22,923
	334,867	527,094
Less: Current portion		
Advances from customers	**318,619**	504,171
Deferred revenue for sales of distribution rights	**12,033**	13,348
	330,652	517,519
Non-current portion	**4,215**	9,575

Notes:

(i) It represents the cash advances received for sales of distribution rights of certain pharmaceutical products to distributors for a period of five years. The revenue is recognised in the consolidated statement of profit or loss and other comprehensive income on the straight-line basis.

12. OTHER LIABILITIES

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Deferred government grants *(Note (i))*	**62,391**	65,661
Other borrowings *(Note (ii))*	**19,000**	95,000
	81,391	160,661
Less: Current portion		
Deferred government grants *(Note (i))*	**6,500**	6,680
Non-current portion	**74,891**	153,981

Notes:

(i) The balance represents the deferred revenue of government grants received for the construction of property, plant and equipment. It will be credited to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

(ii) The balance represents the borrowings from non-controlling shareholders of a subsidiary of the Group, which are interest-bearing, unsecured, and repayable in seven years.

13. TRADE AND OTHER PAYABLES

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade payables *(Note (i))*	**57,586**	37,202
Costs of construction and purchase of equipment payables	**56,641**	53,977
Payable for acquisition of a subsidiary	**300,000**	300,000
Accrued reimbursement to distributors	**1,533,162**	899,683
Amount due to other related party	**–**	83
Deposit payables	**200,780**	221,506
Salaries payable	**37,204**	55,329
Interest payable	**5,556**	3,995
Other taxes payable	**597**	59,417
Other payables	**45,210**	55,557
	2,236,736	1,686,749

Notes:

(i) The trade payables are non-interest-bearing and have an average term of 40 days.

As at 30 June 2019, the ageing analysis of the trade payables based on the invoice date is as follows:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 6 months	**47,345**	31,271
6 to 12 months	**1,414**	3,301
More than 1 year	**8,827**	2,630
	57,586	37,202

The fair values of trade and other payables approximate to their carrying amounts.

14. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Revenue:		
Sales of pharmaceutical products *(Note (i))*	**1,662,310**	1,278,306
Other income:		
Sales of distribution rights	**6,674**	10,037
Rental income	**3,592**	1,541
Research and development income	**1,567**	13,923
Interest income	**111,881**	71,839
Others	**743**	–
	124,457	97,340
Other gains — net:		
Government grants *(Note (ii))*	**259,329**	289,940
(Loss)/gain on changes in fair value of financial assets at FVPL	**(21,975)**	10,592
Others	**–**	3,576
	237,354	304,108

Notes:

(i) The sales of pharmaceutical products represent the sales value of goods supplied to customers, net of sales tax, value added tax, sales returns and commercial discounts.

(ii) The total government grants represent the subsidies received from the local government and no specific conditions were attached to them.

15. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2019 and 2018 is analysed as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current tax on profits for the period	**476,920**	216,197
Deferred tax	**(239,703)**	(81,380)
Income tax expense	**237,217**	134,817

Income tax expense

(i) Bermuda profits tax

The Group is not subject to any taxation in this jurisdiction for the six months ended 30 June 2019 and 2018.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2019 and 2018.

(iii) PRC corporate income tax ("PRC CIT")

PRC CIT is provided on the assessible income of the companies now comprising the Group derived from the PRC, adjusted for those items which are not assessable or deductible for the PRC CIT purposes.

The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at 25% tax rate.

Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2019 is provided at the rate of 15%.

16. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share amount is calculated by dividing the (loss)/profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
(Loss)/profit attributable to ordinary equity holders of the Company (RMB'000)	**(2,019,947)**	765,671
Weighted average number of ordinary shares in issue for basic (loss)/earnings per share (thousands)	**9,470,515**	9,471,082
Basic (loss)/earnings per share (RMB cents per share)	**(21.33)**	8.08

(b) Diluted

There was no dilution to loss per share for the Period because there was no potentially dilutive ordinary shares at 30 June 2019. The diluted loss per share amount equals the basic loss per share amount.

17. DIVIDEND

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Dividends on ordinary shares declared and paid:		
Final dividend for 2018: RMB1.3 cents per ordinary share (Final dividend for 2017: RMB1.3 cents)	**123,124**	123,124
Proposed dividends on ordinary shares:		
Interim dividend for 2019: RMB0.4 cents per ordinary share (2018: RMB0.4 cents)	**37,863**	37,884

An interim dividend of RMB0.4 cents per share of the Company for the six months ended 30 June 2018 was proposed by the Board on 27 August 2018. It was paid on 31 October 2018 to shareholders of the Company whose names were on the register of members of the Company on 24 October 2018.

A final cash dividend of RMB1.3 cents per share for the year ended 31 December 2018 amounting to RMB123,124,000 was approved by the shareholders at the annual general meeting of the Company held on 31 May 2019 and was paid on 19 June 2019 to shareholders whose names appeared on the register of members of the Company on 12 June 2019.

An interim dividend of RMB0.4 cents per share of the Company for the six months ended 30 June 2019 was proposed by the Board on 19 August 2019. It is payable on or around 30 October 2019 to shareholders of the Company whose names are on the register of members of the Company on 23 October 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

During the first half of 2019, various government bodies of the People's Republic of China (the "**PRC**" or "**China**"), such as the General Office of the State Council and the National Health Commission, continued to deepen the medical reform of the country. A series of policies governing medical treatment, healthcare insurance and pharmaceutical industries were promulgated, covering areas like suggested generic drug lists, hierarchical healthcare and the control of drug expenditure in hospitals. These policies span from pharmaceutical research and development ("**R&D**"), production to market access and end usage, thus bringing profound and significant impact to the pharmaceutical industry. In addition, the initiative of centralized drug procurement, together with the promulgation of the *National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products)* (the "**Monitoring Drug List**") announced in July 2019, has also sped up the evolution of the pharmaceutical industry.

Meanwhile, new opportunities are created for the pharmaceutical industry as the China government encourages pharmaceutical innovation and R&D. The National Medical Products Administration ("**NMPA**") also continues to optimize the approval process for drug registration. This not only shortens the timeframe for clinical researches of innovative drugs and generic drugs, but also contributes to more effective pharmaceutical R&D in terms of policy guidance.

Determined to overcome new challenges and capture new opportunities, the Group is determined to strengthen its operation fundamentals to drive its short- to mid-term growth and relocate more resources to its R&D projects, building on its substantial experiences of close to 20 years in the pharmaceutical industry. After years of dedication, the Group has already received ground-breaking results for its investments, boosting its capabilities for long-term development.

The Group has deployed the following main strategies:

1. Propelling R&D projects progress: being an important development strategy of the Group to manage its layout in major therapeutic areas. Several R&D projects have already achieved breakthroughs.

2. Refining marketing management: to fully realize the potential of the Group's products by expanding its sales network, accelerating the development in the low-end market, and enhancing academic promotion and evidence-based research for existing products.

3. Optimizing product resources: through proactively seeking investment opportunities, mergers and acquisitions ("**M&A**") and international collaborations, aiming at promoting the competence of overall product portfolio.

Major Breakthroughs

From the beginning of 2019 to date, the Group has accomplished major achievements in drug R&D, marketing and business development, including but not limited to:

R&D

- The Group's first self-developed patented new drug Janagliflozin, an anti-diabetic drug, commenced phase III clinical trials in China and is currently progressing well. 3 abstracts regarding phase I clinical trial progress of Janagliflozin have been selected for poster presentation at the American Diabetes Association's 79th scientific sessions.

- Phase III clinical trial in China of anti-diabetic drug insulin analogue (Insulin Aspart, Insulin Aspart 30) are progressing well.

- Birociclib, a self-developed patented innovative oncology drug, achieved breakthrough progress in phase I clinical trial in China.

- Patient recruitment for phase II clinical trial in China for Anaprazole Sodium, a self-developed patented innovative digestive system drug, was completed.

- Phase I to III clinical trial approval in China for the third generation of EGFR inhibitor XZP–5809, a self-developed innovative drug, has been obtained.

- Application for the production approval for anti-epileptic drug Eslicarbazepine Acetate Tablet has been accepted. Currently the Group is the first and only domestic enterprise that submitted application and received acceptance for production approval for this drug in China.

- Compound amino acid injection (20AA) was granted approval for drug registration.

- Non-PVC solid-liquid double chamber infusion soft bag (including Ceftazidime, Cefuroxime and Cefodizime) has been granted drug registration approval. The Group is the first and only pharmaceutical manufacturing company that has been granted drug registration approval for solid-liquid double chamber injection of this series of drugs in China.

- Post-launch clinical trials of Cinepazide Maleate injection were completed with verified efficacy for the treatment of acute ischemic stroke.

Sales & Marketing

- Mature products: Cerebroside-kinin Injection (Brand name: Oudimei/Aofutai/Weitong/Jielixin) has achieved desirable revenue growth, with a year-on-year increase of 86.4%.

- Growth-stage products: Roxatidine Acetate Hydrochloride for Injection (Brand name: Jie'ao) and Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng) have exhibited outstanding revenue growth, with a year-on-year increase of 139.3% and 120.7% respectively. Nicotinic Acid Injection (Brand name: Shucheng) also achieved a sound revenue growth, with a year-on-year increase of 130.7%.

Business Development

- Global Business Development Department of the Group is dedicated in exploring potential cooperation and project introduction of cutting-edge drugs in various major therapeutic areas.

- Established joint venture with Strides Pharma Global Pte Limited for supplying and distributing 4 drugs in the PRC.

Key Financial Performance

For the Period, the Group recorded a revenue of approximately RMB1,662.3 million, representing a year-on-year increase of 30.0%. Loss attributable to owners of the Company was approximately RMB2,019.9 million, mainly due to the recognition of impairment loss on goodwill for the Period. Excluding the impairment loss on goodwill, adjusted profit attributable to owners of the Company increased year-on-year by 7.6% to approximately RMB824.0 million.

For the Period, gross profit was approximately RMB1,368.0 million, representing a year-on-year increase of 33.4%. Gross profit margin increased from 80.2% for the same period of 2018 to 82.3% for the Period, which was mainly attributable to higher sales from products with better profit margin and continuous implementation of production cost control procedures by the Group during the Period.

Net cash flows from operating activities was approximately RMB1,244.9 million for the Period. The Group's debt to equity ratio, expressed as a percentage of other borrowings over equity attributable to owners of the Company, was maintained below 1.0%, maintaining a sound financial position.

During the Period, expenditure for R&D and relevant activities increased by 25.5% to approximately RMB297.0 million, representing 17.9% of the total revenue of the Group. This was mainly due to more efforts in R&D activities and expansion of the R&D team.

R&D

The Group continues its dedication to fundamental research of drugs development. Breakthroughs have been made in multiple drugs projects by overcoming the difficulties encountered during the R&D process. The drug R&D platform that was independently developed by the Group has achieved rational layout in a number of therapeutic areas.

The Group has been giving great impetus to the development of innovative drugs. It also continued its dedication in generic drug projects, which involve multiple therapeutic areas. By assessing competitive landscape and clinical demand of the generic drugs market, the Group has forged ahead the development of key projects. The Group has acquired multiple drug registration approved by NMPA, and is expected to further enrich the product portfolio by launching a number of generic drugs in the coming years, thus adding new revenue to the Group as well as meeting the market's need. The Group continued to optimize its product offerings and adjust its product structure, while expediting the launch of drugs.

The Group has been granted drug registration by NMPA for the compound amino acid injection (20AA) (500 ml), which is the only fourth-generation high branched-chain amino acid injection containing 20 types of amino acid. It contains eight types of essential amino acid and high branched-chain amino acid with high concentration. It is clinically used for prevention and treatment of hepatic encephalopathy and intravenous nutrition for patients with liver diseases and hepatic encephalopathy in their acute stage. It is also a preferred amino acid preparation for severe patients and patients in various stress states.

Besides, the Group's application for production approval in respect of Eslicarbazepine Acetate, a drug for treatment of epilepsy, was formally accepted by NMPA and has been included in the Priority Review Process. Eslicarbazepine Acetate exerts its anti-epileptic function mainly by blocking the voltage-gated sodium channel and it is well tolerated by long-term drug users and features higher efficacy and safety. Currently, the Group is the first and the only domestic enterprise that submitted application and received acceptance for the production approval for this drug in China.

In addition, Beijing Ruiye Drugs Manufacture Co. Ltd., in which Sihuan Pharmaceutical holds a 44% stake, has been granted drug registration approval by NMPA in respect of the non-PVC solid-liquid double chamber infusion soft bag (including Ceftazidime, Cefuroxime, Cefodizime). The Group is the first and only pharmaceutical manufacturing company in China that obtained drug registration approval for solid-liquid double chamber bag injection of this series of drugs. The Group is entitled to be the exclusive distributor of these products. These products will further enrich the Group's product line in the area of anti-infective drugs, as well as firmly establish the Group's leading position in the area of non-PVC solid-liquid double chamber bag injection industry. The Group expects that these products together will form synergistic effect, thus contributing to the Group's development in the therapeutic antibiotic intravenous solution market.

In terms of quality consistency evaluation ("**QCE**") application, QCE for a series of selected generic products have been deployed. Some products in the Group's generic drug pipeline are expected to be the first three products of its kind to pass or to be deemed as passing QCE. Some products are expected to pass the assessment starting from the second half of 2019, including Rivastigmine Hydrogen Tartrate Capsule, Azithromycin Capsule and Octreotide Acetate Injection. As of the end of June 2019, the Group's generic drug platform has begun QCE application procedure for 7 products, in which 3 products have already been submitted for approval and 1 product has been granted approval. During the Period, 1 national level production approval has been acquired, 37 generic drugs projects of the Group are currently undergoing the review and approval process at NMPA and 109 projects are under research.

In terms of patents application, as of the end of June 2019, the innovative drugs platform has submitted applications for over 700 domestic patents, 47 PCT international patents, 1 Paris Convention patent (consisting of 4 countries), 2 submissions for patents in Taiwan, 24 submissions for patents in Hong Kong SAR and 2 independent submissions for patents in the United States. To date, the Group has been granted approximately 300 domestic patents in the PRC and over 80 overseas patents for its innovative drugs platform. Generic drugs platform has submitted patent applications for 22 products, among which 21 are domestic patents and 1 is PCT international patent. As of the end of June 2019, the Group has been granted 16 patents for its generic drugs platform.

Innovative Drugs Pipeline

Project at Clinical Stage	Therapeutic Area	Phase I Clinical Trial	Phase II Clinical Trial	Phase III Clinical Trial
Janagliflozin	Diabetes			1. Monotherapy 2. Combined Regiment with Metformin
CP001 Long-acting Basal Insulin	Diabetes			
Insulin Aspart	Diabetes			
Insulin Aspart 30	Diabetes			
Insulin Aspart 50	Diabetes			
Birociclib	Oncology			
Pirotinib	Oncology			
XZP-3621	Oncology			
Benapenem	Anti-inective			
Anaprazole Sodium	Gastrointestinal Disease			
Tylerdipine	Hypertension			
Fadanafil	BPH-LUTS/ED			

Project at Preclinical Stage	Therapeutic Area	Target Validation	LI/LO	Preclinical	IND
XZP-5809	Oncology				
XZP-P009	NASH				
XZP-P118	Oncology				
XZP-P183	NASH				
XZP-P107	Oncology				
XZP-P215	Oncology				
XZP-P223	Oncology				

Generic Drugs Pipeline

Therapeutic Area	Drug Name	Pharmaceutical Research	Bioequivalence Test ("BE")	Registration
Psychoneural Disease	Levetiracetam Tablet			
	Levetiracetam Concentrated Solution for Injection			
	Midazolam Oromucosal Solution			
	Rivastigmine Hydrogen Tartrate Capsule			
	Ibuprofen Injection			
	Gabapentin Capsule			
	Eslicarbazepine Acetate Tablet			
	AH-001			
	AH-002			
	AH-003			
	AH-004			
	AH-005			

Therapeutic Area	Drug Name	Pharmaceutical Research	BE	Registration
Thrombotic Disease	Clopidogrel Hydrogen Sulphate Tablet			
	Ticagrelor Tablet			
	Rivaroxaban Tablet			
	AH-006			
	AH-007			
Digestive System Disease	AH-008 (QCE)			
	AH-009			
	AH-010 (QCE)			
	AH-011			
Bacterial Injection	Azithromycin Capsule (QCE)			
	Caspofungin Acetate for Injection			
	AH-012			
Others	Octreotide Acetate Injection (QCE)			
	AH-013			
	AH-014			

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Sales & Marketing

The Group possesses a diversified product portfolio that has the flexibility to adjust its sales and marketing strategies in accordance to different market situations. During the Period, the Group focused on promoting efforts in seizing market share for its growth-stage products. The Group added new growth drivers while striving to maintain growth momentum of its core products. The Group rolled out targeted strategies for products in different stages of growth through refined marketing management, and therefore further realized advantages of its product portfolio. According to data from IMS Health Incorporate ("**IMS**"), the Group remained the largest CCV drug manufacturer in China's prescription drug market with a market share of 8.3% in 2018. The Group ranked 11 among pharmaceutical companies in China's hospital market with a market share of 1.4%.

1. *Promoted post-launch re-evaluation of key products, stepped up evidence-based research, strengthened connection between product mechanism and clinical efficacy and safety*

   The Group actively promoted the post-launch re-evaluation of its key products. To conduct pre-clinical studies, the Group has been collaborating with top domestic hospitals and research institutes such as the Tiantan Hospital, the First Hospital Affiliated to AMU (Southwest Hospital), the Institute of Medicinal Plant Development Affiliated with the Chinese Academy of Medical Sciences, and the Institute of Materia Medica of Peking Union Medical College. The aim of these studies is to verify the mechanism of action of the products. To date, 8 fundamental research projects have been completed, and 3 projects are underway. The Group has been collaborating with top domestic hospitals such as the Peking Union Medical College Hospital, the Peking University Third Hospital, the Chinese People's Liberation Army General Hospital (301 Hospital), the General Hospital of Beijing Military Region, and the First Affiliated Hospital of China Medical University. Together they have begun over ten post-launch researches on the Group's products, aiming at verifying these products' clinical efficacy and safety. 5 SCI articles and 10 articles on various key medical journals have been published, and another 5 articles have been submitted for publishing.

   - The Group has completed the large-scale clinical verification research of Cinepazide Maleate Injection (Brand name: Kelinao) for the treatment of acute ischemic stroke, with 1,301 patients recruited. The results showed that the product can effectively improve prognosis and reduce the disability rate of stroke patients. In addition, the safety of cinepazide maleate was confirmed by the clinical research led by the National Center for Adverse Reactions. The research enrolled 19,847 patients and was conducted in the People's Liberation Army General Hospital (301 Hospital). These high-quality evidences will provide strong medical support for the product.

- Based on the established mechanism of Cerebroside-kinin Injection resulted from previous fundamental research, the Group has carried out several large-scale clinical studies to confirm the efficacy and safety for its main indications. For instance, a multi-center RCT clinical study, currently carried out by the National Health and Family Planning Commission Stroke Prevention and Treatment Committee and led by the Southwest Hospital, is designed to verify the product's efficacy in patients with hypertensive cerebral hemorrhage through objective indicators such as imaging. In addition, the Group has completed the national multi-center RCT clinical study, which was led by the Peking University Third Hospital, on the efficacy of cerebroside-kinin in ischemic stroke patients, and the results confirmed that cerebroside-kinin can effectively improve their neurological functions and prognosis. The results have been submitted for publishing. Meanwhile, clinical research on the product's potential for improving cognitive impairment in stroke patients is progressing well. The Group also conducted a systematic review of cerebroside-kinin for its two major indications (ischemic stroke and cerebral hemorrhage), and the results of its meta-analysis have been published in key medical journals, which greatly enhanced the evidence-based level of the product upon publishing of the data.

- Troxerutin and Cerebroproptein Hydrolysate Injection has successfully completed the multi-center RCT study for its two major indications, acute cerebral infarction and traumatic brain injuries, led by the Beijing Hospital and General Hospital of Beijing Military Region, respectively. The product's efficacy and safety has been fully confirmed by these research, the results of which have been published in the Chinese Journal of Neurosurgery and other top domestic magazines. In addition, the article on the neuroprotective effects of brain damage caused by febrile seizures in children has also been published and accepted in key medical journals. The Group also conducted systematic evaluation and meta-analysis on the efficacy of Troxerutin and Cerebroproptein Hydrolysate Injection in the treatment of acute ischemic strokes. An article about this research has been accepted by key medical journals and is expected to be published in December 2019.

- Post-launch re-evaluation on Salvia Miltiorrhiza and Ligustrazine Injection has commenced as well. The national RCT study led by the Peking University First Hospital for treatment of acute ischemic strokes is also underway.

- The Group is also pushing forward the fundamental research and clinical research projects of its other growth-stage products such as Jie'ao, Huineng and Mainuokang. Some of the research results have been published, and more evidence will be generated to support the rational clinical use and academic promotion of these products.

2. *Adapting to policy changes and strengthening academic promotions by promoting products inclusion interpretation of clinical pathways, rational drug use guideline, and expert consensus etc.*

   While improving its evidence-based research system, the Group is adapting to the changing government policies by spearheading products inclusion in interpretation of clinical pathways and rational drug use guideline, which are in alignment with current government policies. In the national-level Interpretation of Clinical Pathways and the Interpretation of Clinical Pathway and Therapeutic Drugs published in 2018, multiple products of the Group have been recommended for various indications. Cerebroside-kinin injection (Brand name: Oudimei/Aofutai/Weitong/Jielixin) has been included in the rehabilitative medicine section of the 2018 edition of the Interpretation of Clinical Pathway. Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng) has been included in the rheumatology section of the 2018 edition of the Interpretation of Clinical Pathway and Therapeutic Drugs. Cerebroside-kinin injection has been included in China's Stroke Rational Drug Use Guidance and Salvia Miltiorrhiza and Ligustrazine Injection has been added to the Coronary Heart Diseases Rational Drug Use Guideline. The Group will continue to step up academic promotions, and actively participate in the promotion of rational drug use and official clinical pathways.

3. *Increased hospital coverage and accelerated the development of primary market*

   During the Period, the Group dedicated its efforts in deepening penetration of its mature products in first-tier markets where there was already extensive coverage, targeting to exploit untapped hospital resources, with the aim to stabilize sales and achieve steady growth. At the same time, complying with the government's promotion of hierarchical healthcare system, the Group concentrated its effort on directing the resource to primary healthcare institutions, while accelerating the development of small and medium-sized hospitals and community medical institutions in third- and fourth-tier cities. According to IMS, for the first quarter of 2019, the Group ranked 8th in terms of county market development with purchase amount reaching RMB2.89 billion.

Sales Figures of Key Products

CCV Products

Troxerutin and Cerebroproptein Hydrolysate Injection (Brand name: Yuanzhijiu/Xingwei/Yinxintong)

Troxerutin and Cerebroproptein Hydrolysate Injection is exclusive in China, with indications for treating chronic cerebrovascular diseases, including cerebrothrombosis, cerebral hemorrhage and cerebral vasospasm. During the Period, revenue from this product reached RMB311.8 million, representing a year-on-year increase of 10.3%. By 30 June 2019, this product was regularly prescribed in 4,738 hospitals, among which 538 hospitals were added in the Period.

Cerebroside-kinin Injection (Brand name: Oudimei/Aofutai/Weitong/Jielixin)

Cerebroside-kinin Injection is exclusive in China, with indications for treating central nervous system lesions such as stroke, Alzheimer's disease, craniocerebral lesions and hypoxic-ischemic encephalopathy in newborns. During the Period, revenue from this product reached RMB517.7 million, representing a year-on-year increase of 86.4%. By 30 June 2019, this product was regularly prescribed in 6,024 hospitals, among which 1,011 hospitals were added in the Period.

Salvia Miltiorrhiza and Ligustrazine Injection (Brand name: Wei'ao)

The Group is one of the only two manufacturers of Salvia Miltiorrhiza and Ligustrazine Injection in China. This product is intended to treat occlusive cerebrovascular diseases, ischemic cardiovascular disease, diabetic complications and other CCV symptoms. During the Period, revenue from this product reached RMB161.5 million, representing a year-on-year increase of 2.1%. By 30 June 2019, this product was regularly prescribed in 6,517 hospitals, among which 1,092 hospitals were added in the Period.

Cinepazide Maleate Injection (Brand name: Kelinao/Anjieli)

Cinepazide Maleate Injection has dual effect on improving cerebral circulation and neural protection, and is intended to treat CCV and peripheral vascular diseases, including cerebral arteriosclerosis, cerebral thrombosis, coronary disease and Raynaud's disease. This product has been included in the National Reimbursement Drug List ("**NRDL**"). The Group has already completed post-launch verification clinical research for this product. During the Period, revenue from this product reached RMB152.7 million, representing a year-on-year increase of 0.9%. By 30 June 2019, this product was regularly prescribed in 5,936 hospitals, among which 558 hospitals were added in the Period.

Floium Ginkgo Extract and Tertam Ethypyrazine Sodium Chloride Injection (Brand name: Mainuokang)

Floium Ginkgo Extract and Tertam Ethypyrazine Sodium Chloride Injection is a compound preparation of floium ginkgo extract and tertram ethylpyrazine, with indications in treating ischemic CCV disease, including blood supply insufficiency, cerebral thrombosis, cerebral embolism, coronary heart diseases, angina, heart attack, cerebral dysfunction and Alzheimer's disease. During the Period, revenue from this product reached RMB29.3 million, representing a year-on-year increase of 16.0%. By 30 June 2019, this product was regularly prescribed in 565 hospitals, among which 145 hospitals were added in the Period.

Non-CCV Products

Roxatidine Acetate Hydrochloride Injection (Brand name: Jie'ao)

Roxatidine Acetate Hydrochloride Injection is a novel H2 receptor antagonist, with indications in treating upper digestive tract hemorrhage caused by peptic ulcer and stress ulcer. This product suppresses gastric acid secretion and protects gastric mucosa, and has been included in the surgery section of the 2017 edition of the Interpretation of Clinical

Pathways and the general medicine section of the Interpretation of Clinical Pathway and Therapeutic Drugs (county-level), and has been recommended by the digestive disease section of the 2018 national-level edition of the Interpretation of Clinical Pathways. According to the data from IMS, the market volume of acid inhibitor for treatment of gastrointestinal disease exceeds RMB23.3 billion which indicates broad market potential. Additionally, the excessive use of proton pump inhibitor led to prescription restrictions indicated in the 2017 edition of NRDL, which has led to a slowdown in its growth but brought market opportunity for this product. During the Period, revenue from this product reached RMB62.7 million, representing a year-on-year increase of 139.3%. By 30 June 2019, this product was regularly prescribed in 652 hospitals, among which 166 hospitals were added in the Period.

Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection (Brand name: Huineng)

Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection is a compound preparation of ammonium glycyrrhizinate and cysteine, with liver protecting and enzyme reducing effects. This product is intended to treat chronic and acute hepatitis, hepatotoxicity, early-stage cirrhosis and other conditions. This product is an exclusive and patented compound preparation and is the only glycyrrhizic acid product suitable for elderlies and children. In addition, it is recommended by several clinical guidelines and expert consensus for its outperforming safety and efficacy properties, and was included in the rheumatology section of the 2018 edition of the Interpretation of Clinical Pathway and Therapeutic Drugs. During the Period, revenue from this product reached RMB37.6 million, representing a year-on-year increase of 120.7%. By 30 June 2019, this product was regularly prescribed in 615 hospitals, among which 140 hospitals were added in the Period.

Nicotinic Acid for Injection (Brand name: Shucheng)

Nicotinic Acid for Injection is a dual-function drug for inhibiting platelet aggregation and widening blood vessels, thereby improving microcirculation in ischemic regions, and is suitable for preventing and treating ischemic cardiovascular and cerebrovascular diseases and peripheral vascular diseases. Nicotinic Acid Injection is included in a number of official clinical guidelines, expert consensus, textbooks, and clinical pathways, including China Pharmaceutical Reference, New Edition of Pharmacology (17th Edition), and the 2018 edition of Interpretation of Clinical Pathways (Cardiovascular Diseases), and the 2018 edition of Interpretation of Clinical Pathways (Neurology). It is included in the 2017 edition of NRDL (Class B), in which it belongs to the pharmacologic class of peripheral vasodilators and there is no restriction on its applicable indications and hospital level. Affected by the medical insurance policy, the 2017 edition of NRDL has imposed different level of restrictions on many drugs that treats ischemic cardiovascular and cerebrovascular diseases, in terms of their applicable hospital levels and indications. Nicotinic Acid for Injection can quickly address unmet clinical needs in hospitals and provide a more convenient option for physicians and patients. During the Period, revenue from this product reached RMB26.3 million, representing a year-on-year increase of 130.7%. By 30 June 2019, this product was regularly prescribed in 988 hospitals, among which 335 were added during the Period.

During the Period, revenue from CCV products increased by 22.7% year-on-year to approximately RMB1,450.3 million, accounting for 87.2% of the Group's total revenue. The growth was mainly attributable to the adjustment of product sales structure. Revenue from non-CCV products increased by 120.6% year-on-year to approximately RMB212.0 million, accounting for 12.8% of the Group's total revenue, which was mainly attributable to the increased hospital coverage of growth-stage products during the Period.

Revenue of key CCV products

	Six months ended 30 June		
	2019	2018	**Year-on-year**
Product name	***RMB'000***	*RMB'000*	**change**
Yuanzhijiu/Xingwei/Xinyintong (Troxerutin and Cerebroproptein Hydrolysate Injection)	**311,842**	282,686	**10.3%**
Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin Injection)	**517,684**	277,707	**86.4%**
Wei' Ao (Salvia Miltiorrhiza and Ligustrazine Hydrochloride Injection)	**161,505**	158,172	**2.1%**
Kelinao/Anjieli (Cinepazide Maleate Injection)	**152,732**	151,312	**0.9%**
Yikangning/Yimaining (Alprostadil Lipid Emulsion Injection)	**63,879**	79,771	**–19.9%**
Yeduojia (Compound Trivitamin B(II) for Injection)	**39,564**	75,765	**–47.8%**
Aogan/Xiangtong (GM1)	**92,776**	67,508	**37.4%**
Mainuokang (Floium Ginkgo Extract and Tertam Ethypyrazine Sodium Chloride Injection)	**29,319**	25,278	**16.0%**
Qu'ao (Cerebroprotein Hydrolysate)	**11,958**	16,391	**–27.0%**
Nicotinamide Injection	**40,441**	14,314	**182.5%**

Revenue of key non-CCV products

	Six months ended 30 June		
	2019	2018	**Year-on-year**
Product name	***RMB'000***	*RMB'000*	**change**
Jie'ao (Roxatidine Acetate Hydrochloride for Injection)	**62,720**	26,211	**139.3%**
Huineng (Monoammonium Glycyrrhizinate and Cysteine and Sodium Chloride Injection)	**37,640**	17,053	**120.7%**
Shucheng (Nicotinic Acid Injection)	**26,297**	11,399	**130.7%**
Ren'ao (Oxcarbazepine)	**9,187**	8,900	**3.2%**
Xinnuoao (Clindamycin Injection)	**7,887**	8,859	**–11.0%**

B. FUTURE PROSPECTS

Looking forward, it is expected that China will continue to deepen healthcare reform in 2019, focusing on optimization and reform of its drug approval system, adjustment to medical insurance system, centralized drug procurement, as well as the Monitoring Drug List. The reformative measures will accelerate resource consolidation and revolution of the pharmaceutical industry. Further possible impact on prescription and procurement patterns is envisioned after the promulgation of the Monitoring Drug List in July 2019.

In view of the speed and scale of the rollout of new pharmaceutical policies, coupled with the changing macroeconomic and industrial landscapes, the Group will embrace the new policies and market trends with great adaptability, while diverting resources to drug R&D in order to create a sustainable drug pipeline. Through M&A and international collaborations, the Group will also optimize its product structure and widen its comprehensive product portfolio, building healthy product resources for mid- to long-term growth. The Group plans to strengthen its supply of raw materials through M&A and equity acquisitions, aiming to reduce cost and gain competitive advantages of its generic products.

In terms of marketing, the Group will utilize its diversified product portfolio and implement targeted marketing management for active promotion of growth-stage products and fast expansion of hospital coverage. Meanwhile, the Group will continue to strengthen its penetration in primary markets to fully unleash the potential of its core products in untapped markets. To promote clinical usage of its products, the Group will remain committed to optimizing its evidence-based research system to promote the inclusion of its key products in official clinical guidelines, expert consensus and interpretation of clinical pathways. In addition, the Group will continue the post-launch re-evaluations of its exclusive and main products to provide sufficient evidence to the clinical efficacy and safety of its products.

C. FINANCIAL REVIEW

Turnover

The Group continued to strengthen its CCV drugs through further realizing its potential of the product portfolio while it strives to enhance the sales of products in other therapeutic areas. Revenue of the Group for the Period has increased by approximately 30.0% to approximately RMB1,662.3 million (six months ended 30 June 2018: RMB1,278.3 million).

Income from sales of CCV drugs, which contributed to approximately 87.2% of total revenue of the Group, was approximately RMB1,450.3 million. It has increased by approximately RMB268.1 million whereas the remaining revenue from sales of non-CCV drugs has significantly increased by 120.6% to approximately RMB212.0 million (six months ended 30 June 2018: RMB96.1 million). It was mainly attributable to increased hospital coverage of growth-stage products during the Period.

Cost of sales

Cost of sales of the Group for the Period amounted to approximately RMB294.3 million (six months ended 30 June 2018: RMB252.6 million), accounting for approximately 17.7% of the total revenue.

Gross profit

Gross profit for the Period amounted to approximately RMB1,368.0 million (six months ended 30 June 2018: RMB1,025.7 million). It increased by approximately RMB342.3 million. Overall gross profit margin increased from 80.2% for the last corresponding period to 82.3% for the Period. The higher profit margin generated was mainly attributable to higher sales from products with better profit margin and continuous implementation of production cost control procedures by the Group during the Period.

Other net gains

Other net gains for the Period has decreased by approximately RMB66.7 million to approximately RMB237.4 million (six months ended 30 June 2018: RMB304.1 million). It was mainly due to a decrease in government grant and changes in fair value of financial assets at FVPL compared to last corresponding period.

Impairment loss on goodwill

The Group performed impairment test on goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. During the Period, it recorded an impairment provision of approximately RMB2,843.9 million against the value of goodwill which arose from acquisition of subsidiaries. This was because the Chinese government promulgated the Monitoring Drug List in July 2019, which had an impact on prescription and procurement patterns and influenced sales prices of chemical medicines and biological products. As such, the Group conducted the impairment test and reassessed the recoverable amount of the cash-generating units to which the goodwill relates. The Group recognised the goodwill impairment based on the result of the impairment test. For details, please refer to note 4 to the financial statements.

Distribution expenses

Distribution expenses for the Period amounted to approximately RMB120.3 million (six months ended 30 June 2018: RMB101.0 million). The increment of approximately RMB19.3 million compared to the last corresponding period was mainly attributable to the Group's enhanced academic promotion across the nation aiming for brand strengthening.

Administrative expenses

Administrative expenses for the Period have increased by 26.6% to approximately RMB227.8 million (six months ended 30 June 2018: RMB179.9 million). It was mainly due to the Group's overall expansion in operation.

Research and development expenses

Research and development expenses for the Period amounted to approximately RMB249.7 million (six months ended 30 June 2018: RMB179.9 million) which represented an increase of approximately 38.8%. It was mainly attributable to more efforts in R&D activities and expansion of the R&D team.

Other expenses

Other expenses for the Period amounted to approximately RMB5.5 million (six months ended 30 June 2018: RMB21.9 million).

Loss before tax

Loss before tax of the Group for the Period amounted to approximately RMB1,726.9 million (six months ended 30 June 2018: RMB921.0 million of profit). It was mainly due to the recognition of impairment loss on goodwill for the Period. Excluding this one-off impairment loss on goodwill, the Group has recorded significant increase of 21.3% on profit before income tax to approximately RMB1,117.0 million for the Period.

Income tax expense

Income tax expense of the Group for the Period increased by 76.0% to approximately RMB237.2 million (six months ended 30 June 2018: RMB134.8 million). The significant increase was mainly attributable to higher profits generated by certain subsidiaries of the Group compared with the last corresponding period.

Loss for the Period

Due to the aforesaid, loss for the Period amounted to approximately RMB1,964.1 million (six months ended 30 June 2018: RMB786.2 million of profit).

Loss attributable to owners of the Company

Loss attributable to owners of the Company for the Period amounted to approximately RMB2,019.9 million (six months ended 30 June 2018: RMB765.7 million of profit).

Non-controlling interests

Non-controlling interests for the Period amounted to approximately RMB55.9 million (six months ended 30 June 2018: RMB20.6 million).

Liquidity and financial resources

As at 30 June 2019, the Group's cash and cash equivalents amounted to approximately RMB4,936.5 million (31 December 2018: RMB3,314.8 million) and other financial assets which represents wealth management products amounted to approximately RMB562.2 million (31 December 2018: RMB1,303.3 million).

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus fund investment. According to terms of the agreements signed, the total amount of investment conducted by the Group for the Period, reached approximately RMB554.9 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills, and bank deposits. As of 30 June 2019, the Group recognized total financial assets at fair value through profit or loss approximately RMB562.2 million, comprising of principal of investment of approximately RMB554.9 million and approximately RMB7.3 million interest income, in the consolidated statement of financial position. As at the date of this announcement, total amount of sold/redeemed investment principal amounted to RMB303.0 million.

The Group maintained strong financial position. As at 30 June 2019, the Group's cash and cash equivalents amounted to approximately RMB4,936.5 million (31 December 2018: RMB3,314.8 million). As at the same date, borrowings from non-controlling shareholders of a subsidiary of the Group amounted to RMB19.0 million (31 December 2018: RMB95.0 million). The Group maintained net cash of over approximately RMB4,917.5 million (31 December 2018: RMB3,219.8 million).

The Group had sufficient cash as at 30 June 2019. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**4,936,513**	3,314,845

Trade and other receivables

The Group's trade receivables include credit sales of its products to be paid by its distributors. Other receivables of the Group consist of other receivables, notes receivables, prepayments to suppliers and amounts due from related parties. As at 30 June 2019, the Group's trade and other receivables were RMB815.2 million (31 December 2018: RMB857.2 million). The amount decreased by RMB42.0 million and was mainly due to an decrease in income tax receivable.

Inventory

As at 30 June 2019, inventories amounted to RMB365.1 million (31 December 2018: RMB301.1 million). The turnover period for the Period was 204 days (six months ended 30 June 2018: 182 days). The increase was attributable to more active pharmaceutical ingredient ("**API**") kept as at the end of the Period. This was because API, directly purchased from suppliers when needed in last corresponding period, have been produced by the Group and kept for internal demand. The Group has no inventory impairment during the Period.

Property, plant and equipment

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 30 June 2019, net book value of the property, plant and equipment was approximately RMB2,771.7 million (31 December 2018: RMB2,775.4 million). The decrease of approximately RMB3.7 million was mainly due to disposal of certain unused equipments during the Period.

Goodwill

The Group performed impairment test on goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the Period, it recorded an impairment provision of approximately RMB2,843.9 million against the value of goodwill which arose from acquisition of subsidiaries. Accordingly, as at 30 June 2019, there was no goodwill of the Group (31 December 2018: RMB2,843.9 million). For details, please refer to note 4 to the financial statements.

Intangible assets

The Group's intangible assets mainly comprise customer relationships, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisitions of several drug R&D projects and self-developed R&D projects. As at 30 June 2019, net intangible assets amounted to approximately RMB1,218.7 million (31 December 2018: RMB1,252.3 million).

Trade and other payables

The Group's trade and other payables mainly consist of trade payables, other payables, accrued expenses and payables to employee remuneration. As at 30 June 2019, trade and other payables amounted to approximately RMB2,236.7 million (31 December 2018: RMB1,686.7 million), The increase of RMB550.0 million was mainly attributable to accrued reimbursement to distributors as a result of implementation of two-invoice system.

Contingent liabilities and guarantees

As at 30 June 2019, the Group had no material contingent liabilities or guarantees (31 December 2018: Nil).

Off-balance sheet commitments and arrangements

As at 30 June 2019, the Group has neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations with any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

Capital commitment

As at 30 June 2019, the Group's total capital commitment was RMB488.2 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, wealth management products and other receivables.

All cash equivalents and bank deposits are deposited with certain reputable financial institutions in the PRC and high-quality international financial institutions outside the PRC. All those irrevocable bank bills, classified as notes receivable, are issued by banks with high credit rating in the PRC. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In respect of trade receivables, the Group has no high concentrations of credit risk and has policies in place to secure certain cash advances which has been received upon the agreement of the related sales orders with customers. For customers granted with credit terms, the Group will consider its financial position, credit record and other factors when assessing customers credit quality. It also undertakes certain monitoring procedures to ensure appropriate follow-up action being taken to recover overdue debts. The Group regularly performs aging analysis, assesses credit risks and estimates recoverability based on historical data and cash recovery records of trade receivables.

In respect of wealth management products, the Group's exposure to credit risk is set out in note 7 to the financial statements.

In respect of other receivables, the Group will assess the credit quality of the debtors by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also review the recoverability of these other receivables on a regular basis and follow up on disputes or amounts overdue, if any. The executive Directors are of the opinion that the default of the counterparties is low.

No other financial assets bear a significant exposure to credit risk.

Foreign exchange risk

The Group's functional currency is RMB. Financial instruments are denominated in RMB. The Group is subject to currency risk of United States Dollar ("**USD**"), Hong Kong Dollar ("**HKD**") or Euro ("**EUR**") against RMB as the Group's has some cash balances denominated in USD, HKD or EUR. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 30 June 2019, the Group had no outstanding borrowings denominated in foreign currencies.

During the Period, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury policy

The Group finances its ordinary operations with internally generated resources.

Capital expenditure

The Group's capital expenditure mainly includes purchase of property, plant and equipment, land use rights and intangible assets. For the Period, the Group's capital expenditure amounted to RMB179.2 million, of which expense on property, plant and equipment, acquisition of land use rights and purchase or in-house development of intangible assets amounted to RMB133.4 million, RMB28.4 million and RMB17.4 million, respectively.

For the Period, the Group's investment in capital expenditure for R&D amounted to RMB41.6 million, of which RMB26.9 million was spent on property, plant and equipment. The remaining RMB14.7 million related to the purchase of and self-developed intangible assets.

Material acquisition and disposal

There was no material acquisition and disposal during the Period.

Pledge of assets

As at 30 June 2019, none of the Group's assets was pledged.

Human resources and remuneration of employees

Talents are an indispensable asset to the Group's success in a competitive environment. The Group is committed to providing competitive remuneration packages and regularly reviewing human resources policies, to encourage employees to work towards enhancing the value of the Company and promoting the sustainable growth of the Company.

As at 30 June 2019, the Group had 3,627 employees. For the Period, the Group's total salary and related costs was approximately RMB296.7 million (six months ended 30 June 2018: RMB220.8 million).

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions of the Corporate Governance Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the Period.

DIRECTORS' 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. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code throughout the Period.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Period, the Company has, at all times, complied with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing at least one-third of the Board) and one of them should have appropriate professional qualifications or accounting or related financial management expertise.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee consists of one non-executive Director (Mr. Kim Jin Ha) and three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy. The chairman of the Audit Committee has the appropriate professional qualification and experience in financial matters. The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the Period.

REVIEW OF ACCOUNTS

Messrs. Ernst & Young, the Company's external auditors, have reviewed the Company's interim condensed consolidated financial information for the six months ended 30 June 2019 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

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

During the Period, the Company repurchased 5,400,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HK$9.65 million. Such shares have been cancelled as at the date of this announcement.

Details of repurchase are as follows:

Date of repurchase	Number of Ordinary shares repurchased	Highest HK$	Lowest HK$	Consideration paid HK$ Million	Equivalent to RMB Million
3 June 2019	5,400,000	1.80	1.77	9.65	8.48

Save as disclosed elsewhere in this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

EVENTS AFTER THE REPORTING PERIOD

On 29 July 2019, a wholly-owned subsidiary of the Company (the "**Subsidiary**") entered into an agreement with a wholly-owned subsidiary of a Singapore listed company (the "**Singapore Subsidiary**"), a third party, to set up a joint venture. The joint venture is owned as to 51% and 49% by the Subsidiary and the Singapore Subsidiary respectively. The joint venture will be given the exclusive rights to register, commercialize and distribute four products in the PRC. Details of the transaction were announced by the Company on 29 July 2019.

INFORMATION FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB0.4 cents per share (equivalent to HK0.45 cents per share) (six months ended 30 June 2018: RMB0.4 cents per share) for the Period.

The interim dividend will be payable on or around Wednesday, 30 October 2019 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company at the close of business on Wednesday, 23 October 2019.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF INTERIM DIVIDEND

The register of members of the Company will be closed from Monday, 21 October 2019 to Wednesday, 23 October 2019, both days inclusive, for the purpose of determining Shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 18 October 2019.

PUBLICATION OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019 ON THE STOCK EXCHANGE'S WEBSITE

This announcement of interim results for the six months ended 30 June 2019 is published on the websites of the Stock Exchange at http://www.hkexnews.hk and of the Company at http://www.sihuanpharm.com.

PUBLICATION OF INTERIM REPORT FOR THE PERIOD

The interim report of the Company for the Period will be dispatched to Shareholders and available on the websites of the Company (http://www.sihuanpharm.com) and the Stock Exchange (http://www.hkexnews.hk) in due course.

Shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via email at sihuanpharm-ecom@hk.tricorglobal.com specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

By order of the Board
Sihuan Pharmaceutical Holdings Group Ltd.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 19 August 2019

As at the date of this announcement, the executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Mr. Choi Yiau Chong, Dr. Zhang Jionglong and Ms. Chen Yanling; the non-executive Director is Mr. Kim Jin Ha; and the independent non-executive Directors are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.