



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)



2018 Interim Report

CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors

Miss Tse, Theresa Y Y (*Chairlady*)

Mr. Tse Ping (*Chief Executive Officer*)

Ms. Cheng Cheung Ling (*Vice Chairlady*)

Mr. Tse Hsin

Mr. Wang Shanchun

Mr. Tian Zhoushan

Ms. Li Mingqin

Independent Non-executive Directors

Mr. Lu Zhengfei

Mr. Li Dakui

Ms. Lu Hong

Mr. Zhang Lu Fu

Executive Board Committee

Miss Tse, Theresa Y Y (*Chairlady*)

Mr. Tse Ping

Ms. Cheng Cheung Ling

Mr. Tse Hsin

AUDIT COMMITTEE

Mr. Lu Zhengfei (*Chairman*)

Mr. Li Dakui

Ms. Lu Hong

REMUNERATION COMMITTEE

Mr. Zhang Lu Fu (*Chairman*)

Mr. Lu Zhengfei

Ms. Lu Hong

NOMINATION COMMITTEE

Miss Tse, Theresa Y Y (*Chairlady*)

Mr. Tse Ping

Mr. Lu Zhengfei

Ms. Lu Hong

Mr. Zhang Lu Fu

COMPANY SECRETARY

Mr. Chan Oi Nin Derek

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping

Mr. Chan Oi Nin Derek

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

China CITIC Bank International Limited

166 Hennessy Road

Wanchai

Hong Kong

CORPORATE INFORMATION

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road, Xinpu
Lianyungang
Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor.
24 Shedden Road, P.O.Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
Sidley Austin
39/F, Two International Finance Centre
Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Boundary Hall, 2nd Floor
Cricket Square
Hutchins Drive
P.O. Box 2681
KY1-1111
Cayman Islands

As to PRC Law:
Navigator Law Office
308A, Tower C2, Oriental Plaza
No. 1 East Chang An Ave, Dong Cheng District
Beijing
PRC

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit 01, 24th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

FINANCIAL HIGHLIGHTS

For the six months ended 30 June, 2018, the Group recorded the following unaudited operational results:

- Revenue was approximately RMB9,725.23 million, an increase of approximately 30.0% over the same period last year;
- Before accounted for unrealized fair value gains and losses of equity investments and financial assets and net foreign exchange differences, profit attributable to the owners of the parent was approximately RMB1,427.27 million, approximately 41.9% higher than that of same period last year;
- Before accounted for unrealized fair value gains and losses of equity investments and financial assets and net foreign exchange differences, the basic earnings per share attributable to the owners of the parent were approximately RMB11.60 cents, approximately 33.9% higher than that of the same period last year;
- Profit attributable to the owners of the parent was approximately RMB1,365.67 million, approximately 24.1% higher than that of the same period last year;
- The basic earnings per share attributable to the owners of the parent were approximately RMB11.10 cents, approximately 17.2% higher than that of the same period last year;
- Sales of new products accounted for approximately 14.5% of the Group's total revenue; and
- Cash and bank balances as at 30 June, 2018 was approximately RMB5,539.55 million.

The board of directors (the "Board") of the Company has declared the payment of a second quarterly dividend of HK2 cents per share for the three months ended 30 June, 2018. Together with the first quarterly dividend of HK2 cents per share paid, the total dividend of first two quarters amounted to HK4 cents per share.

CORPORATE PROFILE

Sino Biopharmaceutical Limited (the “Company”), together with its subsidiaries (the “Group”), is a leading, innovative and R&D driven pharmaceutical conglomerate in the People’s Republic of China (“China” or “PRC”). Our business encompasses a fully integrated chain in pharmaceutical products which covers an array of R&D platforms, a line-up of intelligent production and a strong sales system. The Group’s products have gained a competitive foothold in various therapeutic categories with promising potentials, comprising a variety of biopharmaceutical and chemical medicines for treating tumours, liver disease, cardio-cerebral diseases, analgesia, respiratory system diseases and orthopedic diseases. In order to enhance our sustainable competitiveness, the Group attaches great importance to R&D breakthroughs and is positioned as an industry leader in terms of R&D expenditures and product innovation. The Group also actively establishes and extends co-operations with leading domestic and overseas pharmaceutical institutes and enterprises, with a view to bringing about the ecological commercialization of world-frontier R&D efforts for the benefit of mankind. To take advantage of the development in technology and policy changes and capitalize on opportunities arising from extension of our principal business, the Group adopts a comprehensive strategic layout of development in the greater healthcare segment. Meanwhile, the Group actively utilizes new technologies in Big Data, Artificial Intelligence and Financial Technology to continuously enhance the efficiency of our management, R&D, manufacturing and sales activities.

Principal products:

Hepatitis medicines:	Runzhong (Entecavir) dispersible tablets, Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Mingzheng (Adefovir Dipivoxil) capsules, Ganlixin (Diammonium Glycyrrhizinate) injections and capsules
Cardio-cerebral medicines:	Kaishi (Alprostadi) injections, Yilunping (Irbesartan/Hydrochlorothiazide) tablets, Tuotuo (Rosuvastatin Calcium) tablets, Kaina (Beraprost Sodium) tablets, Tianqingning (Hydroxyethylstarch 130) injections
Oncology medicines:	Saiweijian (Raltitrexed) injections, Focus V (Anlotinib Hydrochloride) capsules, Tianqingyitai (Zoledronic Acid) injections, Gelike (Imatinib Mesylate) capsules, Qingweike (Decitabine for injections), Zhiruo (Palonosetron Hydrochloride) injections, Shoufu (Capecitabine) tablets, Yinishu (Dasatinib) tablets
Analgesic medicines:	Kaifen (Flurbiprofen Axetil) injections, Debaian (Flurbiprofen) Cataplasms

Orthopedic medicines:	Gaisanchun (Calcitriol) capsules, Jiuli (Glucosamine Hydrochloride) tablets
Digestive system medicines:	Aisuping (Esomeprazole Sodium) injections, Getai (Diosmin) tablets
Anti-infectious medicines:	Tiance (Biapenem) injections, Tianjie (Tigecycline for injections)
Respiratory system medicines:	Tianqingsule (Tiotropium Bromide) inhalation powder, Chia Tai Suke (Cefaclor and Bromhexine Hydrochloride) tablets
Parenteral nutritious medicines:	Xinhaineng (Carbohydrate and Electrolyte) injections, Fenghaineng (Fructose) injections

Products with great potential:

Hepatitis medicines:	Ganze (Entecavir) capsules, Qingzhong (Tenofovir Disoproxil Fumarate) tablets
Cardio-cerebral medicines:	Tianqinggan (Glycerin and Fructose) injections, Yifanli (Xylitol) injections
Oncology medicines:	Renyi (Pamidronate Disodium) injections
Orthopedic medicines:	Yigu (Zoledronic Acid) injections
Respiratory system medicines:	Zhongchang (Fudosteine) tablets
Diabetic medicines:	Taibai (Metformin Hydrochloride) sustained release tablets

The medicines which have received Good Manufacturing Practice (“GMP”) certifications issued by the State Food and Drug Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP certification for health food in capsules from the Department of Health of Jiangsu Province.

The Group’s several principal subsidiaries: Chia Tai – Tianqing Pharmaceutical Holdings Co. Ltd. (“CT Tianqing”), Beijing Tide Pharmaceutical Co. Ltd. (“Beijing Tide”), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. (“Jiangsu CT Fenghai”), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. (“Jiangsu CT Qingjiang”), CP Pharmaceutical Qingdao Co., Ltd. (“CP Qingdao”) and Lianyungang Runzhong Pharmaceutical Co., Ltd. (“LYG Runzhong”) have been designated “High and New Technology Enterprises”. CT Tianqing was designated “2011 Most Valuable Investment Enterprise of the PRC Pharmaceutical Enterprises” from the PRC Pharmaceutical Industry Information Centre. In addition, NJCTT, Jiangsu CT Qingjiang and Jiangsu CT Fenghai have been designated “Engineering Technological Research Centre for tumors and cardio-cerebral phytochemistry medicines of Jiangsu Province”, “Engineering Technological Research Centre for orthopedic medicines” and “Engineering Technological Research Centre for parenteral nutritious medicines” by The Science and Technology Committee of Jiangsu Province, respectively.

Named by the Ministry of Personnel of the PRC as a “Postdoctoral Research and Development Institute”, the research center of CT Tianqing is also the only “New Hepatitis Medicine Research Center” in the country.

Beijing Tide obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

In September 2011, CT Tianqing received the first certificate of new edition GMP (Certificate No. CN20110001) issued by the State Food and Drug Administration of the PRC for its small volume (injection) dosage.

The Company was selected as a constituent stock of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

The Company became a constituent of the MSCI Global Standard Indices’ MSCI China Index with effect from the close of trading on 31 May, 2013.

The Company was included in Forbes Asia’s “Asia Fab 50 Companies” for two consecutive years in 2016 and 2017.

In December 2017, Tenofovir Disoproxil Fumarate tablet became the first generic drug in the PRC that has completed the bioequivalence study according to the “Consistency of Quality and Efficacy Evaluation for Generic Drugs” (“Consistency Evaluation”) standard. The Group was the first enterprise that passed the Consistency Evaluation.

In January 2018, Tuotuo tablet became the only drug that was approved in the Consistency Evaluation among a whole variety of drugs within Jiangsu Province and was the first of the same kind of drugs in the PRC.

In May 2018, a new chemical Category 1 drug of antitumor – Anlotinib Hydrochloride capsule obtained the approval for drug registration granted by State Food and Drug Administration of the PRC.

On 10 August 2018, the Company was selected as a constituent stock of the Hang Seng Index, which would become effective from 10 September 2018.

The Group’s website: <http://www.sinobiopharm.com>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the period under review, the global economy continued along the road to recovery as negative effects arising from the emerging trade protectionist policy of the U.S. and the winding down of the quantitative easing monetary policy have yet to be fully reflected. The PRC economy has continued to grow steadily and progressively, achieving a year-on-year GDP growth of 6.8% from January to June and with an optimised economic structure and benefits of improved quality. The pharmaceutical industry has also encountered challenges. The introduction of a series of important healthcare reform and policies, including the “two-invoice” system, the hierarchical diagnosis and treatment system, zero mark-up on medicines across hospitals and the medical representative registration system, has presented new pressures on the operation of the pharmaceutical industry. The stricter environmental requirements have resulted in an oligopolistic rise in raw material prices and thus pushed up the operating costs. The imported cancer drug registration policy and the adjustment to cancer drug tariffs have sped up the entry of foreign cancer drugs to the PRC market and also placed greater competitive pressure on domestic manufacturers which produce the same type of drugs. On the other hand, the extension of the list of medicines approved for medical insurance coverage in some provinces has boosted the sales of the relevant enterprises. The reform has optimised the policy for the protection of the supply and subsequent use of generic drugs, which serves as a base of quality assurance. This has helped to accelerate the approval for the launch of generic drugs to the market, promoted the use of related drugs and also facilitated further standardisation of the R&D for generic drugs and the protection of intellectual property rights. Hence, the environment is favourable for the generic drug manufacturers with a stronger R&D foundation and who are competitive in terms of quality and at the same time accelerates further differentiation of pharmaceutical enterprises with different strengths.

BUSINESS REVIEW

The Group has recorded major achievements during the period under review:

- The launch of its breakthrough self-developed tyrosine kinase inhibitor (TKI) of multiple targets and antitumor targeted drug – Anlotinib has obtained approval for market launch and attracted widespread industry attention. According to clinical data, the drug can significantly extend the progression-free survival period and the overall survival period of patients of non-small cell lung cancer in advanced stage. Moreover, its clinical studies on the treatment of other indications, including soft tissue sarcoma, stomach cancer, colorectal cancer, medullary thyroid cancer, differentiated thyroid cancer and esophageal squamous cell cancer, are progressing well.
- The launch of the Group’s Lidocaine Cataplasm has secured approval. It is a new Category 3.1 drug with a four-year monitoring period used to treat postherpetic neuralgia. The medicine is listed as a first-class recommended drug in clinical guidelines issued in many places such as the U.S., Europe and the PRC. The approval marked the official launch of the first topical therapeutic patch in the field of neuropathic pain in the PRC, which fills a major gap in treatment within the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

- Promising R&D results: Ten production approvals of the Group's drugs were granted during the period under review. Two key drugs, namely Runzhong (Entecavir dispersible) tablet and Yilunping (Irbesartan/Hydrochlorothiazide) tablets, were approved under the Consistency Evaluation in the PRC. Besides, the studies on eight other drugs were completed and the application for Consistency Evaluation of these drugs has been filed.
- Beijing Tide, a subsidiary, has been selected as one of the "Top 10 Innovative Brands (Industry) in China" by the China Economic Summit.
- CT Tianqing, a subsidiary, has been included among the "Top 100 Quality Trustworthy Benchmarking and Demonstration Enterprises in China" by the China Association for Quality Inspection.
- Sino Biopharmaceutical Limited was selected as one of "The Top 100 Most Attractive Hong Kong Stock Connect Companies for Institutional Investors". The selection was co-organised by Yuediaoyan Platform and Gelonghui and supported by Hong Kong Stock Exchange and EUROLAND IR.
- Sino Biopharmaceutical Limited was ranked among the "Top 100 Hong Kong Listed Enterprises – Comprehensive Strength". The selection was organised by the Top 100 Hong Kong Listed Companies Research Centre, compiled by Finet and supported strategically by Tencent News, Sina Finance, toutiao.com, China Daily, Ta Kung Pao and Wen Wei Po.

The Group has actively responded to policy changes during the period under review. In its traditional areas of strength, the Group has set up a professional team to enhance terminal sales to pharmacies, expanded sales to the mid-range to low-end hospital market and improved product coverage. It has implemented the chronic disease management model in the hepatitis, analgesic, cardio-cerebral and respiratory system product categories to improve the quality of its services. As a result, solid growth has been maintained in hepatitis treatment medicines including Runzhong and Gangze; analgesics medicines including Kaifen and Debaian; cardio-cerebral medicines including Yilunping, Tuotuo and the respiratory system treatment medicine Tianqingsule and Zhongchang. As for new products, the Group carried out extensive cooperation with domestic experts to commence a number of indication clinical studies and accumulate medical evidence. It then utilised the clinical data obtained to enhance professional promotion and drive Aisuping's breakthrough sales growth. In addition, the Group has strategically commenced the launch promotion and post-launch clinical studies of its new innovative proprietary Anlotinib, a breakthrough for it in oncology medicine. Its efforts here have reaped results as the product has generated wide recognition from clinical experts and recorded an encouraging performance soon after its launch.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

During the six months ended 30 June 2018, the Group has obtained production approval for ten products including: Ganirelix Acetate Injection, three specifications of Anlotinib Hydrochloride capsule (Category 1.1 chemical medicine), Calcium Levofolinate for Injection (Class 6 chemical drug), Docetaxel Injection (Class 6 chemical drug), Lidocaine Cataplasm, two specifications of Compound Sodium Acetate Ringer's Injection and an Iodixanol Injection. Some 14 applications have been granted clinical approval, including 13 Category 1.1 chemical medicines and one Category 2 biological product. The Group has filed three new clinical applications and two of its products including Runzhong (Entecavir Dispersible tablets) and Yilunping (Irbesartan/Hydrochlorothiazide tablets) have passed the Consistency Evaluation. It also filed new Consistency Evaluation applications for eight products including Gelize (Imatinib Mesylate capsules), Shoufu (Capecitabine tablets), Qingle (Ganirelix Acetate injections), two specifications of Aisuping (Esomeprazole Sodium injections), Ganze (Entecavir capsules), Xijia (Olmesartan tablets) and Zhongchang (Fudosteine tablets). Cumulatively, a total of 482 pharmaceutical products had obtained clinical approval, or were under clinical trial or applying for production approval. During the period under review, the Group has earned 60 patents, including 45 invention patents and filed 145 new patent applications, 141 of which are invention patent applications.

The Group recorded revenue of approximately RMB9,725.23 million during the period under review, an increase of approximately 30.0% over the same period last year. Before and after accounted for unrealized fair value gains and losses of equity investments and financial assets and net foreign exchange differences, profit attributable to the owners of the parent was approximately RMB1,427.27 million and approximately RMB1,365.67 million, respectively, approximately 41.9% and approximately 24.1% higher than that of the same period last year, respectively. Based on the profit attributable to the owners of the parent before and after accounted for unrealized fair value gains and losses of equity investments and financial assets and net foreign exchange differences, the basic earnings per share attributable to the owners of the parent were approximately RMB11.60 cents and approximately RMB11.10 cents, respectively, approximately 33.9% and approximately 17.2% higher than that of the same period last year, respectively. Cash and bank balances totaled approximately RMB5,539.55 million.

On 5 January 2018, the Company entered into two agreements with France Investment (China 1) Group Limited ("Vendor") in relation to the acquisition of equity interests in Beijing Tide. The consideration for the acquisition was HK\$12,895,516,937 in total which was satisfied by the Company by the issuance of 1,013,002,116 shares of the Company at the issue price of HK\$12.73 per share to the Vendor at completion. The transaction was completed on 1 March 2018, and the Company's interests in Beijing Tide have been increased from 33.6% to 57.6% and Beijing Tide has become an indirect non-wholly owned subsidiary of the Company. Since 1 March 2018, the financial figures of Beijing Tide have been consolidated with the consolidated financial statements of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

The Group continues to focus on developing specialized medicines where its strengths lie so as to build up its brand in specialist therapeutic areas. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively develops oncology medicines, analgesic medicines, orthopedic medicines, digestive system medicines, anti-infectious medicines, respiratory system medicines, parenteral nutritious medicines and diabetic medicines, etc.

Hepatitis medicines

For the six months ended 30 June, 2018, the sales of hepatitis medicines amounted to approximately RMB3,338.82 million, representing approximately 34.3% of the Group's revenue.

CT Tianqing mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combat hepatitis virus. Ganlixin injections and capsules made with ingredients extracted from Licorice have the dual effects of liver protection and lowering enzyme level. For the six months ended 30 June, 2018, its sales amounted to approximately RMB46.33 million. After the expiration of the protection period of the product, many replicas have emerged in the market, resulting in intensified competition. The Group thus developed Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected. Sales of the medicine amounted to approximately RMB206.48 million in the period under review, an increase of approximately 3.2% against the same period last year. In addition, CT Tianqing launched the patented medicine Tianqingganmei injections, which are made with Isoglycyrrhizinate separated from Licorice. During the period under review, the product recorded the sales of approximately RMB877.44 million. The Group believes that medicine series made with ingredients extracted from Licorice will help to maintain CT Tianqing's leadership in the market for medicines protecting the liver and lowering enzyme levels.

Mingzheng capsule is a first-tier synthetic drug for combating hepatitis virus in the international market. For the six months ended 30 June, 2018, its sales amounted to approximately RMB126.21 million. A medicine for treating hepatitis B, Runzhong (Entecavir) dispersible tablet, is self-developed by CT Tianqing. CT Tianqing was the first pharmaceutical manufacturer to gain the approval for this product in the PRC. For the six months ended 30 June, 2018, the sales amounted to approximately RMB1,735.57 million, an increase of approximately 7.2% against the same period last year. Runzhong dispersible tablet is the latest generation of guanine nucleoside analogue oral medicine used mainly for the treatment of hepatitis B. It inhibits viral replication and has lower risk of triggering the emergence of medicine-resistant virus. After Entecavir was launched in 2005, the medicine recorded strong sales growth around the world as one of the most efficacious hepatitis B medicines. Another product, Tianding tablets, was launched in April 2013, its sales amounted to approximately RMB213.34 million for the six months ended 30 June, 2018, an increase of approximately 8.4% against the same period last year. For the six months ended 30 June, 2018, the sales of Ganze (Entecavir) capsules amounted to approximately RMB67.85 million, an increase of approximately 19.4% against the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Cardio-cerebral medicines

For the six months ended 30 June, 2018, the sales of cardio-cerebral medicines amounted to approximately RMB1,374.41 million, representing approximately 14.1% of the Group's revenue.

NJCTT's Tianqingning injections is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, it has huge market potential. For the six months ended 30 June, 2018, the product recorded the sales of approximately RMB75.42 million. The sales of another pharmaceutical product, Yilunping tablets, amounted to approximately RMB397.20 million for the six months ended 30 June, 2018, a year-on-year increase of approximately 22.9%. For the six months ended 30 June, 2018, the sales of Tuotuo calcium tablets amounted to approximately RMB320.57 million, a year-on-year increase of approximately 9.7%.

Kaishi injections works on the Drug Delivery System (DDS) theory to improve cardio-cerebral micro-circulation blockage. It is the first lipo-microsphere targeted sustained release medicine in the PRC. The proprietary pharmaceutical technology used by the Group enhances the product to have more apparent effect than similar products in the market and occupy a large portion of market share. It received many awards from various countries since launched and has obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. For the six months ended 30 June, 2018, the sales of Kaishi injections amounted to approximately RMB396.80 million. Applying the technology of micro-solid dispersion with microgram precision, Beraprost Sodium tablets can explicitly improve the ulcer, intermittent claudication, pain and cold symptom from the chronic arterial occlusion. For the six months ended 30 June, 2018, the sales of Beraprost sodium tablets amounted to approximately RMB200.92 million, an increase of approximately 19.2% as compared with the same period last year.

Oncology medicines

For the six months ended 30 June, 2018, the sales of oncology medicines amounted to approximately RMB1,044.85 million, representing approximately 10.7% of the Group's revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Oncology medicines (continued)

Oncology medicines are mainly manufactured by CT Tianqing and NJCTT. For the six months ended 30 June, 2018, sales of Zhiruo injections amounted to approximately RMB82.72 million. The sales of Saiweijian injections amounted to approximately RMB222.96 million during the period under review, an increase of approximately 33.2% as compared with the same period last year. The sales of Tianqingyitai injections amounted to approximately RMB109.14 million during the period under review, an increase of approximately 2.1% as compared with the same period last year. For the six months ended 30 June, 2018, the sales of Qingwei injections amounted to approximately RMB102.30 million, an increase of 35.2% as compared with the same period last year. For the six months ended 30 June, 2018, the sales of Shoufu tablets amounted to approximately RMB80.77 million. Sales of Geli capsules for the six months ended 30 June, 2018 amounted to approximately RMB108.18 million, an increase of approximately 28.1% as compared with the same period last year. Sales of Yinshu tablets for the six months ended 30 June, 2018 amounted to approximately RMB72.14 million, an increase of approximately 43.2% as compared with the same period last year.

Analgesic medicines

For the six months ended 30 June, 2018, the sales of analgesic medicines amounted to approximately RMB959.14 million, representing approximately 9.9% of the Group's revenue.

The analgesic medicine Kaifen injections is developed and manufactured by Beijing Tide. The product is a Flurbiprofen Axetil lipo-microsphere targeted sustained release injection produced based on the DDS theory and is famous for strong pain relieving effect with minimal side effects. The sales of the product for the six months ended 30 June, 2018 amounted to approximately RMB896.69 million, approximately 25.1% higher than that of the same period last year. Another product for relieving non-surgical joint soft tissue pain is Flurbiprofen Cataplasm, its sales for the six months ended 30 June, 2018 amounted to approximately RMB309.59 million, approximately 77.2% higher than that of the same period last year.

Orthopedic medicines

For the six months ended 30 June, 2018, the sales of orthopedic medicines amounted to approximately RMB819.32 million, representing approximately 8.4% of the Group's revenue.

The main product of orthopedic medicines is the Gaisanchun capsules. For the six months ended 30 June, 2018, its sales amounted to approximately RMB554.36 million, rose by approximately 32.8% as compared with the same period last year. For the six months ended 30 June, 2018, the sales of another product, Jiuli tablets, amounted to approximately RMB143.18 million, an increase of approximately 31.1% against the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Digestive system medicines

For the six months ended 30 June, 2018, the sales of digestive system medicines amounted to approximately RMB570.85 million, representing approximately 5.9% of the Group's revenue.

The main product of digestive system medicines is Getai tablets. For the six months ended 30 June, 2018, its sales amounted to approximately RMB117.85 million, an increase by approximately 5.9% as compared with the same period last year. A new product, Aisuping injection was launched in May 2016. Its sales amounted to approximately RMB367.25 million for the six months ended 30 June, 2018, a significant increase by approximately 122.1% as compared with the same period last year.

Anti-infectious medicines

For the six months ended 30 June, 2018, the sales of anti-infectious medicines amounted to approximately RMB503.84 million, representing approximately 5.2% of the Group's revenue.

The main product of anti-infectious medicines is Tiance injections. For the six months ended 30 June, 2018, its sales amounted to approximately RMB335.85 million. For the six months ended 30 June, 2018, the sales of another product, Tianjie injections, amounted to approximately RMB120.52 million, an increase of approximately 60.5% against the same period last year.

Respiratory system medicines

For the six months ended 30 June, 2018, the sales of respiratory medicines amounted to approximately RMB426.40 million, representing approximately 4.4% of the Group's revenue.

The main product of respiratory system medicines is Tianqingsule inhalation powder. For the six months ended 30 June, 2018, its sales amounted to approximately RMB256.59 million, an increase by approximately 20.2% as compared with the same period last year. For the six months ended 30 June, 2018, the sales of another pharmaceutical product, Chia Tai Suke tablets, amounted to approximately RMB106.57 million, an increase by approximately 24.1% as compared with the same period last year.

Parenteral nutritious medicines

For the six months ended 30 June, 2018, the sales of parenteral medicines amounted to approximately RMB326.76 million, representing approximately 3.4% of the Group's revenue.

The main product of parenteral nutritious medicines is Xinhaineng injections. For the six months ended 30 June, 2018, its sales amounted to approximately RMB230.27 million. For the six months ended 30 June, 2018, the sales of Fenghaineng fructose injections amounted to approximately RMB90.60 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Diabetic medicines

For the six months ended 30 June, 2018, the sales of diabetic medicines amounted to approximately RMB64.05 million, representing approximately 0.7% of the Group's revenue.

The main diabetic medicine of the Group, Taibai sustained release tablets, which is used for lowering blood sugar level, was developed and manufactured by CT Tianqing. There are more than 100 million diabetics in the PRC and the Metformin Hydrochloride has been identified as a first-tier medicine for lowering blood sugar level. As Taibai sustained release tablets has sustained release capability, it can stabilize a patient's blood sugar level. For the six months ended 30 June, 2018, the sales of the product amounted to approximately RMB54.48 million, an increase by approximately 21.6% as compared with the same period last year.

AVAILABLE-FOR-SALE INVESTMENTS

As at 30 June, 2018, the Group had the non-current available-of-sale ("AFS") investment of approximately RMB653.61 million (31 December, 2017: approximately RMB540.14 million) and current AFS investment of approximately RMB3,129.50 million (31 December, 2017: approximately RMB2,647.43 million). Non-current AFS investments are certain unlisted equity investments and current AFS investments are the wealth management products and trust funds. For wealth management products and trust funds, the Group has entered the investment contracts with several PRC banks, including Bank of Communication (approximately RMB686 million), Jiangsu Bank (approximately RMB500 million), Huaxia Bank (approximately RMB420 million), Ping An Bank (approximately RMB312 million), Industrial Bank (approximately RMB280 million), Xiamen International Bank (approximately RMB250 million), Nanjing Bank (approximately RMB210 million), Ningbo Bank (approximately RMB190 million), China Construction Bank (approximately RMB102.5 million), and other banks and trusts (approximately RMB179 million) during the period. These investments, representing approximately 8.9% of the total assets of the Group, mainly consisted of the principal-guaranteed with floating return products with relatively lower risk of default. All principal and interests will be paid together on the maturity date. The Board believes that the investment in wealth management products and trust funds can strengthen the financial position of the Group and bring the fruitful contribution to the profit of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ASSETS/EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June, 2018, the Group had (i) non-current financial assets designated as at fair value through profit or loss of approximately RMB177.74 million (31 December, 2017: approximately RMB190.42 million) which are the convertible bonds of Karolinska Development AB with an aggregate nominal value of SEK272,858,294 and 8% interest per annum; and (ii) current equity investments at fair value through profit or loss of approximately RMB324.74 million (31 December, 2017: approximately RMB943.73 million) which were investments in various listed shares. The Group recorded the realized gain on the disposal of the equity investments of approximately RMB93.08 million and unrealized fair value loss of the equity investments of approximately RMB24.31 million for the six months ended 30 June, 2018. The Board believes that the investment in financial assets and equity investments can diversify the investment portfolio of the Group and achieve a better return to the Group in future.

R&D

The Group has continued to focus its R&D efforts on new cardio-cerebral, hepatitis, oncology, analgesic and respiratory system medicines. During the second quarter, the Group was granted 4 clinical approvals, 9 production approvals, 3 new clinical applications, 7 applications and 2 approvals for Consistency Evaluation. Cumulatively, a total of 482 pharmaceutical products had obtained clinical approval, or were under clinical trial or applying for production approval. Out of these, 54 were for cardio-cerebral medicines, 37 for hepatitis medicines, 205 for oncology medicines, 22 for respiratory system medicines, 26 for diabetic medicines and 138 for other medicines.

Over the years, the Group has been placing high importance on R&D and innovation, as well as through collaboration and imitation, to raise both R&D standards and efficiency. In light of the fact that R&D continues to be the lifeblood of the Group's development, the Group continues to devote into more resources. For the six months ended 30 June, 2018, the R&D expenditure of approximately RMB1,328.18 million, which accounted for approximately 13.7% of the Group's revenue, was charged to the statement of profit or loss.

The Group also places major emphasis on the protection of intellectual property rights. It encourages its enterprises to apply for patent applications as a means to enhance the Group's core competitiveness. During the second quarter, the Group has received 32 authorized patent notices (27 invention patents, 2 utility model patents and 3 apparel design patents) and filed 80 new patent applications (76 invention patents, 2 utility model patents and 2 apparel design patents). Cumulatively, the Group has obtained 636 invention patent approvals, 19 utility model patents and 67 apparel design patents.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the period under review, the Group's primary sources of funds were cash derived from operating activities. As at 30 June, 2018, the Group's cash and bank balances were approximately RMB5,539.55 million (31 December, 2017: approximately RMB4,188.14 million).

CAPITAL STRUCTURE

As at 30 June, 2018, the Group had short term loans of approximately RMB1,079.50 million (31 December, 2017: approximately RMB741.31 million) and had long term loans of approximately RMB2,213.80 million (31 December, 2017: approximately RMB2,209.90 million).

CHARGE ON ASSETS

As at 30 June, 2018, the Group had the charge on assets of approximately RMB387.32 million (31 December, 2017: approximately RMB316.00 million).

CONTINGENT LIABILITIES

As at 30 June, 2018, the Group and the Company had no material contingent liabilities (31 December, 2017: Nil).

ASSETS AND GEARING RATIO

As at 30 June, 2018, the total assets of the Group amounted to approximately RMB34,985.60 million (31 December, 2017: approximately RMB20,935.34 million) whereas the total liabilities amounted to approximately RMB10,688.84 million (31 December, 2017: approximately RMB8,324.29 million). The gearing ratio (total liabilities over total assets) was approximately 30.6% (31 December, 2017: approximately 39.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICIES

The Group had 19,075 employees as at 30 June, 2018 and remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme. Total staff cost (including Directors' remuneration) for the period was approximately RMB882,506,000 (2017: approximately RMB601,134,000).

The Group adopted a share option scheme on 28 May, 2013 (the "2013 Share Option Scheme") and a share award scheme on 5 January, 2018 (the "2018 Share Award Scheme"), both of which will provide incentive to retain and encourage the selected participants for the continual operation and development of the Group. Details of the 2013 Share Option Scheme and 2018 Share Award Scheme have been disclosed in the circular and the announcement of the Company dated 23 April, 2013 and 5 January, 2018 respectively.

As of 30 June 2018, (i) no option in respect of the shares of the Company ("Shares") have been granted under the 2013 Share Option Scheme; and (ii) 17,599,000 Shares purchased at a total consideration of approximately RMB188.82 million were held on trust under the 2018 Share Award Scheme and no Shares have been granted to any selected participant.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The global economy is expected to maintain its growth momentum but in a state of disequilibrium in the second half of the year. Although the PRC economy is in a generally stable condition, the country is still facing challenges in its economic development. It will realise a more refined and professional management in the future after the national organisational reform is completed. National Medical Insurance Bureau overseeing tenders, medical insurance and medicine prices in the PRC boasts stronger price bargaining power and the reduction of the prices of medicine will continue to be strictly implemented. Policies that accelerate import and encourage innovation will pave the way for increased competition in terms of quality and innovation among domestic and international enterprises. At the same time, the hierarchical diagnosis treatment system, the “two-invoice” system and the zero mark-up of medicines by hospitals will lead to disruptive reforms in the medicine marketing system and some enterprises will face greater challenges in the future. Domestic enterprises with a foundation in R&D, innovation and internationalisation will demonstrate a stronger competitive edge in the industry.

The Group expects the pharmaceutical industry to deliver generally stable growth in the second half of the year. However, cost pressure caused by various factors will continue to increase and differentiation of enterprises within the industry will be more evident. Under such conditions, the Group aims to seize opportunities amid challenges to strengthen its R&D, expand sales and consolidate its industry-leading position, and thereby generate a more stable and sustainable return on investment for shareholders.

APPRECIATION

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

RESULTS

The Board announces the unaudited consolidated results of the Group for the six months ended 30 June, 2018 together with the comparative consolidated results for 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 30 June,	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	3	9,725,232	7,482,859
Cost of sales		(1,858,501)	(1,568,413)
Gross profit		7,866,731	5,914,446
Other income and gains	3	337,014	223,739
Selling and distribution costs		(3,977,362)	(3,169,426)
Administrative expenses		(462,991)	(254,581)
Other expenses		(1,377,667)	(1,173,558)
<i>Including: Research and development costs</i>		(1,328,179)	(1,155,532)
Finance costs	4	(51,160)	(34,127)
Share of profits and losses of associates		63,105	177,776
PROFIT BEFORE TAX	5	2,397,670	1,684,269
Income tax expense	6	(428,779)	(285,637)
PROFIT FOR THE PERIOD		1,968,891	1,398,632
Profit attributable to:			
Owners of the parent		1,365,669	1,100,582
Non-controlling interests		603,222	298,050
		1,968,891	1,398,632
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		RMB11.10 cents	RMB9.47 cents
– Diluted		RMB11.10 cents	RMB9.47 cents

Details of the dividend declared for the second quarter of the year are disclosed in note 7 of this announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	1,968,891	1,398,632
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	73,525	(113,300)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	73,525	(113,300)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,042,416	1,285,332
Attributable to:		
Owners of the parent	1,438,428	988,528
Non-controlling interests	603,988	296,804
	2,042,416	1,285,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June, 2018	31 December, 2017
<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	4,862,571	3,483,253
Investment properties	364,275	370,163
Prepaid land lease payments	1,030,211	789,362
Goodwill	9,908,639	88,926
Other intangible assets	243,141	219,249
Investments in associates	353,112	1,048,155
Available-for-sale investments	653,605	540,138
Financial assets designated at fair value through profit or loss	177,735	190,421
Deferred tax assets	456,209	382,574
Prepayments	55,979	42,979
Total non-current assets	18,105,477	7,155,220
CURRENT ASSETS		
Inventories	1,201,206	918,819
Trade and bills receivables	9 3,243,388	2,051,290
Prepayment, deposit and other receivables	3,441,735	3,030,718
Available-for-sale investments	3,129,501	2,647,426
Equity investments at fair value through profit or loss	324,739	943,726
Cash and bank balances	10 5,539,552	4,188,140
Total current assets	16,880,121	13,780,119
CURRENT LIABILITIES		
Trade and bills payables	11 841,482	928,607
Tax payable	184,520	292,595
Other payables and accruals	5,584,051	3,725,942
Interest-bearing bank borrowings	1,079,501	741,307
Total current liabilities	7,689,554	5,688,451
NET CURRENT ASSETS	9,190,567	8,091,668
TOTAL ASSETS LESS CURRENT LIABILITIES	27,296,044	15,246,888

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	<i>Notes</i>	30 June, 2018	31 December, 2017
		RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		571,654	241,912
Interest-bearing bank borrowings		2,213,800	2,209,897
Deferred tax liabilities		213,834	184,030
Total non-current liabilities		2,999,288	2,635,839
Net assets		24,296,756	12,611,049
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	279,208	170,033
Treasury shares held for share award scheme		(188,819)	–
Reserves		20,203,373	9,038,761
		20,293,762	9,208,794
Non-controlling interests		4,002,994	3,402,255
Total equity		24,296,756	12,611,049

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Share	Shares held	Asset	Exchange		Proposed	Non-		Total				
	Issued share capital	premium account	Capital reserve	under share award	revaluation reserve	Contributed surplus	Reserve funds	fluctuation reserve		Retained profits	final dividend	Total	controlling interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December, 2017 and 1 January, 2018	170,033	1,128,455	(371,473)	-	251,091	22,691	1,877,959	(466,887)	6,596,925	-	9,208,794	3,402,255	12,611,049
Profit for the period	-	-	-	-	-	-	-	-	1,365,669	-	1,365,669	603,222	1,968,891
Other comprehensive income for the period of foreign operations	-	-	(10)	-	943	-	(736)	72,562	-	-	72,759	766	73,525
Total comprehensive income for the period	-	-	(10)	-	943	-	(736)	72,562	1,365,669	-	1,438,428	603,988	2,042,416
New issues of shares	20,257	10,294,506	-	-	-	-	-	-	-	-	10,314,763	-	10,314,763
Issue of bonus shares	88,918	(88,918)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of shares under share award scheme	-	-	-	(188,819)	-	-	-	-	-	-	(188,819)	-	(188,819)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	958,443	958,443
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(861,692)	(861,692)
Final 2017 dividend declared	-	-	-	-	-	-	-	-	(273,945)	-	(273,945)	-	(273,945)
Interim 2018 dividend	-	-	-	-	-	-	-	-	(205,459)	-	(205,459)	-	(205,459)
As at 30 June 2018	279,208	11,334,043	(371,483)	(188,819)	252,034	22,691	1,877,223	(394,325)	7,483,190	-	20,293,762	4,002,994	24,296,756
At 31 December, 2016 and 1 January, 2017	170,033	1,128,455	(169,686)	-	185,993	22,691	1,420,955	(83,207)	5,213,051	95,150	7,983,435	2,758,476	10,741,911
Profit for the period	-	-	-	-	-	-	-	-	1,100,582	-	1,100,582	298,050	1,398,632
Other comprehensive income for the period of foreign operations	-	-	-	-	-	-	-	(112,054)	-	-	(112,054)	(1,246)	(113,300)
Total comprehensive income for the period	-	-	-	-	-	-	-	(112,054)	1,100,582	-	988,528	296,804	1,285,332
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	698	698
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(788,046)	(788,046)
Final 2016 dividend declared	-	-	-	-	-	-	-	-	-	(95,150)	(95,150)	-	(95,150)
Interim 2017 dividend	-	-	-	-	-	-	-	-	(232,736)	-	(232,736)	-	(232,736)
Transfer from/(to) retained earnings	-	-	-	-	-	-	14,022	-	(14,022)	-	-	-	-
As at 30 June 2017	170,033	1,128,455	(169,686)	-	185,993	22,691	1,434,977	(195,261)	6,066,875	-	8,644,077	2,267,332	10,912,009

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES	2,058,541	3,218,565
CASH FLOWS FROM INVESTING ACTIVITIES	491,836	(1,585,214)
CASH FLOWS FROM FINANCING ACTIVITIES	(1,338,792)	(1,389,331)
INCREASE IN CASH AND CASH EQUIVALENTS	1,211,585	244,020
Cash and cash equivalents at beginning of year	3,692,044	3,498,538
Effect of foreign exchange rate changes, net	134,643	(154,594)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,038,272	3,587,964
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,512,106	1,696,909
Time deposits with original maturity of less than 3 months when acquired	2,526,166	1,891,055
	5,038,272	3,587,964

NOTES:

1. BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment and equity investments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The unaudited consolidated financial information should be read in conjunction with the 2017 annual financial statements.

The accounting policies and methods of computation used in the preparation of this unaudited consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December, 2017.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June, 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES:

1. BASIS OF PREPARATION (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. OPERATING SEGMENT INFORMATION

The management considers the business from products/services perspective. The three reportable segments are as follows:

- (a) the chemical medicines and biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the chemical medicine products and modernized Chinese medicine products;
- (b) the investment segment is engaged in long term and short term investments; and
- (c) the other segment comprises, principally, (i) the Group's R&D sector which provides services to third-party; and (ii) related healthcare and hospital business.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Segment assets exclude deferred tax assets and investments in associates as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

NOTES:

2. OPERATING SEGMENT INFORMATION (continued)

The segment results for the six months ended 30 June, 2018

	Chemical medicines and biopharmaceutical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	9,463,701	2,665	258,866	9,725,232
Segment results	2,411,617	35,350	15,279	2,462,246
<i>Reconciliation:</i>				
Interest and unallocated gains				56,366
Share of profits and losses of associates				63,105
Unallocated expenses				(184,047)
Profit before tax				2,397,670
Income tax expense				(428,779)
Profit for the period				1,968,891
Assets and liabilities				
Segment assets	18,545,122	14,644,792	986,363	34,176,277
<i>Reconciliation:</i>				
Investments in associates				353,112
Other unallocated assets				456,209
Total assets				34,985,598
Segment liabilities	6,769,302	3,268,991	252,195	10,290,488
<i>Reconciliation:</i>				
Other unallocated liabilities				398,354
Total liabilities				10,688,842
Other segment information:				
Depreciation and amortisation	188,928	12,627	9,185	210,740
Capital expenditure	616,995	125	52,624	669,744
Other non-cash expenses	462	26	–	488

NOTES:

2. OPERATING SEGMENT INFORMATION (continued)

The segment results for the six months ended 30 June, 2017

	Chemical medicines and biopharmaceutical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	7,266,830	1,935	214,094	7,482,859
Segment results				
	1,496,927	96,615	37,261	1,630,803
<i>Reconciliation:</i>				
Interest and unallocated gains				22,302
Share of profits and losses of associates				177,776
Unallocated expenses				(146,612)
Profit before tax				1,684,269
Income tax expense				(285,637)
Profit for the period				1,398,632
Assets and liabilities				
Segment assets	13,146,270	4,585,784	611,582	18,343,636
<i>Reconciliation:</i>				
Investments in associates				1,017,212
Other unallocated assets				245,522
Total assets				19,606,370
Segment liabilities	5,560,958	2,712,396	299,031	8,572,385
<i>Reconciliation:</i>				
Other unallocated liabilities				121,976
Total liabilities				8,694,361
Other segment information:				
Depreciation and amortisation	144,116	15,125	9,200	168,441
Capital expenditure	436,967	69	–	437,036
Other non-cash expenses	527	37	–	564

NOTES:

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) *Revenue from external customers*

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

(b) *Non-current assets*

	For the six months ended 30 June,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Hong Kong	10,805,779	1,658,707
Mainland China	7,272,614	4,690,300
Others	27,084	25,908
	18,105,477	6,374,915

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

Information about a major customer

No information about a major customer is presented as no single customer contributes to over 10% of the Group's revenue for the six months ended 30 June, 2018 and 2017.

NOTES:

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is the Group's revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	For the six months ended 30 June,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue		
Sale of goods	9,498,702	7,297,582
Others	226,530	185,277
	9,725,232	7,482,859
Other income		
Bank interest income	56,366	22,302
Interest income from convertible bonds	8,398	8,364
Dividend income	8,650	6,207
Government grants	14,873	14,714
Sale of scrap materials	1,682	2,579
Investment income	117,132	59,359
Gross rental income	2,468	2,686
Others	33,207	13,612
	242,776	129,823
Gains		
Gain on disposal of items of property, plant and equipment	1,163	976
Gain on disposal of equity investments	93,075	67,721
Fair value gains, net		
Equity investments/Financial assets at fair value through profit or loss	–	25,219
	94,238	93,916
Total other income and gains	337,014	223,739

NOTES:

4. FINANCE COST

	For the six months ended 30 June,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest on bank borrowings	51,160	34,127

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cost of sales	1,858,501	1,568,413
Depreciation of property, plant and equipment	190,715	150,863
Depreciation of investment properties	10,574	11,509
Recognition of prepaid land lease payments	702	482
Amortization of other intangible assets	8,749	5,587
Research and development costs	1,328,179	1,155,532
Gain on disposal of items of property, plant and equipment	(1,163)	(976)
Loss on disposal of items of property, plant and equipment	488	564
Bank interest income	(56,366)	(22,302)
Dividend income	(8,650)	(6,207)
Investment income	(117,132)	(59,359)
Fair value losses/(gains), net:		
Equity investments at fair value through profit or loss		
– held for trading	24,308	(25,219)
Financial assets at fair value through profit or loss	–	978
Auditors' remuneration	2,445	1,921
Staff cost (including directors' remuneration)		
Wages and salaries	712,183	488,427
Pension contributions	170,323	112,707
	882,506	601,134
Accrual of impairment loss of trade receivables	24,692	16,288
Foreign exchange differences, net	37,289	(70,165)

NOTES:

6. INCOME TAX EXPENSE

	For the six months ended 30 June,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Group:		
Current – Hong Kong	–	–
Current – Mainland China income tax	424,738	299,058
Deferred tax	4,041	(13,421)
Total tax charge for the period	428,779	285,637

Pursuant to Section 6 of Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Hong Kong profits tax has been provided at a rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

During the six months ended 30 June, 2018, CT Tianqing, Beijing Tide, NJCTT, Jiangsu CT Fenghai, Jiangsu CT Qingjiang, Qingdao CT and LYG Runzhong were subject to a corporate income tax rate of 15% because they are qualified as a “High and New Technology Enterprise”.

Other than the above mentioned entities, the other entities located in the PRC are subject to a corporate income tax rate of 25% in 2018.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

NOTES:

7. DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has declared the payment of a second quarterly dividend of HK2 cents per ordinary share for the three months ended 30 June, 2018 (2017: HK2 cents). The dividend will be paid to shareholders on Friday, 28 September, 2018 whose names appear on the register of members of the Company on Friday, 14 September, 2018. For the purpose of determining shareholders who are qualified for the second quarterly dividend, the register of members of the Company will be closed from Thursday, 13 September, 2018 to Friday, 14 September, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the 2018 second quarterly dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 12 September, 2018.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted earnings per share attributable to the owners of the parent is as follows:

	For the six months ended 30 June,	
	2018 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)
(a) Basic earnings per share		
Profit attributable to the owners of the parent used in the basic earnings per share calculation	1,365,669	1,100,582
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation('000)	12,305,376	11,624,789
Basic earnings per share (RMB' cents)	11.10	9.47

NOTES:

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	For the six months ended 30 June,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
(b) Diluted earnings per share		
Profit attributable to the owners of the parent used in the diluted earnings per share calculation	1,365,669	1,100,582
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation ('000)	12,305,376	11,624,789
Effect of restricted shares ('000)	2,210	–
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation ('000)	12,307,586	11,624,789
Diluted earnings per share (RMB' cents)	11.10	9.47

9. TRADE AND BILL RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period ranges from 60 days to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the Group's trade and bill receivables as at the end of reporting period, based on invoice date and net of provisions, is as follows:

	30 June, 2018 RMB'000 (Unaudited)	31 December, 2017 RMB'000 (Audited)
Current to 90 days	3,011,379	1,654,569
91 days to 180 days	186,201	361,657
Over 180 days	45,808	35,064
	3,243,388	2,051,290

NOTES:

10. CASH AND BANK BALANCES

	30 June, 2018 RMB'000 (Unaudited)	31 December, 2017 RMB'000 (Audited)
Cash and bank balances, unrestricted	2,512,106	1,135,025
Time deposits with original maturity of less than three months	2,526,166	2,557,019
Time deposits with original maturity of more than three months	501,280	496,096
	5,539,552	4,188,140

11. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of reporting period, based on invoice date, is as follows:

	30 June, 2018 RMB'000 (Unaudited)	31 December, 2017 RMB'000 (Audited)
Current to 90 days	597,697	704,689
91 days to 180 days	149,304	189,163
Over 180 days	94,481	34,755
	841,482	928,607

12. SHARE CAPITAL

	30 June, 2018 RMB'000 (Unaudited)	31 December, 2017 RMB'000 (Audited)
<i>Issued and fully paid:</i>		
12,637,791,487 ordinary shares of HK\$0.025 each (2017: 7,412,192,209 ordinary shares of HK\$0.025 each)	279,208	170,033

NOTES:

13. RELATED PARTY TRANSACTION

The Group had the following material transactions with related parties during the period:

	For the six months ended 30 June,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Operating lease rental payable to:		
– a company beneficially owned by a director (note a)	878	531
– a company beneficially owned by a director (note a)	3,275	1,800
Consultancy fee receivable from:		
– a company beneficially owned by connected persons (note b)	1,557	1,557

Notes:

- (a) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.
- (b) Consultancy fee was based on services agreement entered into between the Group and connected persons with reference to the market prices.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June, 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong, "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company

Name of Director	Notes	Capacity/Nature of interest	Number of shares held, capacity and nature of interest			Approximate percentage of the Company's issued share capital
			Directly beneficially owned	Through controlled corporations	Total	
Miss Tse, Theresa Y Y	(1)	Beneficial owner	-	1,519,503,174	1,519,503,174	12.02%
Mr. Tse Ping	(2)	Beneficial owner	210,600,000	1,623,190,083	1,833,790,083	14.51%
Ms. Cheng Cheung Ling	(3)	Beneficial owner	95,056,500	2,700,000,000	2,795,056,500	22.12%
Mr. Tse Hsin		Beneficial owner	98,598,000	-	98,598,000	0.78%

Notes:

- (1) Miss Tse, Theresa Y Y held 1,519,503,174 shares of the Company through France Investment (China 1) Group Limited, 91.33% of the issued share capital of which is owned by Miss Tse, Theresa Y Y.
- (2) Mr. Tse Ping held 1,623,190,083 shares of the Company through Validated Profits Limited, the entire issued share capital of which is owned by Mr. Tse Ping.
- (3) Ms. Cheng Cheung Ling held 1,575,000,000 shares and 1,125,000,000 shares of the Company through Chia Tai Bainian Holdings Limited and Remarkable Industries Limited, respectively. The entire issued share capital of each of the companies is owned by Ms. Cheng Cheung Ling.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long position in shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Tse Hsin	CT Tianqing	Beneficial owner	229,250	0.18%
	NJCTT	Beneficial owner	26,583	0.53%

Saved as disclosed above, as at 30 June, 2018, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERSONS WHO HAVE AN INTEREST AND/OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2018, the following persons (not being Directors or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares and/or underlying shares

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	1,623,190,083	12.84%
Chia Tai Bainian Holdings Limited	(2)	Beneficial owner	1,575,000,000	12.46%
France Investment (China 1) Group Limited	(3)	Beneficial owner	1,519,503,174	12.02%
Remarkable Industries Limited	(2)	Beneficial owner	1,125,000,000	8.90%

Notes:

- (1) Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping.
- (2) Each of Chia Tai Bainian Holdings Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Ms. Cheng Cheung Ling.
- (3) France Investment (China 1) Group Limited is an investment holding company owned as to 91.33% by Miss Tse, Theresa Y Y.

Save as disclosed above, as at 30 June, 2018, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

2013 SHARE OPTION SCHEME

On 28 May, 2013, the shareholders of the Company approved the adoption of the 2013 Share Option Scheme, which is in force for 10 years from that date, for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of shares of the Company ("Shares") in respect of which options may be granted under the 2013 Share Option Scheme and any other share option scheme of the Company amounted to 494,146,147 shares, representing 10% of the issued share capital of the Company as at the date of adoption of the 2013 Share Option Scheme.

The total number of Shares issued and to be issued upon exercise of options granted under the the 2013 Share Option Scheme and any other share option scheme of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the the 2013 Share Option Scheme and any other share option scheme of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the Shares in issue and (ii) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates, must be approved by shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option may be exercised in accordance with the terms of the the 2013 Share Option Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified to each grantee by the directors. The exercise period may commence once the offer of the grant is accepted by the grantee and shall end in any event not later than 10 years from the date grant of the share option.

2013 SHARE OPTION SCHEME (continued)

The exercise price of the share options under the 2013 Share Option Scheme shall be a price determined by the Board but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options had been granted under the 2013 Share Option Scheme since its adoption.

2018 SHARE AWARD SCHEME

The Company has adopted the 2018 Share Award Scheme on 5 January, 2018 (the "Adoption Date"), pursuant to which existing Shares will be purchased by the trustee from the market out of cash contributed by the Group and be held on trust for the participants selected by the Board (the "Selected Participants") until such Shares are vested in the relevant Selected Participants in accordance with the terms of the 2018 Share Award Scheme. The purpose and objective of the 2018 Share Award Scheme are to recognize the contributions made by the Selected Participants and to give incentive to retain and encourage the Selected Participants for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group.

The Board may, from time to time, at its absolute discretion determine the number of restricted Shares to be granted and select any participant to be a Selected Participant with such vesting conditions as it may deem appropriate under the 2018 Share Award Scheme. Participants of the 2018 Share Award Scheme include the directors and employees of the Company and any of its Subsidiaries.

The maximum number of Shares which the trustee may purchase with funds contributed by the Group amounts to 222,365,766 Shares, representing 3% of the total issued share capital of the Company as at the Adoption Date. The 2018 Share Award Scheme shall terminate upon the expiry of the period of 10 years from the Adoption Date.

No Shares have been awarded to any Selected Participants pursuant to the 2018 Share Award Scheme since the Adoption Date.

Further details of the 2018 Share Award Scheme are set out in the section headed "Management Discussion and Analysis – Employee and Remuneration Policies" of this interim report.

INVESTOR RELATIONS

The Group has committed itself in maintaining high standards of corporate governance to ensure sustainable growth over the long-term. During the period under review, the Group has fulfilled this commitment by maintaining effective communications with local and overseas investors via a variety of channels. These communications have enriched investors' understanding of the Group's operation and also effectively shared its latest business developments. The Group has always been aware of the importance of good investor relations to corporate management, as such, efforts have also been made to solicit opinions and to obtain pertinent information through regular investor meetings in order to further elevate its corporate governance standards.

During the period under review, the Group has proactively lobbied with a number of initiatives to deliver the latest business information to investors in a timely manner. It has participated in "Morgan Stanley China Healthcare Corporate Day", "dbAccess China Conference 2018", "The 36th Annual J.P. Morgan Healthcare Conference", "Credit Suisse Asian Investment Conference", "J.P. Morgan Global China Summit", "Bank of America Merrill Lynch Innovative China Conference 2018", "9th Annual dbAccess Asia Conference", "CLSA China Forum 2018" and "Morgan Stanley Fourth Annual China Summit" etc. Moreover, the Group has arranged factory site visits, teleconferences and one-on-one meetings with local and overseas institutional investors. Altogether, these investor relations events have helped more than 1,000 potential investors to increase their knowledge about the Group's latest development and operations, thereby solidifying the confidence of shareholders, investors and customers in the Group's business.

In addition, the Group posts its annual and interim reports, and issues quarterly, interim and annual results announcements, disclosures and circulars on its corporate website as well as on the website of Hong Kong Exchanges and Clearing Limited. The Group also issues corporate announcements in a timely manner to inform shareholders and investors about its latest developments, further facilitating a high degree of transparency.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 June, 2018 except for the deviation from Code Provision A.6.7 in relation to attendance of the annual general meeting of the Company (the "AGM") by Independent Non-executive Directors (INEDS). Two INEDs were unable to attend the AGM held on 29 May, 2018 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, it was confirmed that for the six months ended 30 June, 2018 all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS, AUDIT COMMITTEE AND REVIEW OF RESULTS

The Group has complied with Rules 3.10 and 3.10(A) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four INEDs including two with financial management expertise, details of their biographies had been set out in the 2017 Annual Report of the Company.

The Audit Committee is comprised of three INEDs comprising Mr. Lu Zhengfei as chairman and Mr. Li Dakui and Ms. Lu Hong as members. It had reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited consolidated financial statements of the Company for the six months ended 30 June, 2018.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 27 September, 2016, the Company has entered into a facility agreement (the “2016 Facility Agreement”) with Bank of China (Hong Kong) Limited, Hang Seng Bank Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Taipei Fubon Commercial Bank Co., Ltd. and CTBC Bank Co., Ltd. for a three-year unsecured loan in the principal sum of USD300,000,000. Pursuant to the terms of the 2016 Facility Agreement, there are covenants regarding certain shareholding in the Company and control on the Board of Directors of the Company to be retained by Mr. Tse Ping, a substantial shareholder and a Director of the Company, and Mr. Tse Ping’s family members.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in accordance with the requirement of the Corporate Governance Code. Its primary duty is to make recommendations to the Board in formulating policies on remuneration packages of directors and senior management. The Remuneration Committee is comprised of three INEDs, namely Mr. Zhang Lu Fu as chairman and Mr. Lu Zhengfei and Ms. Lu Hong as members.

NOMINATION COMMITTEE

The Company has established the Nomination Committee comprising Miss Tse, Theresa Y Y as chairman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong and Mr. Zhang Lu Fu as members with written terms of reference in accordance with the requirement of the Corporate Governance Code. Its primary duty is to formulate nomination policies for the Board and recruitment policies of senior management and to review the board diversity policy from time to time to ensure its continued effectiveness.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises seven Executive Directors, namely Miss Tse, Theresa Y Y, Mr. Tse Ping, Ms. Cheng Cheung Ling, Mr. Tse Hsin, Mr. Wang Shanchun, Mr. Tian Zhoushan and Ms. Li Mingqin and four Independent Non-executive Directors, namely Mr. Lu Zhengfei, Mr. Li Dakui, Ms. Lu Hong and Mr. Zhang Lu Fu.

By Order of the Board

Sino Biopharmaceutical Limited

Tse, Theresa Y Y

Chairlady

Hong Kong, 22 August, 2018