# NANJING SINOLIFE UNITED COMPANY LIMITED*
# 南京中生聯合股份有限公司

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

**(Stock code: 3332)**

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

**FINANCIAL HIGHLIGHTS FOR THE FIRST HALF OF 2019**

- Revenue decreased by approximately 31.2% to approximately RMB152.2 million (First half of 2018: approximately RMB221.3 million)
- Gross profit decreased by approximately 47.9% to approximately RMB74.9 million (First half of 2018: approximately RMB143.7 million)
- Loss for the period was approximately RMB42.3 million (First half of 2018: profit of approximately RMB4.1 million)
- Basic loss per share was approximately RMB4.47 cents (First half of 2018: earnings per share approximately RMB0.43 cent)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (First half of 2018: nil)

## INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Nanjing Sinolife United Company Limited* 南京中生聯合股份有限公司 (the "**Company**") is pleased to announce its unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 which are as follows:

* *For identification purpose only*

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2019*

| | Notes | For the six months ended 30 June 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
|---|---|---|---|
| Revenue | 2, 3 | **152,174** | 221,323 |
| Cost of sales | | **(77,251)** | (77,618) |
| **Gross profit** | | **74,923** | 143,705 |
| Other income and gains | 3 | **5,864** | 4,879 |
| Selling and distribution expenses | | **(79,176)** | (102,669) |
| Administrative expenses | | **(40,736)** | (36,344) |
| Finance costs | | **(2,023)** | (1,975) |
| Other expenses | | **(2,153)** | (1,183) |
| (Loss)/Profit before tax | 4 | **(43,301)** | 6,413 |
| Income tax credit/(expense) | 5 | **1,031** | (2,338) |
| **(Loss)/Profit for the period** | | **(42,270)** | 4,075 |
| (Loss)/Profit attributable to: | | | |
| Owners of the parent | | **(42,270)** | 4,075 |
| **Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax** | | | |
| Exchange differences on translation of foreign operations | | **545** | 319 |
| **Total comprehensive (loss)/income for the period** | | **(41,725)** | 4,394 |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of the parent | | **(41,725)** | 4,394 |
| **(Loss)/Earnings per share attributable to ordinary equity holders of the parent:** | | | |
| — Basic and diluted for (loss)/profit | 7 | **RMB(4.47) cents** | RMB0.43 cent |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2019*

| | *Notes* | **30 June 2019 *RMB'000* (unaudited)** | 31 December 2018 *RMB'000* (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *8* | **161,406** | 140,825 |
| Prepaid land lease payments | | **10,093** | 10,216 |
| Goodwill | | **77,384** | 77,269 |
| Other intangible assets | | **67,947** | 69,707 |
| Right-of-use assets | | **20,163** | – |
| Deferred tax assets | | **37,144** | 34,871 |
| Pledged deposit | | **1,168** | 1,170 |
| Other non-current assets | | **6,736** | 6,734 |
| Total non-current assets | | **382,041** | 340,792 |
| **Current assets** | | | |
| Inventories | | **115,316** | 110,904 |
| Trade receivables | *9* | **54,070** | 57,654 |
| Prepaid land lease payments | | **247** | 247 |
| Prepayments, deposits and other receivables | | **39,257** | 24,134 |
| Tax recoverable | | **9,217** | 5,405 |
| Pledged deposits | | **434** | 434 |
| Cash and cash equivalents | | **133,357** | 201,411 |
| Total current assets | | **351,898** | 400,189 |
| **Total assets** | | **733,939** | 740,981 |
| **Current liabilities** | | | |
| Trade payables | *10* | **21,539** | 15,678 |
| Other payables and accruals | | **72,117** | 73,211 |
| Interest-bearing bank borrowings | | **30,000** | 20,000 |
| Lease liabilities | | **9,823** | – |
| Tax payables | | **6,100** | 6,303 |
| Total current liabilities | | **139,579** | 115,192 |
| **NET CURRENT ASSETS** | | **212,319** | 284,997 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **594,360** | 625,789 |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2019 (continued)*

| | *Notes* | **30 June 2019 *RMB'000* (unaudited)** | 31 December 2018 *RMB'000* (audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | **7,500** | 7,500 |
| Lease liabilities | | **10,456** | – |
| Deferred tax liabilities | | **13,860** | 14,021 |
| Provision | | **715** | 714 |
| **Total non-current liabilities** | | **32,531** | 22,235 |
| **NET ASSETS** | | **561,829** | 603,554 |
| **Equity** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **94,630** | 94,630 |
| Other reserves | | **467,199** | 508,924 |
| **TOTAL EQUITY** | | **561,829** | 603,554 |

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

### 1.1 Basis of preparation

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 (the "**period**") have been prepared in accordance with HKAS 34 Interim Financial Reporting.

These unaudited interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

### 1.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") effective as of 1 January 2019.

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| Annual Improvements 2015–2017 Cycle | *Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23* |

Other than as explained below regarding the impact of HKFRS 16 Leases and HK(IFRIC)-Int 23, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

#### *(1) HKFRS 16 Leases*

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 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 HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 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 HKAS 17.

## 1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

### 1.2 Changes in accounting policies and disclosures (continued)

#### *(1) HKFRS 16 Leases (continued)*

*New definition of a lease*

Under HKFRS 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 HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

*As a lessee — Leases previously classified as operating leases*

Nature of the effect of adoption of HKFRS 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 HKFRS 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 presented separately from other liabilities in the statement of financial position.

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 HKAS 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 HKFRS 16 at 1 January 2019:

- A lessee applied a single discount rate to portfolio of lease with reasonably similar characteristics;
- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

## 1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

### 1.2 Changes in accounting policies and disclosures (continued)

#### *(1) HKFRS 16 Leases (continued)*

*As a lessee — Leases previously classified as operating leases (continued)*

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 HKFRS 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. 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.

#### *(2) HK(IFRIC)-Int 23*

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## 2. OPERATING SEGMENT INFORMATION

### (a) Reportable segments

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

### (b) Geographical information

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

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

| | **For the six months ended 30 June 2019** | For the six months ended 30 June 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| PRC | **95,675** | 138,585 |
| New Zealand | **51,975** | 74,529 |
| Australia | **1,725** | 3,321 |
| Other countries | **2,799** | 4,888 |
| | **152,174** | 221,323 |

### (c) Non-current assets

| | **As at 30 June 2019** | As at 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| PRC | **213,802** | 190,055 |
| New Zealand | **43,848** | 29,965 |
| Australia | **1,959** | 728 |
| | **259,609** | 220,748 |

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

### (d) Information about major customers

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

## 3. REVENUE, OTHER INCOME AND GAINS

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

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

| | **For the six months ended 30 June 2019** ***RMB'000*** **(unaudited)** | For the six months ended 30 June 2018 *RMB'000* (unaudited) |
|---|---|---|
| **Type of goods or services** | | |
| Sale of goods | **151,897** | 221,158 |
| Rendering of services | **277** | 165 |
| | **152,174** | 221,323 |
| **Timing of revenue recognition** | | |
| Goods or services transferred at a point in time | **152,174** | 221,323 |
| Total revenue from contracts with customers | **152,174** | 221,323 |
| **Other income and gains** | | |
| Bank interest income | **2,079** | 2,029 |
| Reversal of bad debt | **360** | – |
| Government grants* | **3,290** | 2,539 |
| Net exchange gain | **–** | 192 |
| Other | **135** | 119 |
| | **5,864** | 4,879 |

* Various government grants have been received for the Group's contribution to the development of local economy. There are no unfulfilled conditions or contingencies relating to these grants.

## 4. (LOSS)/PROFIT BEFORE TAX

(Loss)/Profit before tax is arrived at after charging:

| | **For the six months ended 30 June 2019** ***RMB'000*** **(unaudited)** | For the six months ended 30 June 2018 *RMB'000* (unaudited) |
|---|---|---|
| Cost of inventories sold | **75,187** | 76,443 |
| Staff costs | **40,137** | 47,384 |
| Amortisation of prepaid land lease payments | **145** | 145 |
| Amortisation of intangible assets | **1,829** | 1,585 |
| Depreciation of property, plant and equipment | **4,624** | 3,451 |
| Operating lease payments on properties and retail shops (excluding depreciation of right-of-use assets) | **2,897** | 6,963 |
| Depreciation of right-of-use assets | **3,578** | – |
| Research and development expenses | **1,451** | 1,790 |

## 5. INCOME TAX (CREDIT)/EXPENSE

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

| | **For the six months ended 30 June 2019** *RMB'000* **(unaudited)** | For the six months ended 30 June 2018 *RMB'000* (unaudited) |
|---|---|---|
| Current | | |
| — PRC | **1,109** | 2,961 |
| — New Zealand | **324** | 775 |
| | **1,433** | 3,736 |
| Deferred tax | **(2,464)** | (1,398) |
| Total tax (credit)/expense for the period | **(1,031)** | 2,338 |

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

## 6. DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2019 (Six months ended 30 June 2018: nil).

No proposed dividend declared by the Board for the year ended 31 December 2018.

## 7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 946,298,370 in issue during the period (30 June 2018: 946,298,370).

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2019 and 2018.

The calculation of basic (loss)/earnings per share is based on:

| | **For the six months ended 30 June 2019** | For the six months ended 30 June 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **(Loss)/Earnings** | | |
| (Loss)/Profit for the period attributable to ordinary equity holders of the parent used in the basic (loss)/earnings per share calculation | **(42,270)** | 4,075 |

| | **For the six months ended 30 June 2019** | For the six months ended 30 June 2018 |
|---|---|---|
| | **(unaudited)** | (unaudited) |
| **Shares** | | |
| Weighted average number of ordinary shares for the purposes of the basic loss/(earnings) per share calculation | **946,298,370** | 946,298,370 |

## 8. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the period, additions to property, plant and equipment amounted to RMB26,340,964 (Six months ended 30 June 2018: RMB35,605,928).

As at 30 June 2019, certain of the Group's buildings with a net carrying amount of approximately RMB6,081,840 (As at 31 December 2018: nil) were pledged to secure a bank loan.

## 9. TRADE RECEIVABLES

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* (audited) |
|---|---|---|
| Trade receivables | **58,126** | 62,574 |
| Impairment | **(4,056)** | (4,920) |
| | **54,070** | 57,654 |

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

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* (audited) |
|---|---|---|
| Within 1 month | **23,377** | 34,277 |
| Over 1 month but within 3 months | **19,409** | 15,584 |
| Over 3 months but within 1 year | **10,716** | 6,875 |
| Over 1 year | **568** | 918 |
| | **54,070** | 57,654 |

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

## 10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* (audited) |
|---|---|---|
| Within 1 month | **7,648** | 9,021 |
| Over 1 month but within 3 months | **13,085** | 5,490 |
| Over 3 months but within 1 year | **148** | 320 |
| Over 1 year | **658** | 847 |
| | **21,539** | 15,678 |

The trade payables are non-interest-bearing and are normally settled on terms between 30 and 60 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

To further increase the income from Good Health brand, the Group invested more resources in the sales channels of Good Health series products, such as e-commerce platforms and TV shopping platforms. Therefore, the revenue generated by retail shops under the Zhongsheng brand, retail shops under Cobayer brand and online call centres decreased as compared with the same period of 2018. In order to reduce the inventories of Zhongsheng series products and Cobayer series products, the Group carried out promotional activities for such products. Meanwhile, the sales revenue of Hejian series products with higher gross profit margin in the past decreased, which affected the overall gross profit margin of the Group. The current expenses and depreciation charges among the administrative expenses increased as compared with the same period in 2018. The Group's revenue decreased from approximately RMB221.3 million in the first half of 2018 to approximately RMB152.2 million for the six months ended 30 June 2019, representing a decrease of approximately 31.2%. The Group's loss was approximately RMB42.3 million in the first half of 2019, as compared with a profit of approximately RMB4.1 million in the first half of 2018.

During the period, the Group succeeded in increasing the brand awareness in targeted markets by practising a strategic combination focused on Good Health brand, multiple marketing channels and product diversification. The Group carried out continuous brand building and promotion mainly through a combination of TV shopping platforms, distributors and online call centres in the PRC, the mutual penetration of distributors, chain pharmacies and travel channels in the overseas, and at the same time by opening flagship stores on domestic and foreign major e-commerce platforms.

In addition, the Group launched 7 new products in the first half of 2019, including 2 Hejian series products and 5 Good Health series products.

To achieve a fast-growing product development, the Group has adopted a market-oriented research and product development process to meet the evolving customer demands and needs. In the second half of 2019, the following products are planned to be launched, including organic fucoidan, magnesium L-theanine, folic acid chewable tablets, magnesium manganese capsules, adult probiotics and milk mineral salt gelatin candy, etc..

The Group continued to participate in a variety of marketing and promotional activities in the first half of 2019 to increase customer awareness of the products, including (1) 2019 China International Food & Beverage Exhibition* (2019中國國際食品和飲料展覽會); (2) the 10th China International Health Products Expo* (第10屆中國國際健康產品展覽會); and (3) the 19th CBME Children-Baby-Maternity Expo* (第19屆CBME中國孕嬰童展), etc..

*　*For identification purpose only*

The Group has a fast-growing retail network and diversified sales platforms to serve a broad customer base. To increase the income from Good Health brand, the Group has further invested more resources in the sales channels of the Good Health series products in the PRC market. The Group vigorously developed sales channels for domestic distributors and maternal and child products. At the same time, the Group has carried out in-depth cooperation with almost 20 TV shopping platforms, including Huimai online, happigo.com, ocj.com, cnmall.com, etc., and e-commerce platforms, such as Alibaba, Tmall International, JD.com, vip.com, kaola.com, xiaohongshu.com, pinduoduo.com, Health Post and Health Element. The Group's overseas diversified sales platforms mainly include international distribution network broadly distributed in countries including the United Kingdom, Germany, the Netherlands, the United States, Korea, Japan, Singapore, South Africa, Vietnam, Thailand, Malaysia, Indonesia and the United Arab Emirates, and local large chain pharmacies, health goods supermarkets and tourist souvenir shops in New Zealand and Australia.

## FINANCIAL REVIEW

### Results

The revenue of the Group in the first half of 2019 was approximately RMB152.2 million, representing a decrease of approximately 31.2% from approximately RMB221.3 million over the corresponding period in 2018. For the first half of 2019, the Group recorded a loss of approximately RMB42.3 million, as compared with a profit of approximately RMB4.1 million in the first half of 2018. The Company's loss per share was approximately RMB4.47 cents (First half of 2018: earnings per share of approximately RMB0.43 cent) based on the weighted average number of approximately 946.3 million shares in issue during the first half of 2019 (First half of 2018: approximately 946.3 million shares).

### Revenue

The revenue of the Group decreased by approximately 31.2% from approximately RMB221.3 million in the first half of 2018 to approximately RMB152.2 million for the six months ended 30 June 2019. To further increase the income from Good Health brand, the Group invested more resources in the sales channels of Good Health series products, such as e-commerce platforms and TV shopping platforms. Therefore, the revenue generated by retail shops under the Zhongsheng brand, retail shops under Cobayer brand and online call centres decreased as compared with the same period of 2018.

### Gross profit

The Group's gross profit decreased by approximately 47.9% from approximately RMB143.7 million in the first half of 2018 to approximately RMB74.9 million for the six months ended 30 June 2019. The Group's average gross profit margin decreased from approximately 64.9% in the first half of 2018 to approximately 49.2% for the six months ended 30 June 2019. Such decrease in gross profit was mainly due to (i) a decrease in revenue as compared with the corresponding period of last year; (ii) the Group carried out promotional activities for Zhongsheng series products and Cobayer series products and reduced the selling price of such products, for the purpose of reducing the inventories of Zhongsheng series products and Cobayer series products; and (iii) the sales revenue of Hejian series products with higher gross profit margin decreased as compared with the corresponding period of last year, which affected the overall gross profit margin of the Group.

**Other income and gains**

The Group's other income and gains increased from approximately RMB4.9 million in the first half of 2018 to approximately RMB5.9 million in the first half of 2019, which was mainly due to the government grants and reverse of bad debt provision.

**Selling and distribution expenses**

The Group's selling and distribution expenses decreased by approximately 22.9% from approximately RMB102.7 million in the first half of 2018 to approximately RMB79.2 million for the six months ended 30 June 2019, representing approximately 46.4% and 52.0% of the Group's revenue respectively. Such decrease in selling and distribution expenses was primarily due to (i) in the first half of 2018, the Group has spent more advertising and promotion expenses for Good Health series products as compared with the same period of 2019; advertising and promotion expenses for Good Health series products decreased in the first half of 2019; (ii) the decrease in staff compensation expenses of approximately RMB8.2 million as a result of staff structure optimisation in Zhongsheng and Shanghai Hejian; and (iii) the decrease in daily expenses of approximately RMB6.1 million by Zhongsheng and Hejian.

**Administrative expenses**

The Group's administrative expenses increased by approximately 12.1% from approximately RMB36.3 million for the first half of 2018 to approximately RMB40.7 million for the six months ended 30 June 2019, representing approximately 16.4% and 26.7% of the Group's revenue respectively. Such increase in administrative expenses was primarily due to (i) the increase in daily expenses of approximately RMB1.6 million as compared with the same period last year; and (ii) the increase in depreciation expenses of approximately RMB2.1 million as compared with the same period last year, resulting from the use of some new office buildings in the Group's headquarters.

**Income tax credit/(expense)**

Income tax credit/(expense) increased from an income tax expense of approximately RMB2.3 million in the first half of 2018 to an income tax credit of approximately RMB1.0 million for the six months ended 30 June 2019, which was mainly due to the loss before tax of the Group. The Group's effective tax rates for the six months ended 30 June 2018 and 2019 were approximately 36.5% and 2.4% respectively.

**(Loss)/Profit for the period**

The Group's profit for the period decreased from a profit of approximately RMB4.1 million in the first half of 2018 to a loss of approximately RMB42.3 million in the first half of 2019. The decrease was primarily due to the fact that, in order to further increase the income from Good Health brand, the Group invested more resources in the sales channels of Good Health series products, such as e-commerce platforms and TV shopping platforms. Therefore, the revenue generated by retail shops under the Zhongsheng brand, retail shops under Cobayer brand and online call centres decreased as compared with the same period of 2018. In order to reduce the inventories of Zhongsheng series products and Cobayer series products, the Group carried out promotional activities for such products and lowered the selling price of Zhongsheng series products and Conbair/Cobayer series products, leading to a reduced gross profit margin of Zhongsheng series products and Conbair/Conbayer products during the six months ended 30 June 2019. Meanwhile, the sales revenue of Hejian series products with higher gross profit margin decreased as compared with the corresponding period last year, which affected the overall gross profit margin of the Group. The daily expenses and depreciation expenses among the administrative expenses increased as compared with the same period last year.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flow

For the first half of 2019, cash and cash equivalents of the Group decreased by approximately RMB68.0 million, which comprised the net cash outflow in operating activities with the amount of approximately RMB65.3 million, net cash outflow in investing activities with the amount of approximately RMB11.2 million, net cash inflow from financing activities with the amount of approximately RMB8.0 million and exchange gain of approximately RMB0.5 million.

### Inventories

The Group's inventories increased to approximately RMB115.3 million as at 30 June 2019 (As at 31 December 2018: approximately RMB110.9 million), which was primarily due to the increase in inventory level of Good Health series products in New Zealand in order to meet the online and offline product demands in the PRC market. The Group's inventories comprised raw materials, work in progress, finished goods and merchandise. During the first half of 2019, inventory turnover was approximately 303 days (First half of 2018: approximately 411 days). The decrease in inventory turnover period for the six months ended 30 June 2019 was primarily due to the decrease in the level of the inventories of the Group's subsidiaries in the PRC.

### Trade receivables

The Group's trade receivables amounted to approximately RMB54.1 million as at 30 June 2019 (As at 31 December 2018: approximately RMB57.7 million). During the first half of 2019, the Good Health series products were sold through distributors and TV shopping platforms, in which the distributors were generally granted with credit terms of 30 to 90 days, while the credit term granted to TV shopping platforms was 30 days. Turnover days for trade receivables increased to approximately 66 days (First half of 2018: approximately 42 days), which was mainly due to the increase in the proportion of sales income of distributors.

### Trade payables

The Group's trade payables amounted to approximately RMB21.5 million as at 30 June 2019 (As at 31 December 2018: approximately RMB15.7 million). Turnover days for trade payables increased to approximately 45 days (First half of 2018: approximately 39 days), which was primarily due to the extension of payment period with some suppliers from 30 days to 60 days through re-entering into the contract by Good Health in New Zealand, for its increased bargaining power resulting from the increased purchases of its products.

**Foreign exchange exposure**

As the Group conducts inbound transactions principally in RMB and outbound transactions principally in Australian dollar and New Zealand dollar, the Group had not utilised any financial instruments for hedging purposes as at 30 June 2019. During the first half of 2019, the Group recorded a net exchange loss of approximately RMB1.6 million (First half of 2018: net exchange gain of approximately RMB0.2 million), which was primarily due to the currency exchange of RMB and New Zealand dollar between the parent company in the PRC and Good Health in New Zealand.

**Borrowings and pledge of assets**

The Group had outstanding bank borrowings of approximately RMB37.5 million as at 30 June 2019. RMB17.5 million of these bank borrowings are secured by the charge over the Group's 100% equity interests in Shanghai Weiyi Investment & Management Limited Company* (上海惟翊投資管理有限公司) and RMB20 million of these bank borrowings are secured by the pledge over the Company's commercial building on Changjiang Road 188, Nanjing.

**Capital expenditure**

The Group invested approximately RMB24.1 million in the first half of 2019 (First half of 2018: approximately RMB35.6 million) for constructions of research and development ("**R&D**") centers, plant and equipment.

**Capital commitments and contingent liabilities**

As at 30 June 2019, the Group's capital commitments were approximately RMB13.7 million (As at 31 December 2018: approximately RMB38.8 million), all of which were commitments for constructions of R&D centres, plant and equipment. The Group had no material contingent liabilities as at 30 June 2019 (As at 31 December 2018: nil).

## OUTLOOK

Looking into the second half of 2019, the Group will continue to develop and maintain the channels for pharmacies, maternity stores, e-commerce and TV shopping platforms.

Upon fully penetrating into the PRC market, the Group will achieve active promotion and development in our maternity series products under Good Health, alongside growing brand influence and product exhibits. In the meantime, the maturing e-commerce business and TV shopping channels experience a steady growth amid their respective stable development.

The maternity market and nutritional supplement sector in the PRC continue to present a positive outlook due to their enormous growth potential. The Group is confident in upholding high quality and high standards in its products. In addition to safeguarding health, the Group is committed to serving the community and creating values for its customers.

* *For identification purpose only*

## HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff is indispensable asset to the Group's success in the competitive market. By providing comprehensive trainings and corporate culture education periodically, the Group's employees are able to obtain on-going training and development in the nutritional supplements industry. Furthermore, the Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees. The Group reviews its human resources and remuneration policies periodically to ensure that they are in line with market practice and regulatory requirements. As at 30 June 2019, the Group employed a work force of 562, including 261 employees of Zhongsheng, 142 employees of Hejian, 119 employees of Good Health, 9 employees of Australia and 31 employees of Living Nature. The total salaries and related costs for the six months ended 30 June 2019 amounted to approximately RMB40.1 million (First half of 2018: approximately RMB47.4 million).

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

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

The Company has made specific enquiry with the Directors and all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2019 and up to the date of this announcement.

## CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code and Corporate Governance Report ("**CG Code**") as set out in Appendix 14 to the Listing Rules on the Stock Exchange for the six months ended 30 June 2019 and up to the date of this announcement.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (First half of 2018: nil).

## REVIEW OF THE INTERIM RESULTS

The unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules on the Stock Exchange and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. Zhang Jitong, Ms. Cai Tianchen and Mr. Wang Wei. Ms. Cai Tianchen serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting, internal control and risk management systems of the Company and to assist the Board to fulfill its responsibilities over audit.

## PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.zs-united.com. The interim report of the Group for the six months ended 30 June 2019 containing all the relevant information required by the Listing Rules on the Stock Exchange will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

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

Nanjing, the People's Republic of China, 30 August 2019

*As of the date of this announcement, the executive Directors are Mr. Gui Pinghu, Ms. Zhang Yuan, Ms. Xu Li and Ms. Zhu Feifei; the non-executive Director is Ms. Li Fan; and the independent non-executive Directors are Mr. Zhang Jitong, Ms. Cai Tianchen and Mr. Wang Wei.*

* *For identification purpose only*