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 2020

## FINANCIAL HIGHLIGHT

| | **Six months ended 30 June** | | | Six months ended from 1 July to 31 December | |
|---|---|---|---|---|---|
| | **2020** | 2019 | **Year-on-year change** | 2019 | **Period-to-period change** |
| | ***RMB'000*** | *RMB'000* | | *RMB'000* | |
| **Continuing operations** | | | | | |
| **Key Income Statement Items** | | | | | |
| Revenue | **1,054,537** | 1,657,640 | **(36.4%)** | 1,220,678 | **(13.6%)** |
| Gross profit | **786,057** | 1,365,549 | **(42.4%)** | 923,782 | **(14.9%)** |
| Research and development expenditure | **392,693** | 272,886 | **43.9%** | 457,957 | **(14.3%)** |
| Operating profit/(loss) | **315,135** | (1,695,409) | **N/A** | (710,823) | **N/A** |
| Profit/(loss) attributable to owners of the Company | **170,491** | (2,001,479) | **N/A** | (716,039) | **N/A** |
| **Key Financial Indicators** | | | | | |
| Gross profit margin | **74.5%** | 82.4% | | 75.7% | |
| Net profit/(loss) margin | **16.0%** | (117.2%) | | (62.8%) | |
| Earnings/(loss) per share – Basic (RMB cents) | **1.80** | (21.13) | | (7.56) | |
| Receivable turnover ratio (days) | **49** | 53 | | 59 | |
| Interim cash dividend per share (RMB cents) | **0.1** | 0.4 | | N/A | |
| Special cash dividend per share (RMB cents) | **3.0** | – | | N/A | |

- Revenue of the Group for the Period has decreased by 36.4% to approximately RMB1,054.5 million (six months ended 30 June 2019: RMB1,657.6 million).

- Gross profit margin decreased to 74.5% for the Period (six months ended 30 June 2019: 82.4%).

- The Group has continued its efforts in research and development ("**R&D**") activities. R&D expenditure and related activities increased by 43.9% to approximately RMB392.7 million, representing 37.2% of the total revenue of the Group.

- Operating profit and profit attributable to owners of the Company from continuing operations of approximately RMB315.1 million and RMB170.5 million, respectively, were recorded for the Period while losses of approximately RMB1,695.4 million and RMB2,001.5 million, respectively were recorded for the last corresponding period. Upon consideration of the loss attributable to owners of the Company from discontinued operations, profit attributable to owners of the Company for the Period amounted to approximately RMB150.0 million (six months ended 30 June 2019: RMB2,019.9 million of loss).

- The Group has maintained a strong financial position and has recorded a net cash of approximately RMB4,336.0 million as at 30 June 2020.

- An interim cash dividend of RMB0.1 cents (six months ended 30 June 2019: RMB0.4 cents per share) and a special cash dividend of RMB3.0 cents per share (six months ended 30 June 2019: Nil) were declared by the Board.

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2020 (the "**Period**") together with the comparative figures for the six months ended 30 June 2019. 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 CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2020*

| | Notes | As at 30 June 2020 RMB'000 (Unaudited) | As at 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *4* | **2,822,959** | 2,731,010 |
| Right-of-use assets | | **790,858** | 893,555 |
| Investment properties | | **229,194** | 232,802 |
| Goodwill | | **8,761** | – |
| Intangible assets | | **551,977** | 480,008 |
| Investments accounted for using the equity method | | **990,006** | 1,083,858 |
| Deferred tax assets | | **293,270** | 332,222 |
| Financial assets at fair value through profit or loss | *5* | **165,720** | 174,220 |
| Other non-current assets | | **320,254** | 338,614 |
| **Total non-current assets** | | **6,172,999** | 6,266,289 |
| **CURRENT ASSETS** | | | |
| Inventories | | **439,713** | 409,595 |
| Trade and other receivables | *6* | **694,154** | 630,073 |
| Financial assets at fair value through profit or loss | *5* | **420,851** | 148,336 |
| Cash and cash equivalents | | **4,947,814** | 5,117,143 |
| | | **6,502,532** | 6,305,147 |
| Assets of disposal groups classified as held for sale | *13* | **441,900** | – |
| **Total current assets** | | **6,944,432** | 6,305,147 |
| **TOTAL ASSETS** | | **13,117,431** | 12,571,436 |

| | Notes | As at 30 June 2020 RMB'000 (Unaudited) | As at 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *7* | **78,186** | 78,186 |
| Share premium | *7* | **4,084,846** | 4,084,846 |
| Other reserves | | **186,466** | 192,674 |
| Retained earnings | | **4,274,552** | 5,250,978 |
| | | **8,624,050** | 9,606,684 |
| **Non-controlling interests** | | **317,003** | 335,510 |
| **Total equity** | | **8,941,053** | 9,942,194 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **215,133** | 282,621 |
| Interest-bearing bank borrowings | *10* | **72,845** | – |
| Lease liabilities | | **2,008** | 5,892 |
| Contract liabilities | | **–** | 275 |
| Other non-current liabilities | | **91,657** | 79,674 |
| **Total non-current liabilities** | | **381,643** | 368,462 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *9* | **2,942,109** | 1,905,792 |
| Interest-bearing bank borrowings | *10* | **514,975** | – |
| Contract liabilities | | **221,009** | 326,295 |
| Income tax payable | | **37,565** | 14,033 |
| Lease liabilities | | **1,143** | 4,058 |
| Other current liabilities | | **10,504** | 10,602 |
| | | **3,727,305** | 2,260,780 |
| Liabilities directly associated with the assets classified as held for sale | *13* | **67,430** | – |
| **Total current liabilities** | | **3,794,735** | 2,260,780 |
| **TOTAL LIABILITIES** | | **4,176,378** | 2,629,242 |
| **TOTAL EQUITY AND LIABILITIES** | | **13,117,431** | 12,571,436 |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2020*

| | Notes | Six months ended 30 June **2020** *RMB'000* **(Unaudited)** | 2019 *RMB'000* (Unaudited) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | *11* | **1,054,537** | 1,657,640 |
| Cost of sales | | **(268,480)** | (292,091) |
| **GROSS PROFIT** | | **786,057** | 1,365,549 |
| Other income | *11* | **85,831** | 124,762 |
| Other gains – net | | **103,500** | 237,354 |
| Impairment loss on goodwill | | **–** | (2,843,903) |
| Distribution expenses | | **(136,515)** | (117,933) |
| Administrative expenses | | **(212,158)** | (222,328) |
| Research and development expenses | | **(300,850)** | (233,646) |
| Other expenses | | **(10,730)** | (5,264) |
| **OPERATING PROFIT/(LOSS)** | | **315,135** | (1,695,409) |
| Finance expenses | | **(1,586)** | (2,362) |
| Share of profits and losses of investments accounted for using the equity method | | **(11,429)** | (7,133) |
| **PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | | **302,120** | (1,704,904) |
| Income tax expense | *12* | **(133,427)** | (237,217) |
| **PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS** | | **168,693** | (1,942,121) |
| **DISCONTINUED OPERATIONS** | | | |
| Loss for the period from discontinued operations | *13* | **(24,436)** | (21,976) |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **144,257** | (1,964,097) |
| **Attributable to:** | | | |
| Owners of the Company | | **149,990** | (2,019,947) |
| Non-controlling interests | | **(5,733)** | 55,850 |
| | | **144,257** | (1,964,097) |

| | Note | Six months ended 30 June 2020 RMB cents (Unaudited) | 2019 RMB cents (Unaudited) |
|---|---|---|---|
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF COMPANY** | | | |
| Basic and diluted earnings/(loss) per share | *14* | | |
| For profit/(loss) for the period | | **1.58** | (21.33) |
| For profit/(loss) from continuing operations | | **1.80** | (21.13) |

| | Six months ended 30 June 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
|---|---|---|
| **PROFIT/(LOSS) FOR THE PERIOD** | **144,257** | (1,964,097) |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **–** | – |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | **144,257** | (1,964,097) |
| **Attributable to:** | | |
| Owners of the Company | **149,990** | (2,019,947) |
| Non-controlling interests | **(5,733)** | 55,850 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | **144,257** | (1,964,097) |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2020*

| | 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* |
| **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 8)* | – | – | 176 | – | 176 | – | 176 |
| Repurchase and cancellation of shares | (47) | (8,471) | – | – | (8,518) | – | (8,518) |
| Final 2018 dividend *(Note 15)* | – | – | – | (123,124) | (123,124) | – | (123,124) |
| Dividend paid to a non-controlling shareholder | – | – | – | – | – | (37,818) | (37,818) |
| Changes in interests in subsidiaries without change of control | – | – | 3,265 | – | 3,265 | 78,987 | 82,252 |
| **As at 30 June 2019 (unaudited)** | 78,186 | 4,084,846 | 163,072 | 6,036,161 | 10,362,265 | 360,969 | 10,723,234 |

| | **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*** |
| **As at 1 January 2020** | **78,186** | **4,084,846** | **192,674** | **5,250,978** | **9,606,684** | **335,510** | **9,942,194** |
| Profit/(loss) for the period | **–** | **–** | **–** | **149,990** | **149,990** | **(5,733)** | **144,257** |
| **Total comprehensive income/ (loss) for the period** | **–** | **–** | **–** | **149,990** | **149,990** | **(5,733)** | **144,257** |
| Employee share award scheme: – Value of employee services *(Note 8)* | **–** | **–** | **147** | **–** | **147** | **–** | **147** |
| Dividend paid to a non-controlling shareholder | **–** | **–** | **–** | **–** | **–** | **(24,500)** | **(24,500)** |
| Final 2019 and special dividend *(Note 15)* | **–** | **–** | **–** | **(1,126,416)** | **(1,126,416)** | **–** | **(1,126,416)** |
| Non-controlling interests arising on business combination | **–** | **–** | **–** | **–** | **–** | **5,360** | **5,360** |
| Changes in interests in subsidiaries without change of control | **–** | **–** | **(6,355)** | **–** | **(6,355)** | **6,366** | **11** |
| **As at 30 June 2020 (unaudited)** | **78,186** | **4,084,846** | **186,466** | **4,274,552** | **8,624,050** | **317,003** | **8,941,053** |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
*For the six months ended 30 June 2020*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2020** | 2019 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | | **174,947** | 1,631,494 |
| Income tax paid | | **(147,854)** | (386,580) |
| **Net cash flows from operating activities** | | **27,093** | 1,244,914 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital contribution to associates | | **(98,426)** | (13,946) |
| Capital contribution to a joint venture | | **(5,337)** | – |
| Purchases of items of property, plant and equipment | | **(219,004)** | (133,443) |
| Purchases of intangible assets | | **(74,804)** | (17,421) |
| Purchases of land use rights | | **–** | (28,430) |
| Purchases of financial assets at fair value through profit or loss | | **(6,776,895)** | (8,596,809) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **6,505,950** | 9,308,480 |
| Proceeds from disposal of property, plant and equipment | | **2,035** | 805 |
| Advances of loans to a third party | | **(4,928)** | (14,370) |
| Advances of loans to an associate | | **(29,353)** | (19,980) |
| Repayment of loans from a third party | | **1,158** | – |
| Acquisitions of subsidiaries, net of cash acquired | *16* | **7,501** | – |
| Interest received | | **23,005** | 56,818 |
| **Net cash flows (used in)/generated from investing activities** | | **(669,098)** | 541,704 |

| | Notes | Six months ended 30 June 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | **–** | (76,000) |
| Proceeds from borrowings | | **587,820** | – |
| Repurchase and cancellation of shares | *7* | **–** | (8,518) |
| Principal portion of lease payments | | **(1,669)** | (1,487) |
| Capital contribution by a non-controlling shareholder of a subsidiary | | **11** | 82,252 |
| Dividends paid to the Company's shareholders and a non-controlling shareholder | | **(24,500)** | (160,942) |
| Interest paid | | **(290)** | (255) |
| **Net cash flows generated from/(used in) financing activities** | | **561,372** | (164,950) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(80,633)** | 1,621,668 |
| Cash and cash equivalents at beginning of the period | | **5,117,143** | 3,314,845 |
| **Cash and cash equivalents at end of the period** | | **5,036,510** | 4,936,513 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **4,947,814** | 4,936,513 |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | | **4,947,814** | 4,936,513 |
| Cash and short term deposits attributable to discontinued operations | *13* | **88,696** | – |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows | | **5,036,510** | 4,936,513 |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2020*

### 1. CORPORATE AND GROUP INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. was incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of its subsidiaries are the R&D, and the manufacturing 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 on 28 October 2010.

### 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 2020 have been prepared in accordance with International Accounting Standard ("**IAS**") 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 Group's annual consolidated financial statements for the year ended 31 December 2019.

The interim condensed consolidated financial statements are presented in thousand Renminbi ("**RMB'000**"), unless otherwise stated. The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 25 August 2020.

#### 2.2 Changes in accounting policies and disclosures

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

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

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

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

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

(c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

    There are no rent concessions granted by the lessors during the six months ended 30 June 2020. Accordingly, the amendments did not have any impact on the financial position and performance of the Group.

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

## 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 R&D, and the manufacturing and sale of pharmaceutical products in the Mainland China. During the six months ended 30 June 2020, 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 2019: Nil).

## 4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB212,237,000 (six months ended 30 June 2019: RMB136,579,000), excluding property, plant and equipment acquired through a business combination disclosed in note 16 to the interim condensed consolidated financial statements.

Assets (other than those pending disposal and classified as held for sale) with a net book value of RMB2,148,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB3,095,000), resulting in a net loss on disposal of RMB30,000 (six months ended 30 June 2019: RMB215,000).

No impairment losses were recognised during the six months ended 30 June 2020 and 2019.

## 5. 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 2020 and 31 December 2019:

| | | **As at** | |
|---|---|---|---|
| | *Notes* | **30 June 2020** ***RMB'000*** **(Unaudited)** | 31 December 2019 *RMB'000* (Audited) |
| **Non-current** | | | |
| Financial assets at fair value through profit or loss ("**FVPL**"): | | | |
| Unlisted investments, at fair value | *i* | **165,720** | 174,220 |
| **Current** | | | |
| Financial assets at FVPL: | | | |
| Short-term investments | *ii* | **420,851** | 148,336 |
| | | **586,571** | 322,556 |

*Notes:*

(i) The amount represents equity investments in the unquoted equity shares of KBP Biosciences Holdings Limited and Lindeman Asia No.12 Investment Fund. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify at fair value through other comprehensive income.

Equity investments in the unquoted equity shares of Jiangsu Antai Biotechnology Co., Ltd, and Zhejiang Zhida Pharmaceutical Co., Ltd are pending disposal and had been classified as held for sale (Note 13).

(ii) The amount represents wealth management products issued by certain reputable banks in Mainland China with no fixed interest rate. They were mandatorily classified as financial assets at FVPL as their contractual cash flows are not solely payments of principal and interest.

## 6. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2020 | 31 December 2019 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Unaudited) | (Audited) |
| Trade receivables – third parties | **209,663** | 158,640 |
| Notes receivable | **71,819** | 137,166 |
| Prepayments to suppliers | **124,073** | 116,882 |
| Amounts due from associates and joint venture | **132,270** | 79,326 |
| Amount due from a related party | **9,600** | 9,600 |
| Other receivables | **154,945** | 132,065 |
| | **702,370** | 633,679 |
| Provision of impairment on trade receivables | **(8,216)** | (3,606) |
| | **694,154** | 630,073 |

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 2020 | 31 December 2019 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Unaudited) | (Audited) |
| Within 3 months | **164,310** | 135,426 |
| 3 to 6 months | **12,851** | 13,114 |
| 6 to 12 months | **22,341** | 5,512 |
| More than 1 year | **1,945** | 982 |
| | **201,447** | 155,034 |

## 7. SHARE CAPITAL AND SHARE PREMIUM

| | Number of issued and fully paid ordinary shares<br>*Share'000* | Share capital<br>*RMB'000* | Share premium<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| **As at 1 January 2019 (audited)<br>(Hong Kong dollar ("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:<br>Repurchase and cancellation of shares *(Note (i))* | (5,400) | (47) | (8,471) | (8,518) |
| **As at 30 June 2019 (unaudited)<br>(HK$0.01 per share)** | 9,465,682 | 78,186 | 4,084,846 | 4,163,032 |
| **As at 31 December 2019 (audited)<br>(HK$0.01 per share)** | 9,465,682 | 78,186 | 4,084,846 | 4,163,032 |
| **As at 30 June 2020 (unaudited)<br>(HK$0.01 per share)** | **9,465,682** | **78,186** | **4,084,846** | **4,163,032** |

*Note:*

(i) During the six months ended 30 June 2019, 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.

## 8. SHARE-BASED PAYMENTS

### (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 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, awards were granted to the eligible employees of the Group, and are exercisable and converted 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 awards granted.

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

| | **Exercise price in HK$ per share award** | **Number of awards granted (in thousands)** |
|---|---|---|
| Grant date | | |
| 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 31,448,172 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)** | |
|---|---|---|---|
| | | **2020** | 2019 |
| At 1 January | 1.57 | **964** | 1,272 |
| Exercised | 1.57 | **–** | (308) |
| At 30 June | | **964** | 964 |

Share awards outstanding have the following expiry date and exercise price:

| | | **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 2020** | 31 December 2019 | **30 June 2020** | 31 December 2019 |
| 28 June 2021 | 1.57 | **964** | 964 | **–** | – |

Out of the 964,000 (31 December 2019: 964,000) outstanding awards, no (31 December 2019: Nil) awards were exercisable as at 30 June 2020.

For the six months ended 30 June 2020, total expenses amounting to RMB147,000 (six months ended 30 June 2019: RMB176,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income for share awards granted to employees with a corresponding change in equity.

### (iii) Fair value of share awards

The executive directors of the Board of the Company have used the binomial model to determine the fair value of the awards granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk-free rate, dividend yield and expected volatility, is required to be made by the executive directors of the board of the Company in applying the binomial model, of which the inputs are summarised below.

| | **Share awards granted on 28 June 2016** |
|---|---|
| Closing price at the grant date | HK$1.60 |
| Risk-free rate | 0.64% |
| Dividend yield | 2.44% |
| Expected volatility (i) | 41.38% |

(i) The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

## 9. TRADE AND OTHER PAYABLES

| | **As at** | |
|---|---|---|
| | **30 June 2020** | 31 December 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **58,885** | 65,719 |
| Costs of construction and purchase of equipment payables | **46,910** | 49,197 |
| Payable for acquisitions of subsidiaries | **346,500** | 300,000 |
| Accrued reimbursement to distributors | **1,043,493** | 1,152,308 |
| Deposit payables | **203,431** | 223,469 |
| Salaries payable | **44,614** | 50,381 |
| Interest payables | **6,851** | 6,033 |
| Dividends payable | **1,124,085** | 112 |
| Other payables | **67,340** | 58,573 |
| | **2,942,109** | 1,905,792 |

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

| | **As at** | |
|---|---|---|
| | **30 June 2020** | 31 December 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 6 months | **41,419** | 55,407 |
| 6 to 12 months | **5,074** | 2,036 |
| More than 1 year | **12,392** | 8,276 |
| | **58,885** | 65,719 |

## 10. INTEREST-BEARING BANK BORROWINGS

| | As at 30 June 2020 *RMB'000* (Unaudited) |
|---|---|
| **Current** | |
| Secured bank borrowings | **371,055** |
| Unsecured bank borrowings | **143,920** |
| | **514,975** |
| **Non-Current** | |
| Secured bank borrowings | **72,845** |
| | **587,820** |

| | As at 30 June 2020 *RMB'000* (Unaudited) |
|---|---|
| Analysed into: | |
| Bank borrowings: | |
| Within the first year | **514,975** |
| Within the third to fifth years | **114** |
| Beyond the fifth years | **72,731** |
| | **587,820** |

*Notes:*

(a) The bank borrowings of the Group are secured by certain assets including investment properties, right-of-use assets and property, plant and equipment with an aggregate carrying value of RMB749,877,000, and guaranteed by the Company and its subsidiaries.

(b) Bank borrowing of RMB72,845,000 is also secured by a portion of a subsidiary's equity interests.

(c) The effective interest rates of the bank borrowings as at 30 June 2020 range from 1.81% to 4.90% (2019: Nil) per annum.

## 11. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

| | *Notes* | **Six months ended 30 June** **2020** ***RMB'000*** **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from contracts with customers: | | | |
| Sale of pharmaceutical products | *i* | **1,054,537** | 1,657,640 |
| **Other income** | | | |
| Sales of distribution rights | *ii* | **5,360** | 6,674 |
| Research and development income | | **–** | 1,558 |
| Gross rental income from investment property operating leases | *iii* | **4,473** | 3,477 |
| Interest income | | **67,211** | 111,859 |
| Others | | **8,787** | 1,194 |
| | | **85,831** | 124,762 |

*Notes:*

(i) Total revenue from contracts with customers is derived from sale of pharmaceutical products in Mainland China and recognised as goods transferred at a point in time.

(ii) Sales of distribution rights are included in other income as the sales are not derived from the Group's principal activities. The geographical market of all the sales of distribution rights is Mainland China. The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Contracts for the sale of distribution rights are for periods of five years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at reporting periods are as follows:

The following table shows the amounts of other income recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | **Six months ended 30 June** **2020** ***RMB'000*** **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| Other income recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of distribution rights | **5,360** | 6,674 |

(iii) Gross rental income from investment property operating leases is included in other income as it is not derived from the Group's principal activities. The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. An analysis of rental income is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Geographical markets | | |
| Mainland China | **1,323** | 885 |
| Hong Kong | **3,150** | 2,592 |
| | **4,473** | 3,477 |

## 12. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2020 and 2019 is analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current | **161,963** | 476,920 |
| Deferred | **(28,536)** | (239,703) |
| Total tax charge for the period from continuing operations | **133,427** | 237,217 |
| Total tax charge for the period from discontinued operations | **–** | – |
| | **133,427** | 237,217 |

(i) Bermuda profits tax

The Group is not subject to any taxation in this jurisdiction for the six months ended 30 June 2020 and 2019.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

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

PRC CIT is provided on the assessable 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 PRC at the tax rate of 25% (six months ended 30 June 2019: 25%).

Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for the six months ended 30 June 2020 and 2019 was provided for at a preferential tax rate of 15%.

## 13. DISCONTINUED OPERATIONS

On 15 June 2020, the Company's resolution on disposal of Chonghui Investment Limited and Tengwei Investment Limited was duly passed. As at 30 June 2020, Chonghui Investment Limited and Tengwei Investment Limited were classified as two disposal groups held for sale and as discontinued operations.

The results of the discontinued operations for the six months ended 30 June 2020 and 2019 are presented below:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Revenue | **3,517** | 4,670 |
| Cost of sales | **(990)** | (2,175) |
| Expenses | **(25,971)** | (24,355) |
| Finance expenses | **–** | (156) |
| Share of profits and losses of investments accounted for using the equity method | **(992)** | 40 |
| Loss before tax | **(24,436)** | (21,976) |
| Income tax: | | |
| Related to pre-tax profit | **–** | – |
| Loss for the period | **(24,436)** | (21,976) |

The major classes of assets and liabilities of the disposal groups classified as held for sale as at 30 June 2020 are as follows:

| | **As at 30 June 2020** *RMB'000* **(Unaudited)** |
|---|---|
| **Assets** | |
| Property, plant and equipment | **19,842** |
| Intangible assets | **3,783** |
| Right-of-use assets | **106,069** |
| Investments accounted for using the equity method | **185,194** |
| Financial assets at fair value through profit or loss | **8,828** |
| Other non-current assets | **2,300** |
| Inventories | **6,505** |
| Trade and other receivables | **20,683** |
| Cash and cash equivalents | **88,696** |
| **Assets of disposal groups classified as held for sale** | **441,900** |
| **Liabilities** | |
| Trade and other payables | **(58,517)** |
| Lease liabilities | **(5,724)** |
| Contract liabilities | **(3,189)** |
| **Liabilities directly associated with the assets classified as held for sale** | **(67,430)** |
| **Net assets directly associated with the disposal groups** | **374,470** |

The net cash flows incurred by the discontinued operations are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | *RMB'000* | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Operating activities | **41,396** | 138 |
| Investing activities | **(2,610)** | (9,161) |
| Financing activities | **–** | 6,250 |
| Net cash inflow/(outflow) | **38,786** | (2,773) |
| Basic and diluted loss per share from discontinued operations (RMB cents per share) | **(0.22)** | (0.20) |

The calculations of basic and diluted loss per share from discontinued operations are based on:

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **(Unaudited)** | (Unaudited) |
| Loss attributable to ordinary equity holders of the Company (RMB'000) | **(20,501)** | (18,468) |
| Weighted average number of ordinary shares in issue during the period for basic and diluted loss per share calculation (Share'000) | **9,465,682** | 9,470,515 |

The comparative interim condensed consolidated statement of profit or loss and other comprehensive income has been re-presented as if such discontinuation has been effective at the beginning of the comparative period.

## 14. EARNINGS/(LOSS) PER SHARE

### (a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issuance during the six months ended 30 June 2020 and 2019.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **(Unaudited)** | (Unaudited) |
| Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation (RMB'000) | | |
| From continuing operations | **170,491** | (2,001,479) |
| From discontinued operations | **(20,501)** | (18,468) |
| Profit/(loss) attributable to ordinary equity holders of the Company (RMB'000) | **149,990** | (2,019,947) |
| Weighted average number of ordinary shares in issue for basic earnings/(loss) per share (Share'000) | **9,465,682** | 9,470,515 |
| Basic earnings/(loss) per share (RMB cents per share) | | |
| For profit/(loss) for the period | **1.58** | (21.33) |
| For profit/(loss) from continuing operations | **1.80** | (21.13) |

### (b) Diluted

There was no dilution to earnings/(loss) per share for the six months ended 30 June 2020 and 2019 because there were no potentially dilutive ordinary shares existing. The diluted earnings/(loss) per share amount equalled to the basic earnings/(loss) per share amount.

## 15. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Dividends on ordinary shares declared: | | |
| Final dividend for 2019: RMB1.3 cents per ordinary share (2018: RMB1.3 cents) | **123,054** | 123,124 |
| Special cash dividend: RMB10.6 cents per ordinary share (2018: Nil) | **1,003,362** | – |
| | **1,126,416** | 123,124 |
| Dividends on ordinary shares declared: | | |
| Interim dividend for 2020: RMB0.1 cents per ordinary share (2019: RMB0.4 cents) | **9,466** | 37,863 |
| Special cash dividend: RMB3.0 cents per ordinary share (2019: Nil) | **283,970** | – |
| | **293,436** | 37,863 |

A final cash dividend of RMB1.3 cents per ordinary share for the year ended 31 December 2019 and a special cash dividend of RMB10.6 cents per ordinary share amounting to RMB123,054,000 and RMB1,003,362,000 were approved by the shareholders at the annual general meeting and special general meeting of the Company held on 15 June 2020. The dividends have not been paid as at 30 June 2020.

On 25 August 2020, the board of directors declared an interim dividend of RMB0.1 cents (six months ended 30 June 2019: RMB0.4 cents) and a special cash dividend of RMB3.0 cents (six months ended 30 June 2019: Nil) per ordinary share, amounting to a total of approximately RMB293,436,000 (six months ended 30 June 2019: RMB37,863,000).

## 16. BUSINESS COMBINATION

### (a) Acquisition of Beijing Lianben Technology Development Co., Ltd and Beijing Lianben Pharmaceutical Chemical Technology Co., Ltd

On 31 January 2020, the Group acquired a 100% equity interests in Beijing Lianben Technology Development Co., Ltd ("**Lianben Technology**") and Beijing Lianben Pharmaceutical Chemical Technology Co., Ltd ("**Lianben Chemical**"), two unlisted companies based in Mainland China that are specialised in the technology service of chemical materials, at a consideration of RMB46,500,000. The Group has acquired Lianben Technology and Lianben Chemical to expand the existing product portfolio, increase market share and enhance competitiveness. The total purchase consideration of RMB46,500,000 was to be settled in cash and remained outstanding as at 30 June 2020.

The fair values of the identifiable assets and liabilities of Lianben Technology and Lianben Chemical as at the date of acquisition were as follows:

| | Fair value recognised on acquisition *RMB'000* (Unaudited) |
|---|---|
| Property, plant and equipment | **4,087** |
| Intangible assets | **90** |
| Cash and cash equivalents | **7,499** |
| Trade and other receivables | **66,150** |
| Inventories | **7,223** |
| Trade and other payables | **(13,643)** |
| Contract liabilities (current) | **(9,746)** |
| Income tax payable | **(160)** |
| Interest-bearing bank and other borrowings | **(15,000)** |
| Total identifiable net assets at fair value | **46,500** |
| Non-controlling interests | **–** |
| Satisfied by cash | **46,500** |

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB66,150,000 being the same as their gross contractual amount.

An analysis of the cash flows in respect of the acquisition of Lianben Technology and Lianben Chemical is as follows:

| | *RMB'000* (Unaudited) |
|---|---|
| Cash and bank balance acquired | **7,499** |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | **7,499** |

Since the acquisition, Lianben Technology and Lianben Chemical contributed RMB47,306,000 to the Group's revenue and RMB5,422,000 to the consolidated profit for the six months ended 30 June 2020.

Had the combination taken place at the beginning of the year, the revenue and profit contributed to the continuing operations of the Group for the six months ended 30 June 2020 would have been RMB62,814,000 and RMB6,722,000, respectively.

**(b) Acquisition of Jilin Aotong Chemical Co., Ltd**

On 31 March 2020, the Group acquired a 60% equity interest in Jilin Aotong Chemical Co., Ltd ("**Jilin Aotong**"), an unlisted company based in Mainland China that is specialised in the manufacture of chemical materials. The Group has acquired Jilin Aotong to expand the existing product portfolio, increase market share and enhance competitiveness. The purchase consideration for the acquisition was in form of capital injection to Jilin Aotong, and as at 30 June 2020, RMB4,810,000 was paid and the remaining RMB11,990,000 was outstanding.

The fair values of the identifiable assets and liabilities of Jilin Aotong as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition** *RMB'000* **(Unaudited)** |
|---|---|
| Property, plant and equipment | **9,756** |
| Right-of-use assets | **14,551** |
| Cash and cash equivalents | **2** |
| Trade and other receivables | **20,719** |
| Inventories | **2,098** |
| Trade and other payables | **(22,954)** |
| Contract liabilities (current) | **(1,510)** |
| Income tax payable | **(9,263)** |
| Total identifiable net assets at fair value | **13,399** |
| Non-controlling interests | **5,360** |
| Goodwill on acquisition | **8,761** |
| Satisfied by cash | **16,800** |

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB20,719,000 being the same as their gross contractual amount.

The goodwill recognised is primarily attributed to the expected synergy and other benefits from combining the assets and activities of Jilin Aotong with those of the Group. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Jilin Aotong is as follows:

| | *RMB'000* **(Unaudited)** |
|---|---|
| Cash and bank balance acquired | **2** |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | **2** |

Since the acquisition, Jilin Aotong contributed RMB560,000 to the Group's revenue and incurred RMB5,827,000 to the consolidated loss for the six months ended 30 June 2020.

Had the acquisition taken place at the beginning of the year, revenue and loss added to the continuing operations of the Group for the six months ended 30 June 2020 would have been RMB851,000 and RMB6,454,000, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### A. BUSINESS REVIEW

Since the beginning of 2020, the pandemic of COVID-19 has been spreading across the globe, had a great impact on the global economy and changed the way people travel and live. During the pandemic, due to the decrease in patient flow in hospitals, the performance of prescription drug market at the hospital side declined to varying degrees.

Nevertheless, during the current global crisis, the defensive nature of the pharmaceutical industry has become prominent and it has become the focus of attention and discussion. The pandemic has also promoted the rapid development of online medical treatment, vaccines, oral preparations of traditional Chinese medicine and other sub-sectors. We believe that in the post-pandemic era, with further intensified national policy support for the pharmaceutical industry, industry concentration is expected to further increase, and the pharmaceutical sector deserves continued attention.

In terms of recent policies, centralized procurement has been normalized, and the varieties involved are expected to expand to innovative drugs and medical consumables. These have supported enterprises to gain further market share at lower prices, thus promoting economies of scale. Traditional pharmaceutical enterprises have to expand production capacity and plan the entire industrial chain beginning from raw materials so as to enhance their competitiveness. The types of medical insurance reimbursements have been actively adjusted to include more therapeutic drugs including innovative drugs. These policies, in conjunction with a series of other measures for medical insurance cost control, are believed to continue to bring challenges and opportunities to the industry.

**Key Financial Performance — from Continuing Operations**

For the Period, the Group recorded a revenue of approximately RMB1,054.5 million, representing a year-on-year decrease of 36.4%. Profit attributable to owners of the Company from continuing operations for the Period amounted to approximately RMB170.5 million while loss attributable to owners of the Company from continuing operations for the six months ended 30 June 2019 amounted to approximately RMB2,001.5 million, mainly due to the recognition of impairment loss on goodwill in the last period.

For the Period, gross profit was approximately RMB786.1 million, representing a year-on-year decrease of 42.4%. Gross profit margin decreased from 82.4% for the first half of 2019 to 74.5% for the Period. The lower gross profit margin was due to a decrease in sales of drugs which had better profit margins but were captured in the Key Monitoring Drug List ("**KMDL**") during the Period.

The Group maintained strong financial position and has recorded net cash of approximately RMB4,336.0 million as at 30 June 2020. The Group's debt-to-equity ratio, expressed as a percentage of borrowings over equity attributable to owners of the Company, was 7.1%.

During the Period, expenditure for R&D and related activities increased by 43.9% to approximately RMB392.7 million, representing 37.2% of the total revenue of the Group. This was mainly because of more efforts in R&D activities.

The promulgation of the KMDL in July 2019 and the subsequent adjustment of National Reimbursement Drug List ("**NRDL**") with removal of key monitoring drugs from the Provincial Reimbursement Drug List ("**PRDL**") have put extreme pressure on the sales of several major products of the Group.

During the Period, revenue from CCV products decreased by 58.0% year-on-year to approximately RMB609.6 million, accounting for 57.8% of the Group's total revenue. The sales decline was mainly due to the KMDL announced in July 2019. Revenue from non-CCV products significantly increased by 114.6% to approximately RMB444.9 million, accounting for 42.2% of the Group's total revenue. This sales growth was mainly attributable to an increase in hospital coverage of growth-stage products during the Period.

**Revenue of Key CCV Products**

| | **Six months ended 30 June** | | |
|---|---|---|---|
| **Product name** | **2020** ***RMB'000*** | 2019 *RMB'000* | **Year-on-year change** |
| Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin injection) | **154,296** | 517,684 | **(70.2%)** |
| Nicotinamide injection | **116,153** | 40,441 | **187.2%** |
| Yuanzhijiu/Xingwei/Xinyintong (Troxerutin and cerebroprotein hydrolysate injection) | **91,113** | 311,842 | **(70.8%)** |
| Mainuokang (Floium ginkgo extract and tertram ethypyrazine sodium chloride injection) | **58,104** | 29,319 | **98.2%** |
| Yeduojia (Compound trivitamin B(II) for injection) | **54,360** | 39,564 | **37.4%** |
| Wei' Ao (Salvia miltiorrhiza and ligustrazine hydrochloride injection) | **51,787** | 161,505 | **(67.9%)** |
| Aogan/Xiangtong (GM1 injection) | **35,681** | 92,776 | **(61.5%)** |
| Kelinao/Anjieli (Cinepazide maleate injection) | **10,627** | 152,732 | **(93.0%)** |
| Yikangning/Yimaining (Alprostadil lipid emulsion injection) | **9,485** | 63,879 | **(85.2%)** |
| Qu'ao (Cerebroprotein hydrolysate) | **7,339** | 11,958 | **(38.6%)** |

**Revenue of Key Non-CCV Products**

| Product name | Six months ended 30 June<br>**2020**<br>***RMB'000*** | <br>2019<br>*RMB'000* | **Year-on-year change** |
|---|---|---|---|
| Huineng (Monoammonium glycyrrhizinate and cysteine and sodium chloride injection) | **89,335** | 37,640 | **137.3%** |
| Jie'ao (Roxatidine acetate hydrochloride for injection) | **69,798** | 62,720 | **11.3%** |
| Shucheng (Nicotinic acid injection) | **56,862** | 26,297 | **116.2%** |
| Diprophylline for injection | **22,177** | 8,444 | **162.6%** |
| Ren'ao (Oxcarbazepine) | **18,791** | 9,187 | **104.5%** |
| Azithromycin capsules (Wei'aoqi) | **7,857** | – | **–** |
| Xinnuoao (Clindamycin hydrochloride injection) | **4,381** | 7,887 | **(44.5%)** |

**Risks and Uncertainties**

The following risks and uncertainties may affect the results and business operations of the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

1. *Drug approval process*

   The actual timing of the market launch of the Group's products under R&D could vary significantly from the Group's estimates due to various factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties in the outcome of the regulatory approval process. If any of the approvals in relation to the Group's products is delayed or not obtained, this could adversely affect the timing of the market launch of the Group's products.

2. *Results of drug tenders*

   The Group's revenue and profitability depend on the Group's ability to win in the drug tender of each province or region in China for the Group's products at a desirable tender price. If the Group's products fail to win the tenders or the new tender prices are significantly reduced, the market share, revenue and profitability of the products concerned could be adversely affected.

3. *Compliance with certain PRC environmental and safety regulations*

   The Group is subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, noise pollution and the safety of the workers during the manufacturing process. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of the Group's production facilities and obligations to take corrective measures. In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard.

4. *Exclusion of products from certain PRC medical reimbursement list*

   Drugs listed in the NRDL or the PRDL are reviewed and updated from time to time. There is no assurance that the Group's products will be or continue to be listed in the above lists. If any of the Group's products are being removed from the above lists, the sales of the products concerned could be adversely affected.

## B. MAIN STRATEGIES

1. **Focus:** Focusing on core businesses and key therapeutic areas to enhance the Group's market competitiveness and market share.

2. **Change:** Intensifying the Group's organizational change, R&D change and change in the Group's talent incentive program.

3. **Social Responsibility:** Taking the initiative to fulfill social responsibility and creating social and economic benefits.

### I. Focus:

#### *(I) Focusing on core business — pharmaceutical sector*

"Dedicated in becoming the most competitive international pharmaceutical enterprise" is the Group's corporate vision and direction of efforts. The Group will arrange investment and prioritize work in R&D, production and marketing of pharmaceutical products, and will focus on the pharmaceutical sector and gradually divert from other non-core businesses. During the Period, upon the approval of the independent shareholders of the Company, the Group disposed of certain assets which operated non-core businesses of the Group (the "**Disposal**"), and paid special dividend to shareholders of the Company. The reasons for the Disposal were:

1. *Streamline and focus on core business*

   Recent regulatory changes in the PRC pharmaceutical industry led to considerable changes in the industry landscape. For instance, 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)《第一批國家重點監控合理用藥藥品目錄發佈(化藥及生物製品)》 in July 2019 brought an impact on prescription and procurement patterns. In light of these changes, the Group intends to define its business positioning in a clearer way, by streamlining the core business of the Group and focusing resources into the strategic development of the Group's core business.

2. *Uncertainties of the disposed companies*

   Some of the disposed companies are currently in an early stage of development, while most of them were loss making. The Group is of the view that these disposed companies would require further injection of substantial financial resources for an extended period of time before they could evolve into commercially viable business operations. Some of the disposed companies are also affected by the regulatory changes in the PRC pharmaceutical industry and the resulting changes in the industry landscape, which add uncertainties to their respective developments.

3. *Low synergy with the core business*

   There are also disposed companies in which the Group did not have a controlling interest. While some of them are profit making, the Group is of the view that the businesses of these disposed companies demonstrate relatively low synergy with the core business activities of the Group.

4. *Strengthen operation and financial position*

   Since the disposed companies are engaged in non-core business activities of the Group and do not complement the further development of the Group as a whole, the Disposal would allow the Group to re-allocate the management and financial resources to strengthen the operation and financial position of the Group.

***(II) Focusing on key therapeutic areas to enhance the Group's market competitiveness and market share***

*1. Strengthening the CCV sector*

(1) Enhancing traditional strength in the stroke treatment product line:

The Group takes cinepazide maleate as the stronghold product and increases efforts in sales and marketing of nicotinamide injection, floium ginkgo extract and tertram ethypyrazine, nicotinic acid injection, citicoline sodium, aceglutamide and other products, supplemented with out-of-pocket sales model for cerebroside-kinin, troxerutin and cerebroproptein hydrolysate and other products, to re-formulate the best product portfolio in accordance with relevant national policies on rational drug use, healthcare insurance and other aspects.

(2) Enriching product lines for vascular dementia, epilepsy and other neurological diseases:

Rivastigmine hydrogen tartrate capsule, which has been granted production approval, is used for the treatment of mild to moderate Alzheimer's dementia. As the number of patients with such kind of dementia is increasing with an aging society and there is lack of effective medicines, it will be a market with huge potential. In respect of products for treatment of epilepsy, together with oxcarbazepine tablet, which has been launched, and levetiracetam tablet which has been granted production approval and will be launched soon, as well as midazolam oromucosal solution and eslicarbazepine tablet which have also been granted registration approval, are expected to create synergy and provide epilepsy patients with more better treatment options. Midazolam oromucosal solution is also effective for febrile seizures. Compared with other formulations, it is convenient to administer and has a fast onset of effect, and can also be used for out-of-hospital and home emergency first-aid treatment. It is expected to greatly fill the existing market gaps after launch and will provide a safe and effective new treatment option for infants, children and adolescents at home.

*2. Adapting to national policies and emphasizing on major diseases and chronic diseases*

The Group has been adapting to national policies and seeking to build a stronger presence in the oncology sector in combining innovative drugs and generic drugs. The Group has also started innovation and R&D of oncology drugs earlier. The Group currently has CDK4/6 product undergoing clinical trials as well as other oncology drugs in Phase I clinical and pre-clinical stage. Meanwhile, the Group has also set up more than 10 projects for oncology generic drugs to accelerate the enrichment of oncology product pipelines and product launches.

3. *Planning for the area of anti-infective drugs with "product segmentation" strategy*

The area of anti-infective drugs is a leading prescription drug market and a highly competitive "red sea" market. The Group's planning for products in this sector focuses on "product segmentation" and strengthening product competitiveness.

(1) In 2019, the Group was granted registration approvals for the non-PVC solid-liquid double-chamber bags product series (cefuroxime, ceftazidime, cefodizime), and was the first and only enterprise in the PRC to obtain such infusion drug products' approvals for registration. New investors made capital injection into Beijing Ruiye Drugs Manufacture Co., Ltd. ("**Beijing Ruiye**"), because of their recognition of the double-chamber business of Beijing Ruiye, which is an associate of the Group;

(2) The Group acquired all interests and intellectual property rights of a "super" antibiotic — plazomicin, a new generation of aminoglycoside antibiotics, in the Greater China Region. In addition, for the self-developed carbapenem antibiotic, benapenem, Phase II clinical studies will be completed soon and Phase III clinical trial will be initiated;

(3) Azithromycin capsule of the Group was selected in the second round of the National Centralized Drug Procurement. It ranked second in the selection for supplying no less than 30 million capsules to 8 provinces, namely Jiangsu, Shandong, Fujian, Liaoning, Heilongjiang, Gansu, Guangxi and Tibet. This will expand the Group's business in the antibiotics market and will capture a larger market share in the sector;

(4) Breakthroughs in major infectious diseases. Regarding some major life-threatening infectious diseases, the Group has actively planned to diversify its anti-viral product line through various means including joint R&D, acquisition and joint ventures. For example, favipiravir tablet co-developed with the Institute of Microbiology Epidemiology of the Academy of Military Medical Sciences of the People's Liberation Army of the PRC in treating COVID-19, reached a framework cooperation agreement in the pharmaceutical manufacturing area with Hetero Labs Limited ("**Hetero**") from India, and independent R&D project for oseltamivir, etc.; and

(5) In the existing therapeutic areas such as digestive and liver diseases, our product lines have also been further enriched and strengthened, including the inclusion of Huineng, which is available on the market, in the NRDL, and the upcoming resumption of production and sales of octreotide.

### *(III) Enhancing evidence-based medical research for key monitoring products and expanding out-of- pocket drug market*

The promulgation of the KMDL in July 2019 and the subsequent NRDL with removal of key monitoring drugs from the PRDL have put extreme pressure on the sales of several major products of the Group. While adjusting and enriching its product lines, the Group has taken measures such as strengthening evidence-based medicine research, enhancing development in the low-end market and expanding out-of-pocket market for key products such as cinepazide maleate to actively promote clinical rational drug use.

1. *Re-establishing the market position of cinepazide maleate*

   The Group has completed a large-scale clinical verification research for 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. A research conclusion meeting was held in April 2019 under the presidency of Professor Cui Liying from Peking Union Medical College Hospital, the leader unit of the research team, and the review materials were submitted to the Center for Drug Evaluation ("**CDE**") in October 2019. The review is currently in the final stage. The principal findings of the studies have been published in BMC Neurology in July 2020. BMC Neurology is a journal of neurology under the BMC Group, one of the top 10 international journal groups. It mainly reports on the latest research progress in the field of neurology around the world. The article was published only 6 months after its submission. The publication of the result of the studies in the international SCI journal proves that international peer experts highly recognize and value the findings of the result, which is expected to become a reference for the guidelines for diagnosis and treatment of stroke. As a result, on the basis of such precise evidence-based verification, the Group has reasons to believe that, after being approved by the CDE, Kelinao will restore its market leadership.

2. *Accelerating the generation of evidence-based verification for growth-stage products to support their market access and academic promotions*

   The Group has been actively promoting the medical work of growth-stage products such as roxatidine, Huineng and floium ginkgo extract and tertram ethypyrazine, and cooperating with top hospitals and research institutes in the PRC, such as Tiantan 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, to carry out preclinical experimental research and clinical research to clarify product pharmacodynamics, mechanism of action, clinical effectiveness and safety. At present, we have completed the acute toxicity, hemolysis, allergy and irritation tests of Huineng with the Chinese Medicine Pharmacology Laboratory of the State Administration of Traditional Chinese Medicine of China Medical University, which proved the safety of the products. At the same time, we have carried out the pharmacodynamics research of application of Huineng for acute liver injury, chronic liver injury, and drug-induced liver injury with the Institute of Medicine, Chinese Academy of Medical Sciences. Currently, the research on acute liver injury has been completed and the results of it were published in the journal Eur J Pharmacol in June 2020. Studies have proved that Huineng can improve liver function through the dual effects of anti-inflammatory and antioxidant; and proved that the ratio of monoammonium glycyrrhizinate to cysteine hydrochloride to produce the best therapeutic effect to be 2:1. At the same time, a real-world study on the safety of children's medication was carried out, and the results of which have also been submitted to the China Modern Doctor for publication. The Pharmaceutical Economic Evaluation of Huineng in respect of Improvement of Liver Function Abnormalities in Patients with Viral Hepatitis was also published in the China Journal of Pharmaceutical Economics during the Period.

Another example of growth-stage products, floium ginkgo extract and tertam ethypyrazine, has also completed studies for acute toxicity, hemolysis, allergy, irritation and abnormal toxicity, which proved the safety of the product. At the same time, the basic research on "floium ginkgo extract and tertam ethypyrazine's effect on cerebral ischemia-reperfusion injury" was carried out with the Institute of Medicinal Plant Development Affiliated with the Chinese Academy of Medical Sciences. The main part of the research has been completed and the preliminary results were published in the journal "Pharmacology and Clinics of Chinese Materia Medica". More evidence-based evidence will be generated in the future to support the rational use of the product in clinical practice and academic promotion.

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

While improving its evidence-based research system, the Group is proactively adapting to the changing government policies by spearheading products inclusion in interpretation of clinical pathways and rational drug use guidelines, which are in alignment with current government policies. Multiple products of the Group have been recommended for various indications in the "Interpretation of Clinical Pathways" and the "Interpretation of Clinical Pathway and Therapeutic Drugs", etc. The Group will continue to step up academic promotions, and actively participate in the promotion of rational drug use, expert consensus and guidelines.

4. *Adjusting marketing strategy and refining management of promotion focus of products at different stages*

   (1) Reinforcing existing mature products: such as cerebroside-kinin, troxerutin and cerebroproptein hydrolysate, the Group boosts the growth in the scope of rational use of drugs through intensifying the development of markets of hospitals that are classified as Class II or below and exploring new models such as out-of-pocket drug market.

   (2) Increasing professional and academic promotion and hospital coverage of growth-stage products: such as Huineng, roxatidine, floium ginkgo extract and tertram ethypyrazine, nicotinamide and nicotinic acid, future growth prospects are positive given the low market penetration rate at present. In particular, through negotiation, Huineng was included in the new NRDL in 2019, which has provided ample room for its market development. The Group increased its efforts in promotion of such product in order to accelerate hospital coverage, expand market share and alleviate pressure on the growth of mature products.

   (3) Newly launched products: for new products such as troxerutin and piracetam, the Group leverages on its strong marketing and promotion system, refines investment solicitation and holds professional and academic meetings to gain recognition from experts and tap into markets in an immediate manner.

## II. Change

*(I) Change in organization*

Advantageous businesses of each subsidiary are determined according to its product advantages, formulation advantages and talent advantages. Multiple business units have been formed by integrating R&D, production, clinical development and marketing. Shortcomings of over-reliance of various subsidiaries on the Group's management have been eliminated as a result of a change from the "aircraft carrier" model to a more efficient "EMU" model, which facilitates more efficient decision-making and integration of various functional modules, thereby enhancing market competitiveness of each business unit.

*(II) Change in R&D*

The Group will re-determine the strategy, positioning and organizational structure of Xuanzhu Innovative R&D Center ("**Xuanzhu**") and Beijing Aohe Research Institute ("**Aohe**") in accordance with the new national drug review policy and registration management measures based on international and domestic market condition. Instead of independent R&D approach in the past, the Group will enhance the introduction of talents and technologies, adopt various means and approaches such as joint ventures, cooperation, introduction and integration to accelerate product development and market launch. For instance, subscription by investment funds under CMG-SDIC Capital Co., Ltd. in Xuanzhu (Shijiazhuang) Biopharmaceutical Co., Ltd., which is an innovative drug R&D platform of the Group. The capital injection will accelerate the innovative drugs R&D and aligns with the Group's future strategies.

Following the above-mentioned series of change, as the end of June 2020:

Xuanzhu had 18 projects under research and 7 projects in clinical trial stage. Over 600 patents applications have been submitted, including 48 PCT international application, 1 Paris Convention application, 2 submissions for patents in the United States. 116 domestic patents have been granted in the PRC and 66 overseas patents have been granted.

Aohe had 103 projects under research and 42 projects are undergoing review and approval process at CDE. 3 production approvals and 1 clinical approval have been obtained.

*(III) Change in talent incentive program*

Corporate managers, core talents and key employees are encouraged to participate in various business units to arouse their sense of "partnership" and assuming responsibility for product output, quality, profitability and development goals of business units, in order to enhance differentiated competitive advantages.

Functional departments of the Group are required to follow new requirements of the management model to streamline integration, reduce communication cost and improve work efficiency. Meanwhile, talent structure has been optimized and core outstanding talents are given equity incentives and other rewards to encourage self-learning and improve their ability to "guide and serve" others with "entrepreneur" mindset, and thus quickly becoming all-round talents.

## III. Social Responsibility

*(I) Taking the initiative to fulfill social responsibility*

Amidst the COVID-19 pandemic, the Group actively performs its social responsibility and has overcome various difficulties to commence clinical trials of favipiravir; actively identifies possible effective products and reached a framework cooperation agreement in the pharmaceutical manufacturing area with Hetero from India; established an emergency team of the Group for deployment of materials, with a view to actively resume work and production while carrying out pandemic prevention and control and caring for each employee, and makes every effort to achieve social and economic benefits for society, enterprises and shareholders.

*(II) Improving corporate profitability and creating benefits*

Under the premise of ensuring scientific arrangement and quality, the Group will reduce its operating and production costs, especially lay stress on the investment and optimization of API, so as to enhance competitiveness of future products and improve product profitability and create greater benefits.

## C. FUTURE PROSPECTS

Looking forward, the Group will proceed steadily through implementation of key strategies, such as focusing on core businesses and integrated reform, against the backdrop of deepening reforms and resource integration in the pharmaceutical industry in the PRC.

By leveraging the advantages of diversified product structure, actively promoting growth-stage products through refined market management, and strengthening pipeline layout and market advantages in the fields of cardiovascular, cerebrovascular, tumor and diabetes etc., the Group aims to establish sustainable pharmaceutical product lines.

The Group will embrace the policies and market trends, seize opportunities brought by the policies, examine and determine the directions for market development, focus on business synergy and resource integration, accelerate the cultivation of new businesses, and actively participate in industry competitions such as R&D of innovative drug, R&D of biological product and mass procurement of generic drugs.

The Group will adjust its business structure, encourage model innovation, continue to enhance its core competitiveness, aspire to become an integrator and innovator in the pharmaceutical industry in the PRC, and create greater value in the booming era in the pharmaceutical industry in the PRC.

## D. FINANCIAL REVIEW

### Revenue

Under the influence of pharmaceutical policies and COVID-19 during the Period, revenue of the Group for the Period has decreased by 36.4% to approximately RMB1,054.5 million (six months ended 30 June 2019: RMB1,657.6 million). Among it, income from sales of CCV drugs, which contributed to 57.8% of total revenue, was approximately RMB609.6 million (six months ended 30 June 2019: RMB1,450.3 million). It has significantly decreased by 58.0%, approximately RMB840.7 million, whereas the remaining revenue from sales of non-CCV drugs has sharply increased by 114.6% to approximately RMB444.9 million (six months ended 30 June 2019: RMB207.3 million).

The decreased sales of CCV drug was mainly attributable to the drop in patient flow in hospital during the COVID-19 pandemic and products exclusion from PRDL and NRDL starting from the second half of last year. For non-CCV drugs, due to strong sales platform, hospital coverage of the drugs has sharply increased.

### Cost of sales

Cost of sales of the Group for the Period amounted to approximately RMB268.5 million (six months ended 30 June 2019: RMB292.1 million), accounting for approximately 25.5% of the total revenue.

**Gross profit**

Gross profit for the Period amounted to approximately RMB786.1 million (six months ended 30 June 2019: RMB1,365.5 million). It decreased by approximately RMB579.4 million. Overall gross profit margin decreased from 82.4% for the last period to 74.5% for the Period. The lower gross profit margin was resulted from decreased sales of drugs which had better profit margins but were captured in the KMDL during the Period.

**Other gains – net**

Other gains – net for the Period decreased by approximately RMB133.9 million to approximately RMB103.5 million (six months ended 30 June 2019: RMB237.4 million). It was mainly due to a decrease in government grants compared with the last period.

**Impairment loss on goodwill**

The Group performs impairment testing on goodwill annually or more frequently if events or change in circumstances indicate that the carrying amount may be impaired. During the Period, no impairment of goodwill has been recognised (six months ended 30 June 2019: RMB2,843.9 million).

**Distribution expenses**

Distribution expenses for the Period amounted to approximately RMB136.5 million (six months ended 30 June 2019: RMB117.9 million). The increase of approximately RMB18.6 million compared with the last period was mainly due to continuing efforts in expanding and developing the market share.

**Administrative expenses**

Administrative expenses for the Period have decreased by 4.5% to approximately RMB212.2 million (six months ended 30 June 2019: RMB222.3 million) as a result of a decrease in overheads and activities of the Group.

**R&D expenses**

R&D expenses for the Period amounted to approximately RMB300.9 million (six months ended 30 June 2019: RMB233.6 million) which represented an increase of 28.8%. It was mainly attributable to more efforts in R&D activities.

**Other expenses**

Other expenses for the Period amounted to approximately RMB10.7 million (six months ended 30 June 2019: RMB5.3 million).

**Profit before tax from continuing operations**

Profit before tax from continuing operations of the Group for the Period amounted to approximately RMB302.1 million (six months ended 30 June 2019: RMB1,704.9 million of loss).

**Income tax expense**

Income tax expense of the Group for the Period decreased by 43.8% to approximately RMB133.4 million (six months ended 30 June 2019: RMB237.2 million). The significant decrease was mainly attributable to lower profits generated compared with the last period.

**Loss for the Period from discontinued operations**

Loss for the Period from discontinued operations amounted to approximately RMB24.4 million (six months ended 30 June 2019: RMB22.0 million). It was related to assets and liabilities of the disposal groups classified as held-for-sale.

**Profit for the Period**

Due to the aforesaid, profit for the Period amounted to approximately RMB144.3 million (six months ended 30 June 2019: RMB1,964.1 million of loss).

**Profit attributable to owners of the Company**

Profit attributable to owners of the Company for the Period amounted to approximately RMB150.0 million (six months ended 30 June 2019: RMB2,019.9 million of loss). In the last period, the Group recognised impairment loss on goodwill.

**Loss attributable to non-controlling interests**

Loss attributable to non-controlling interests for the Period amounted to approximately RMB5.7 million (six months ended 30 June 2019: RMB55.9 million of profit).

**Liquidity and financial resources**

The Group maintained strong financial position. As at 30 June 2020, the Group's cash and cash equivalents amounted to approximately RMB4,947.8 million (31 December 2019: RMB5,117.1 million). As at the same date, bank borrowings of the Group amounted to approximately RMB587.8 million (31 December 2019: Nil) and borrowings from non-controlling shareholders of a subsidiary of the Group amounted to approximately RMB24.0 million (31 December 2019: RMB9.0 million). Accordingly, the Group maintained net cash of over approximately RMB4,336.0 million (31 December 2019: RMB5,108.1 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 the terms of the agreements signed, the total amount of investment conducted by the Group for the Period was approximately RMB6,776.9 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 at 30 June 2020, the Group recognised total financial assets at fair value through profit or loss of approximately RMB420.9 million, comprising principal of investment of approximately RMB419.0 million and approximately RMB1.9 million of 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 approximately RMB191.1 million.

The Group had sufficient cash as at 30 June 2020. The Directors are of the opinion that the Group does not have any significant capital risk.

| | **As at** | |
|---|---|---|
| | **30 June 2020** | 31 December 2019 |
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **4,947,814** | 5,117,143 |

**Inventories**

As at 30 June 2020, inventories amounted to approximately RMB439.7 million (31 December 2019: RMB409.6 million). The inventory turnover period for the Period was 285 days (six months ended 30 June 2019: 205 days). The increase was attributable to more pharmaceutical ingredients kept for internal production demand.

**Trade and other receivables**

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Other receivables of the Group mainly consist of prepayments to suppliers and amounts due from related parties. As at 30 June 2020, the Group's trade and other receivables were approximately RMB694.2 million (31 December 2019: RMB630.1 million). The increase is mainly due to an increased amount due from associates.

**Assets of disposal groups classified as held for sale / liabilities directly associated with the assets classified as held for sale**

On 3 May 2020, Sun Moral International (HK) Limited ("**Sun Moral**"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements with connected parties to dispose of the disposal groups which engage in, among other things, the sales of medical appliances and research development services. As at 30 June 2020, the Group classified the disposal groups as "Assets of disposal groups classified as held for sale" and "liabilities directly associated with the assets classified as held for sale". For further details, please refer to the announcement of the Company dated 3 May 2020.

**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 2020, the net book value of the property, plant and equipment was approximately RMB2,823.0 million (31 December 2019: RMB2,731.0 million). The increase was mainly attributable to expansion of existing factories and purchase of new equipment.

**Goodwill**

The Group's goodwill arose from the acquisition of subsidiaries. As at 30 June 2020, the net carrying amount of goodwill was approximately RMB8.8 million (31 December 2019: Nil).

**Intangible assets**

The Group's intangible assets mainly comprise customer relationship, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-development of R&D projects. As at 30 June 2020, net intangible assets amounted to approximately RMB552.0 million (31 December 2019: RMB480.0 million).

**Trade and other payables**

The Group's trade and other payables mainly consist of trade payables, deposit payables, accrued expenses and dividends payable. As at 30 June 2020, trade and other payables amounted to approximately RMB2,942.1 million (31 December 2019: RMB1,905.8 million). The significant increase of approximately RMB1,036.3 million was mainly attributable to the special cash dividend payable announced and approved at a special general meeting during the Period. For further details, please refer to the Company's announcements dated 3 May 2020 and 15 June 2020, respectively, and the circular dated 29 May 2020.

**Contingent liabilities**

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

**Off-balance sheet commitments and arrangements**

As at 30 June 2020, the Group had 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 2020, the Group's total capital commitment was approximately RMB386.0 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 the cash equivalents and bank deposits are placed in certain PRC reputable financial institutions and high-quality international financial institutions outside Mainland China. All those irrevocable bank bills, classified as notes receivable, are issued by banks in the PRC with high credit rating. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit periods granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of groups of trade receivables bearing similar credit risk based on historical data and cash collection history.

Wealth management products are the bank financial products issued by certain PRC reputable banking institutions. There was no recent history of default and the executive Directors are of the opinion that the credit risk related to the investments is low.

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

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

**Foreign exchange risk**

The Group's functional currency is RMB and financial instruments are mainly denominated in RMB. The Group has small cash balances denominated in United States Dollar or Euro and some cash balances in HK$ for dividend payment. It's expected that any fluctuation of these foreign currencies' exchange rates would not have material effect on the operation of the Group. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. The Group would closely monitor this risk exposure from time to time.

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 mainly with internally generated resources.

The principle objective of the Group's capital management is to sustain its ability to continue as a going concern. The Group regularly reviews its capital structure to ensure that the Group has sufficient financial resources to support its business operations.

**Capital expenditure**

The Group's capital expenditure mainly includes purchase of property, plant and equipment, prepaid land lease payments and intangible assets. For the Period, the Group's capital expenditure amounted to approximately RMB293.8 million, of which approximately RMB219.0 million and RMB74.8 million were spent on property, plant and equipment and purchase or in-house development of intangible assets, respectively. For the Period, the Group's investment in capital expenditure for R&D amounted to approximately RMB96.8 million, of which approximately RMB9.1 million was spent on property, plant and equipment. The remaining approximately RMB87.7 million related to, the purchase of, and self-development of intangible assets.

**Material acquisition and disposal**

*(a)* During the Period, the Group acquired 100% equity interests in both Lianben Technology and Lianben Chemical and 60% equity interest in Jilin Aotong for a total considerations of RMB63.3 million. For further details, please refer to note 16 to the interim condensed consolidated financial statements.

*(b)* On 3 May 2020, Sun Moral entered into sale and purchase agreements with connected parties. The Disposal was announced by the Company on 3 May 2020, with a circular published on 29 May 2020 and approved by the independent shareholders of the Company on 15 June 2020, respectively. The consideration of approximately HK$472.9 million (equivalent to RMB425.4 million) has been received on 23 July 2020. For further details, please refer to note 13 to the interim condensed consolidated financial statements.

**Pledge of assets**

As at 30 June 2020, the Group pledged certain assets to secure banking facilities granted to subsidiaries. For further details, please refer to note 10 to the interim condensed consolidated financial statements.

**Events after the reporting period**

On 21 August 2020, two investors, independent third parties, entered into a subscription agreement with Xuanzhu (Shijiazhuang) Biopharmaceutical Co., Ltd ("**Xuanzhu Shijiazhuang**") (formerly known as Xuanzhu (Hainan) Biopharmaceutical Co., Ltd.), an indirect wholly-owned subsidiary of the Company, to subscribe an aggregate of 18.60% equity interest in Xuanzhu Shijiazhuang for a total consideration of RMB800.0 million (equivalent to approximately HK$897.2 million). For further details, please refer to the announcements of the Company dated 23 August 2020 and 24 August 2020.

**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 2020, the Group had 3,851 employees. For the Period, the Group's total salary and related costs was approximately RMB309.5 million (six months ended 30 June 2019: RMB296.7 million).

## CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standards 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 statements for the Period.

## REVIEW OF ACCOUNTS

Messrs. Ernst & Young, the Company's external auditors, have reviewed the Company's interim financial information for the six months ended 30 June 2020 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the Period.

## INFORMATION FOR INTERIM CASH DIVIDEND AND SPECIAL CASH DIVIDEND

The Board has resolved to declare an interim cash dividend of RMB0.1 cents per share (equivalent to HK$0.11 cents per share) (six months ended 30 June 2019: RMB0.4 cents per share) and a special cash dividend of RMB3.0 cents per share (equivalent to HK$3.36 cents per share) (six months ended 30 June 2019: Nil) for the Period.

The interim cash dividend and special cash dividend will be payable on or around Wednesday, 14 October 2020 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, 7 October 2020.

## CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF INTERIM CASH DIVIDEND AND SPECIAL CASH DIVIDEND

The register of members of the Company will be closed from Monday, 5 October 2020 to Wednesday, 7 October 2020, both days inclusive, for the purpose of determining Shareholders' entitlements to the interim cash dividend and special cash dividend. In order to qualify for the interim cash dividend and special cash 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 Wednesday, 30 September 2020.

## PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the Period will be dispatched to Shareholders and available on the above websites 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, 25 August 2020

*As at the date of this announcement, the executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Dr. Zhang Jionglong, Mr. Choi Yiau Chong 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.*