



INNOVATION
FOR GOOD HEALTH

上海復星醫藥(集團)股份有限公司
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*

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

Stock Code: 02196

INTERIM REPORT 2019

Our Vision

Become a first-tier enterprise in the global mainstream pharmaceutical and healthcare market.

Our Mission

Better health for families worldwide.

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Corporate Information

Directors

Executive Directors

Mr. Chen Qiyu (陳啟宇) (*Chairman*)
Mr. Yao Fang (姚方) (*Co-Chairman*)
Mr. Wu Yifang (吳以芳) (*President and Chief Executive Officer*)

Non-executive Directors

Mr. Xu Xiaoliang (徐曉亮)¹
Mr. Wang Can (王燦)
Ms. Mu Haining (沐海寧)
Mr. Liang Jianfeng (梁劍峰)¹
Mr. Wang Qunbin (汪群斌)²
Mr. Zhang Xueqing (張學慶)²

Independent Non-executive Directors

Mr. Jiang Xian (江憲)
Dr. Wong Tin Yau Kelvin (黃天祐)
Ms. Li Ling (李玲)¹
Mr. Tang Guliang (湯谷良)¹
Mr. Cao Huimin (曹惠民)²
Mr. Wai Shiu Kwan Danny (韋少琨)²

Supervisors

Ms. Ren Qian (任倩) (*Chairman*)
Mr. Cao Genxing (曹根興)
Mr. Guan Yimin (管一民)

Joint Company Secretaries

Ms. Dong Xiaoxian (董曉嫻)
Ms. Lo Yee Har Susan (盧綺霞)

Authorized Representatives

Mr. Chen Qiyu (陳啟宇)
Ms. Lo Yee Har Susan (盧綺霞)

Strategic Committee

Mr. Chen Qiyu (陳啟宇) (*Chairman*)
Mr. Yao Fang (姚方)
Mr. Wu Yifang (吳以芳)
Mr. Xu Xiaoliang (徐曉亮)¹
Ms. Li Ling (李玲)¹
Mr. Wang Qunbin (汪群斌)²
Mr. Wai Shiu Kwan Danny (韋少琨)²

Audit Committee

Mr. Tang Guliang (湯谷良) (*Chairman*)¹
Mr. Wang Can (王燦)
Mr. Jiang Xian (江憲)
Mr. Cao Huimin (曹惠民)²

Nomination Committee

Mr. Jiang Xian (江憲) (*Chairman*)
Ms. Mu Haining (沐海寧)
Ms. Li Ling (李玲)¹
Mr. Cao Huimin (曹惠民)²

Remuneration and Appraisal Committee

Dr. Wong Tin Yau Kelvin (黃天祐) (*Chairman*)
Mr. Chen Qiyu (陳啟宇)
Ms. Mu Haining (沐海寧)
Mr. Jiang Xian (江憲)
Mr. Tang Guliang (湯谷良)¹
Mr. Cao Huimin (曹惠民)²

Registered Office

9th Floor, No. 510 Caoyang Road
Putuo District
Shanghai, 200063, China

Principal Place of Business in the PRC

Building A
No. 1289 Yishan Road
Shanghai, 200233, China

Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Advisers in Hong Kong

Reed Smith Richards Butler

Legal Advisers in the PRC

Grandall Law Firm (Shanghai)

Auditors

Ernst & Young

Principal Banks

The Export-Import Bank of China
China Development Bank
The Industrial and Commercial Bank of China
Bank of China
HSBC
Bank of Beijing

Company Name

Shanghai Fosun Pharmaceutical (Group) Co., Ltd.

Stock Abbreviation

FOSUN PHARMA

Share Listing

A Share: Shanghai Stock Exchange

Stock Code: 600196

H Share: The Stock Exchange of Hong Kong Limited

Stock Code: 02196

A Share Registrar and Transfer Office in the PRC

China Securities Depository & Clearing Corporation Limited (CSDCC)

Shanghai Branch

China Insurance Building

166 East Lujiazui Road

Pudong District

Shanghai, China

H Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong³

Company's Website

<http://www.fosunpharma.com>

¹ Appointed on 25 June 2019

² Retired on 25 June 2019

³ Changed to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong since 11 July 2019

Financial Highlights

	Six months ended 30 June	
	2019 RMB million	2018 RMB million
Operating results		
Revenue	14,085	11,767
Gross profit	8,486	6,821
Operating profit	1,490	1,270
Profit before tax	2,196	2,038
Profit for the period attributable to owners of the parent	1,516	1,560
EBITDA	3,483	3,080
Profitability		
Gross margin	60.25%	57.97%
Operating profit margin	10.58%	10.79%
Net profit margin	12.92%	14.77%
Earnings per share (RMB)		
Earnings per share — basic	0.59	0.63
Earnings per share — diluted	0.59	0.63
Of which: Pharmaceutical manufacturing and R&D segment		
Revenue	10,814	8,872
Gross profit	7,197	5,703
Segment results	1,205	1,035
Segment profit for the period	1,232	1,005
Assets		
Total assets	73,633	70,494
Equity attributable to owners of the parent	28,671	27,921
Total liabilities	39,172	36,959
Cash and bank balances	7,740	8,547
Debt-to-asset ratio	53.20%	52.43%

Management Discussion and Analysis

FINANCIAL REVIEW

During the Reporting Period, the unaudited interim results and the summary of basic financial results prepared by the Group in accordance with HKFRS are as follows:

During the Reporting Period, revenue of the Group amounted to RMB14,085 million, representing an increase of 19.70% as compared to the corresponding period of 2018. Excluding the impacts of the new acquisitions of enterprises for comparison purposes and other factors, the revenue would have increased by 19.55% on the same basis as compared to the corresponding period of 2018.

During the Reporting Period, profit before tax and net profits of the Group amounted to RMB2,196 million and RMB1,820 million, respectively, representing an increase of 7.78% and 4.70% as compared to the corresponding period of 2018, respectively. The result for the second quarter and for the first half of 2019 has been improved compared with the first quarter 2019 and the second half of 2018 respectively. However, affected by factors such as initial losses in innovation incubation platforms established by the Group, including Fosun Lead and Fosun Orinove, the initial losses in U.S. and European subsidiaries, the clinical trials conducted by Shanghai Henlius for a number of biopharmaceutical innovative drugs, the intensified operating losses of equity investments including Fosun Kite and Intuitive Fosun due to business expansion and the advancement of R&D, and the increase in selling expenses due to the development of new product and new market, net profit attributable to shareholders of the Company amounted to RMB1,516 million, representing a decrease of 2.84%, as compared to the corresponding period of 2018.

During the Reporting Period, earnings per share of the Group decreased by 6% to RMB0.59 as compared to the corresponding period of 2018.

REVENUE

During the Reporting Period, revenue of the Group amounted to RMB14,085 million, representing an increase of 19.70% as compared to the corresponding period of 2018. Excluding the impacts of the new acquisitions of enterprises for comparison purposes and other factors, revenue would have increased by 19.55% on the same basis as compared to the corresponding period of 2018. The Group recorded revenue of RMB10,789 million in Mainland China, representing an increase of 23.49% as compared to the corresponding period of 2018; and recorded revenue of RMB3,296 million in other countries or regions, representing an increase of 8.76% as compared to the corresponding period of 2018.

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group realized revenue of RMB10,814 million, representing an increase of 21.89% as compared to the corresponding period of 2018. During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group realized segment results of RMB1,205 million, representing an increase of 16.38% as compared to the corresponding period of 2018 and segment profit of RMB1,232 million, representing an increase of 22.59% as compared to the corresponding period of 2018.

COST OF SALES

During the Reporting Period, cost of sales of the Group increased by 13.21% to RMB5,599 million from RMB4,946 million for the corresponding period of 2018.

GROSS PROFIT

Based on the above reasons, during the Reporting Period, the gross profit of the Group increased by 24.41% to RMB8,486 million from RMB6,821 million for the corresponding period of 2018. The gross margin of the Group for the Reporting Period and the corresponding period of 2018 were 60.25% and 57.97%, respectively.

Management Discussion and Analysis

SELLING AND DISTRIBUTION EXPENSES

During the Reporting Period, selling and distribution expenses of the Group increased by 31.39% to RMB4,998 million from RMB3,804 million for the corresponding period of 2018, which was mainly due to (i) the intensified efforts to develop new products and new markets of the Group: the preparation of sales and market forces before the launch and promotion after the launch of rituximab injection (Han Li Kang) and other products proposed to be launched for sale, the set up of a sales force for Fosun Pharma in the U.S., and the expansion of a direct-sales network for Sisram Medical in North America, and other factors; (ii) the change of sales model and in sales structure for certain products.

R&D EXPENSES AND R&D EXPENDITURE

During the Reporting Period, the total R&D investment of the Group was RMB1,351 million, representing an increase of RMB163 million or 13.69% as compared to the corresponding period of 2018. Of this total R&D investment, R&D expenses amounted to RMB849 million, representing an increase of RMB140 million or 19.80% as compared to the corresponding period of 2018. During the Reporting Period, R&D investment in the pharmaceutical manufacturing and R&D sector amounted to RMB1,205 million, representing an increase of RMB141 million or 13.23% as compared to the corresponding period of 2018, accounting for 11.1% of the revenue of the pharmaceutical manufacturing and R&D segment; in particular, the R&D expenses of the pharmaceutical manufacturing and R&D segment amounted to RMB724 million, representing an increase of 21.45% as compared to the corresponding period of 2018, accounting for 6.6% of the revenue of the pharmaceutical manufacturing and R&D segment; which was mainly due to the increase in the R&D investment in innovative biopharmaceutical drugs, biosimilar, and small molecular innovative drugs, concentrated investment in consistency evaluation and increase in R&D investment in innovation incubation platforms during the Reporting Period.

SHARE OF PROFITS OF ASSOCIATES

During the Reporting Period, the share of profits of associates of the Group increased by 4.38% to RMB760 million from RMB728 million for the corresponding period of 2018.

PROFIT FOR THE PERIOD

Due to the above reasons, during the Reporting Period, the profit for the period of the Group increased by 4.72% to RMB1,820 million from RMB1,738 million for the corresponding period of 2018. The net profit margin for the period of the Group during the Reporting Period and the corresponding period of 2018 were 12.92% and 14.77%, respectively.

PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT

During the Reporting Period, the profit for the period attributable to owners of the parent of the Group decreased by 2.84% to RMB1,516 million from RMB1,560 million for the corresponding period of 2018, mainly affected by factors such as initial losses in innovation incubation platforms established by the Group, including Fosun Lead and Fosun Orinove, the initial losses in U.S. and European subsidiaries, the clinical trials conducted by Shanghai Henlius for a number of biopharmaceutical innovative drugs, the intensified operating losses of equity investments including Fosun Kite and Intuitive Fosun due to business expansion and the advancement of R&D, and the increase in selling expenses due to the development of new products and new markets.

DEBT STRUCTURE, LIQUIDITY AND SOURCES OF FUNDS

Total Debts

As at 30 June 2019, total debts of the Group increased to RMB24,256 million from RMB23,203 million as at 31 December 2018 mainly due to new borrowings during the Reporting Period. As at 30 June 2019, mid-to-long-term debts of the Group accounted for 61.86% of its total debts, representing an increase of 7.25 percentage points as compared to 54.61% as at 31 December 2018. During the Reporting Period, the proportion of mid-to-long-term debts increased mainly because of the expiry of RMB3.0 billion “16 Fosun 01” Corporate Bonds, with an attached with repurchase option, on 4 March 2019. As at the end of the Reporting Period, such expired and renewed corporate bonds were partially transferred to “bonds payable” from “non-current liabilities due within one year”. As at 30 June 2019, cash and bank balances dropped by 9.44% to RMB7,740 million from RMB8,547 million as at 31 December 2018.

As at 30 June 2019, the equivalent amount of RMB10,754 million (31 December 2018: RMB11,186 million) out of the total debts of the Group was denominated in foreign currencies, and the remainder was denominated in RMB.

As at 30 June 2019, cash and bank balances of the Group denominated in foreign currencies amounted to RMB2,085 million (31 December 2018: RMB2,041 million).

Unit: RMB million

Cash and cash equivalents denominated in:	30 June 2019	31 December 2018
RMB	5,655	6,506
US dollars	1,345	1,306
Hong Kong dollars	16	23
Others	724	712
Total	7,740	8,547

Gearing Ratio

As at 30 June 2019, the gearing ratio, calculated as total interest-bearing bank and other borrowings over total assets, was 32.94%, as compared to 32.91% as at 31 December 2018.

Interest Rate

As at 30 June 2019, total interest-bearing bank and other borrowings at a floating interest rate amounted to RMB13,508 million (31 December 2018: RMB12,889 million).

Management Discussion and Analysis

Maturity Structure of Outstanding Debts

Unit: RMB million

	30 June 2019	31 December 2018
Within 1 year	9,141	10,533
1 to 2 years	3,955	3,592
2 to 5 years	10,430	8,984
Over 5 years	249	94
Total	23,775	23,203

Available Facilities

As at 30 June 2019, besides cash and bank balances of RMB7,740 million, the Group had unutilized banking facilities of RMB30,686 million in aggregate. The Group has also entered into cooperation agreements with various major banks (“the banks”). According to such agreements, the banks granted the Group general banking facilities to support its capital requirements. The utilization of such bank facilities was subject to the approval of individual projects from the banks in accordance with banking regulations. As at 30 June 2019, total available banking facilities under these arrangements were approximately RMB47,183 million in aggregate, of which RMB16,497 million had been utilized.

Collateral and Pledged Assets

As at 30 June 2019, the Group had placed the following as collateral for bank borrowings: property, plant and equipment amounting to RMB189 million (31 December 2018: RMB216 million) and prepaid land lease payments amounting to RMB258 million (31 December 2018: RMB30 million).

As at 30 June 2019, the Group had placed the following as collateral for bank loans: the 100% equity interest in Alma Lasers Ltd. and Alma Lasers Inc., subsidiaries of the Group, held together by the Group and Pramerica-Fosun China Opportunity Fund L.P (31 December 2018: the 100% equity interest in Alma Lasers Ltd. and Alma Lasers Inc. held by the Group and Pramerica-Fosun China Opportunity Fund L.P). Details of the collateral and pledged assets are set out in note 15 to the financial statements.

Cash Flow

The cash of the Group is mainly used for meeting capital requirements, repaying interest and principals of debts due, paying for purchases and capital expenditures, and funding growth and expansion of facilities and businesses of the Group. The table below shows the cash flow of the Group generated from (or used in) operating activities, investing activities and financing activities for the Reporting Period and the corresponding period of 2018.

Unit: RMB million

	January – June 2019	January – June 2018
Net cash flows from operating activities	1,450	1,279
Net cash flows used in investing activities	(1,079)	(1,831)
Net cash flows from financing activities	(496)	1,829
Net increase in cash and cash equivalents	(125)	1,276
Cash and cash equivalents at the beginning of the year	7,175	6,350
Cash and cash equivalents at the end of the period	7,052	7,619

Capital Commitments and Capital Expenditures

During the Reporting Period, capital expenditures of the Group amounted to RMB1,358 million, which mainly consisted of additions to property, plant and equipment, other intangible assets and prepaid land lease payments exclusive of amounts due to new acquisition of subsidiaries. Details of capital expenditures are set out in note 4 to the financial statements.

As at 30 June 2019, the Group's capital commitments contracted but not provided for amounted to RMB2,935 million. These were mainly committed for reconstruction and renewal of plant and machinery as well as new investees. Details of capital commitments are set out in note 19 to the financial statements.

Contingent Liabilities

As at 30 June 2019, the Group did not have any contingent liabilities.

Interest Coverage

During the Reporting Period, the interest coverage, which is calculated by EBITDA divided by financial costs was 6.37 times (corresponding period of 2018: 6.98 times). The decrease of the interest coverage is due to the increase of Group finance costs by 24.04% to RMB547 million from RMB441 million in the corresponding period of 2018, as a result of the increase in average interest-bearing debts as well as the increase in discount expense for right-of-use liability upon the adoption of new leasing standard during the Reporting Period.

RISK MANAGEMENT

Foreign Currency Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and investing and financing activities by investment holding units in currencies other than the units' functional currencies.

Interest Rate Exposure

It is the Group's strategy to use debts with fixed and floating interest rates to manage its interest costs. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

BUSINESS REVIEW

1. The Board's Discussion and Analysis on Operations of the Group for the Reporting Period

The global and PRC economies were still under numerous challenges and uncertainties in the first half of 2019. Against this backdrop, the PRC medical system went through continuous and deepening reform, and there was a steady introduction of medical insurance policies. The growth of the pharmaceutical manufacturing industry slowed down, and the price of generic drugs was under considerable downward pressure, while the research into innovative drugs enjoyed a period of relatively rapid development. Medical devices and medical diagnosis benefited from the policies with opportunities for rapid development. With a strong demand for healthcare services and the gradual adjustment in the industry structure, the layout of healthcare service resources became more reasonable. During the Reporting Period, the Group adhered to its business philosophy of "Innovation for Good Health", focused on its core pharmaceutical and healthcare businesses, continued to develop product innovation and improve management as well as international development, actively promoted the strategies of organic growth, external expansion and integrated development, thereby maintaining the balanced growth of its principal businesses.

During the Reporting Period, the revenue of the Group increased by 19.70% as compared to the corresponding period in 2018 to RMB14,085 million, and excluding the impacts of the new acquisition of enterprises as comparable factors and other factors, the revenue would have increased by 19.55% on the same basis as compared to the corresponding period of 2018. In particular, the revenue from pharmaceutical manufacturing and R&D segment amounted to RMB10,814 million, representing an increase of 21.89% as compared to the corresponding period of 2018. The revenue from healthcare service segment amounted to RMB1,459 million, representing an increase of 21.68% as compared to the corresponding period of 2018.

Management Discussion and Analysis

During the Reporting Period, the Group recorded revenue of RMB10,789 million in Mainland China, representing an increase of 23.49% as compared to the corresponding period of 2018. RMB3,296 million of the revenue was recorded from other countries or regions, representing an increase of 8.76% as compared to the corresponding period of 2018.

During the Reporting Period, the revenue from each business segment of the Group was as follows:

Unit: RMB million

Business segment	Revenue for January to June 2019	Revenue for January to June 2018	Period-on-period increase/decrease (%)
Pharmaceutical manufacturing and R&D	10,814	8,872	21.89
Healthcare services (Note 1)	1,459	1,199	21.68
Medical devices and medical diagnosis (Note 2)	1,793	1,682	6.60

Note 1: The revenue from the healthcare services segment increased by 16.80% on the same basis as compared to the corresponding period of 2018;

Note 2: During the Reporting Period, the Da Vinci surgical robot distribution business was transferred to Intuitive Fosun, an associate. Excluding the impacts of such transfer, the revenue of medical devices and medical diagnosis segment increased by 10.28% on the same basis as compared to the corresponding period of 2018.

During the Reporting Period, sales of the Group grew and the receivables' collection was good. As a result, cash flow from operating activities continued to show a rising trend. Net cash flow from operating activities amounted to RMB1,450 million, representing an increase of 13.40% as compared to the corresponding period of 2018.

During the Reporting Period, the Group continued to enhance its R&D investment. The total R&D investment for the first half of 2019 amounted to RMB1,351 million, representing an increase of RMB163 million or 13.69% as compared to the corresponding period of 2018. In particular, R&D expenses amounted to RMB849 million, representing an increase of RMB140 million or 19.80% as compared to the corresponding period of 2018. During the Reporting Period, the R&D investment in the pharmaceutical manufacturing and R&D segment amounted to RMB1,205 million, representing an increase of RMB141 million or 13.23% as compared to the corresponding period of 2018. In particular, the R&D expenses amounted to RMB724 million, representing an increase of RMB128 million or 21.45% as compared to the corresponding period of 2018.

During the Reporting Period, total profits and net profits of the Group amounted to RMB2,196 million and RMB1,820 million, respectively, representing an increase of 7.78% and 4.70% as compared to the corresponding period of 2018, respectively. The result for the second quarter and for the first half of 2019 has been improved compared with the first quarter 2019 and the second half of 2018 respectively. However, affected by factors such as initial losses in innovation incubation platforms established by the Group, including Fosun Lead and Fosun Orinove, the initial losses in U.S. and European subsidiaries, the clinical trials conducted by Shanghai Henlius for a number of biopharmaceutical innovative drugs, the intensified operating losses of equity investments including Fosun Kite and Intuitive Fosun due to business expansion and the advancement of R&D, and the increase in selling expenses due to the development of new products and new markets, net profit attributable to shareholders of the Company amounted to RMB1,516 million, representing a decrease of 2.84%, as compared to the corresponding period of 2018.

Pharmaceutical Manufacturing and R&D

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group generated revenue of RMB10,814 million, representing an increase of 21.89% as compared to the corresponding period of 2018. The segment results and segment profit amounted to RMB1,205 million and RMB1,232 million, which increased by 16.38% and 22.59% as compared to the corresponding period of 2018, respectively. Gland Pharma was under solid operation. During the Reporting Period, Gland Pharma benefited from the growth of major products such as enoxaparin injection and daptomycin and recorded an increase in both revenue and net profit as compared to the corresponding period of 2018.

Management Discussion and Analysis

The pharmaceutical manufacturing and R&D segment of the Group continued to grow steadily and the development of its professional operational team was further strengthened. During the Reporting Period, the revenue of febuxostat tablets (You Li Tong), pitavastatin calcium tablets (Bang Zhi), enoxaparin injection, quetiapine fumarate tablets (Qi Wei), sulbactam sodium for injection (Qiang Shu Xi Lin), daptomycin and other core products sustained a rapid growth. Products that have passed the consistency evaluation, namely alfacalcidol tablets (Li Qing) and escitalopram tablets (Qi Cheng), were on the increase in sales revenue. The sales volume of febuxostat tablets (You Li Tong), pitavastatin calcium tablets (Bang Zhi) and quetiapine fumarate tablets (Qi Wei) recorded period-on-period growth of 117.4%, 115.9% and 30.7%, respectively. Rituximab injection (Han Li Kang), having become the first biosimilar in China that obtained approval for market launch, commenced sales in mid-May 2019 and quickly gained market recognition.

Sales revenue of major products of the Group in the major therapeutic areas during the Reporting Period is set out in the following table:

Unit: RMB million

Pharmaceutical manufacturing and R&D	January to June 2019	January to June 2018 <i>(Note 1)</i>	Period-on-period increase/decrease on the same basis (%)
Major products of the cardiovascular system therapeutic area <i>(Note 2)</i>	1,103	910	21.14
Major products of the central nervous system therapeutic area <i>(Note 3)</i>	1,224	685	78.80
Major products of the blood system therapeutic area <i>(Note 4)</i>	419	308	35.80
Major products of metabolism and the alimentary system therapeutic area <i>(Note 5)</i>	1,807	1,541	17.22
Major products of the anti-infection therapeutic area <i>(Note 6)</i>	2,331	2,001	16.45
Major products of the anti-tumor therapeutic area <i>(Note 7)</i>	264	257	2.47
Major products of APIs and intermediate products <i>(Note 8)</i>	675	665	1.40

Note 1: The sales revenue from January to June of 2018 was restated on the same basis. New products were introduced, including indapamide tablets and enoxaparin injection in the cardiovascular system therapeutic area; potassium chloride granules in the metabolism and the alimentary system therapeutic area; clindamycin hydrochloride capsules, cefminox sodium for injection (Mei Shi Ling) and azithromycin capsules (Xin Ye and Si Ke Ni) in the anti-infection therapeutic area; and rituximab injection (Han Li Kang) in the anti-tumor therapeutic area.

Note 2: Major products of cardiovascular system therapeutic area include enoxaparin injection and other heparin series preparations, alprostadil dried emulsion for injection (You Di Er), pitavastatin (Bang Zhi), meglumine adenosine cyclophosphate for injection (Xin Xian An), calcium dobesilate capsules (Ke Yuan), Telmisartan tablets (Bang Tan), amlodipine besylate tablets (Shi Li Da) and indapamide tablets.

Note 3: Major products of central nervous system therapeutic area include deproteinized calf blood injection (Ao De Jin), quetiapine fumarate tablets (Qi Wei) and escitalopram tablets (Qi Cheng).

Note 4: Major products of blood system therapeutic area include hemocoagulase for injection (Bang Ting) and Cobamamide for injection (Mi Le Ka).

Note 5: Major products of metabolism and alimentary system therapeutic area include reduced glutathione series (Atomolan injection and Atomolan tablets), febuxostat tablets (You Li Tong), recombinant human erythropoietin for injection (CHO cells) (Yi Bao), animal insulin and its preparations, thioctic acid injection (Fan Ke Jia), glimepiride tablets (Wan Su Ping), compound aloe capsules (Ke Yi), alfacalcidol tablets (Li Qing) and potassium chloride granules.

Note 6: Major products of anti-infection therapeutic area include cefmetazole sodium for injection (Xi Chang and Cefmetazon), potassium sodium dehydroandrographolide succinate for injection (Sha Duo Li Ka), piperacillin sodium and sulbactam sodium for injection (Qiang Shu Xi Lin), piperacillin sodium and sulbactam sodium for injection 3g (Qin Shu), antimalarial series such as artesunate, anti-tuberculosis series, piperacillin sodium and tazobactam sodium for injection (Pai Shu Xi Lin), daptomycin, cefminox sodium for injection (Mei Shi Ling), vancomycin, flucloxacillin sodium for injection (Ka Di), caspofungin, rabies vaccine (VERO cell) for human use (non-freeze dried), ceftizoxime sodium for injection (Er Ye Bi), azithromycin capsules (Xin Ye and Si Ke Ni) and clindamycin hydrochloride capsules.

Note 7: Major products of anti-tumor therapeutic area include Xihuang capsules (Ke Sheng), bicalutamide (Zhao Hui Xian), pemetrexed disodium for injection (Yi Luo Ze), rituximab injection (Han Li Kang), ondansetron, paclitaxel, oxaliplatin and carboplatin.

Note 8: Major products of APIs and intermediate products include amino acid series, tranexamic acid, clindamycin hydrochloride and levamisole hydrochloride.

Management Discussion and Analysis

The Group continued to improve its innovation system and optimize its pharmaceutical R&D system that integrated generic and innovative drugs. The Group also further increased its R&D investment. During the Reporting Period, the R&D investment in the pharmaceutical manufacturing and R&D segment of the Group amounted to RMB1,205 million, representing an increase of RMB141 million or 13.23% as compared to the corresponding period of 2018, and accounting for 11.1% of the revenue of the pharmaceutical manufacturing and R&D segment. In particular, the R&D expenses amounted to RMB724 million, representing an increase of RMB128 million or 21.45% as compared to the corresponding period of 2018, accounting for 6.6% of the revenue of the pharmaceutical manufacturing and R&D segment. As at the end of the Reporting Period, the Group had 233 projects for pipeline innovative drugs, generic drugs, biosimilars and consistency evaluation of generic drugs (including 16 projects for small molecular innovative drugs, 12 projects for biopharmaceutical innovative drugs, 20 projects for biosimilars, 129 projects on generic drugs of international standards, 54 consistency evaluation projects and 2 projects for traditional Chinese medicine drugs). In addition, 23 projects were introduced, including 8 imported innovative drugs and 15 imported generic drugs. During the Reporting Period, a total of 10 patents had been applied for in the pharmaceutical manufacturing and R&D segment of the Group, including 4 U.S. patent applications and 3 PCT applications, with 22 licensed patents obtained, all of which are invention patents.

In the first half of 2019, the Group focused on increasing its R&D investment in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular innovative drugs, and systematically carried forward consistency evaluation of generic drugs. As at the end of the Reporting Period, 9 small molecular innovative drug products (including 1 improved new drug) and 9 indications had obtained approval for clinical trial in Mainland China; 1 monoclonal antibody product had obtained approval for market launch in Mainland China; 2 monoclonal antibody products were accepted for new drug application and included in the priority review procedure in Mainland China; and 13 monoclonal antibody products and 3 combination therapy had launched more than 20 clinical trials worldwide. During the Reporting Period, a total of 4 generic drugs from Gland Pharma received approval for sale from the U.S. FDA. During the Reporting Period, 3 products of the Group passed the consistency evaluation of generic drugs. As at the end of the Reporting Period, the Group had 12 products on accumulated count that passed the consistency evaluation of generic drugs. It is expected that these pipeline products as well as the generic drugs approved in consistency evaluation will provide a solid foundation to maintain sustainable development of the Group in the future.

As at the end of the Reporting Period, the Group's R&D progress on monoclonal antibody is set out below:

No.	Type	Name of R&D project on drugs (products)	R&D stages in China as at the end of the Reporting Period		R&D stages in other countries as at the end of the Reporting Period	
			R&D stage	Stage of clinical trial	R&D stage	Stage of clinical trial
1	Biosimilars	Rituximab (Han Li Kang)	Approved for sales (Note 1)	—	—	—
2	Biosimilars	Trastuzumab for Injection	Under application for sales	Phase III	Under application for sales (Note 2)	Phase III
3	Biosimilars	Adalimumab Solution Injection	Under application for sales	Phase III	—	—
4	Biosimilars	Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Clinical trial	Phase III	—	—
5	Biosimilars	Recombinant Anti-EGFR Human/Murine Chimeric Monoclonal Antibody Injection	Approved for clinical trial	—	—	—
6	Biosimilars	Recombinant Anti-VEGFR2 Domain II-III Fully Human Monoclonal Antibody Injection	Clinical trial	Phase I	—	—
7	Biopharmaceutical innovative drugs	Recombinant Human/Murine Chimeric Anti-CD20 Monoclonal Antibody Injection	Clinical trial	Phase III (Note 3)	—	—

Management Discussion and Analysis

No.	Type	Name of R&D project on drugs (products)	R&D stages in China as at the end of the Reporting Period		R&D stages in other countries as at the end of the Reporting Period	
			R&D stage	Stage of clinical trial	R&D stage	Stage of clinical trial
8	Biopharmaceutical innovative drugs	Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Approved for clinical trial	—	—	—
9	Biopharmaceutical innovative drugs	Recombinant Anti-VEGFR2 Fully Human Monoclonal Antibody Injection (<i>Note 4</i>)	Clinical trial	Phase I	Approved for clinical trial	—
10	Biopharmaceutical innovative drugs	Recombinant Anti-EGFR Humanized Monoclonal Antibody Injection (<i>Note 5</i>)	Clinical trial	Phase Ib/II and Ia	Approved for clinical trial	—
11	Biopharmaceutical innovative drugs	Recombinant Humanized Anti-PD-1 Monoclonal Antibody Injection (<i>Note 6</i>)	Clinical trial	Phase I	—	—
12	Biopharmaceutical innovative drugs	Recombinant Fully Human Anti-PD-L1 Monoclonal Antibody Injection	Approved for clinical trial	—	Clinical trial (<i>Note 7</i>)	Phase I
13	Biopharmaceutical innovative drugs	HLX22 Monoclonal Antibody Injection	Approved for clinical trial	—	—	—
14	Combined treatment	Combo of Recombinant Humanize Anti- PD-1 Monoclonal Antibody Injection and Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Clinical trial	Phase I	—	—
15	Combined treatment	Combo of Recombinant Humanize Anti- PD-1 Monoclonal Antibody Injection and Recombinant Anti-EGFR Humanized Monoclonal Antibody Injection	Application for clinical trial accepted	—	—	—
16	Combined treatment	Combo of Recombinant Humanize Anti- PD-1 Monoclonal Antibody Injection or Placebo with Chemotherapy (Cisplatin + 5-FU) as a First-Line Treatment for Locally Advanced or Metastatic Esophageal Squamous Cell Carcinoma	Clinical trial	Phase III	—	—

Note 1: The application to sell and register rituximab injection (Han Li Kang) was approved by the NMPA on 22 February 2019.

Note 2: Such drugs for breast cancer indications commenced phase III clinical trials in Ukraine, Poland and the Philippines as at the end of the Reporting Period; in June 2018, Accord Healthcare Limited was authorized by Shanghai Henlius with an exclusive commercialization license for, including but not limited to, the sales, offer to sell, import, distribution and other commercialization activities of recombinant anti-HER2 humanized monoclonal antibody for injection, a product developed by Shanghai Henlius, in the region (i.e. 53 countries including the U.K., France and other countries in the European region, and 17 countries including Saudi Arabia, United Arab Emirates and other countries and some CIS countries in the Middle East and North Africa region). During the Reporting Period, the application for the sales of trastuzumab injection was submitted by Accord Healthcare Limited and accepted by the European Medicines Agency (EMA).

Note 3: Such drugs for rheumatoid arthritis indications were under phase III clinical trials in Mainland China.

Note 4: Phase I clinical trials were carried out for such drugs in the Taiwan region of China; furthermore, such drugs had been approved for clinical trials by the NMPA and the U.S. FDA as at the end of the Reporting Period.

Note 5: Phase Ib/II and Ia clinical trials were carried out for such drugs in Mainland China and Taiwan region; furthermore, such drugs had been approved for clinical trials by the U.S. FDA as at the end of the Reporting Period.

Note 6: Phase I clinical trials were carried out for solid tumor indications in the Taiwan region of China.

Note 7: Phase I clinical trials were carried out in Australia.

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As at the end of the Reporting Period, specific R&D progress of the Group on small molecular chemistry innovative drugs is set out below:

No.	Name of R&D project on drugs (products)	R&D stages as at the end of the Reporting Period	
		R&D stage	Stage of clinical trial
1	Foritinib Succinate Capsules (Note 1)	Clinical trial	Phase I
2	FCN-411 (Note 2)	Clinical trial	Phase I
3	PA-824	Clinical trial	Phase I
4	FN-1501 (Note 3)	Clinical trial	Phase I
5	FCN-437 (Note 4)	Clinical trial	Phase I
6	Wanpagliflozin Tablets	Clinical trial	Phase I
7	FCN-159	Clinical trial	Phase I
8	Orin1001 (Note 5)	Clinical trial	Phase I
9	Docetaxel Polymeric Micelle for Injection (Note 6)	Clinical trial	Phase I

Note 1: Representing R&D project FC-110.

Note 2: Representing R&D project FC-102.

Note 3: As at the end of the Reporting Period, Phase I clinical trials were carried out for such drugs in China and the U.S. In addition, filings for the clinical trials of such drugs have been completed by the Therapeutic Goods Administration of Australia.

Note 4: As at the end of the Reporting Period, Phase I clinical trials were carried out in China and the U.S..

Note 5: As at the end of the Reporting Period, such drugs had been approved for clinical trials by the U.S. FDA and recognized by the Fast Track Development Program.

Note 6: This is an improved new product.

The Group has placed great emphasis on quality and risk management throughout the life cycle of its products, and implemented stringent quality and safety control mechanisms and pharmacovigilance mechanism at each stage of the production chain from R&D to pulling off shelf of products. The Group's pharmaceutical manufacturing and R&D segment has fully implemented the concept of quality and risk management and focused on quality control mechanisms such as regular quality review, change management, deviation management, out-of-specification (OOS) investigation, implementation of corrective and preventive actions (CAPA) and audit on suppliers. The Group's pharmaceutical manufacturing segment continued to push forward the consistent improvement of production and quality system. As at the end of the Reporting Period, all subsidiaries of the Group that engaged in pharmaceutical manufacturing business achieved the new GMP in China. Meanwhile, the Group encouraged internationalization of the companies in the pharmaceutical manufacturing segment, and pushed them forward to put international Current Good Manufacturing Practice (cGMP) certifications such as the U.S., European Union and WHO into practice. As at the end of the Reporting Period, several dozens of the Group's APIs received cGMP certifications from national health authorities including the U.S., EU and Japan; during the Reporting Period, 4 pharmaceutical manufacturing sites and various aseptic production lines of Gland Pharma passed audit/certifications in accordance with the GMP of drugs in the U.S., EU, Japan, Australia, Brazil and other countries. 1 production line for oral solid dosage formulation and 3 production lines for injections of Guilin Pharma obtained certification from the WHO-PQ; 1 production line for oral solid dosage formulation of Yao Pharma was certified by Canada FDA and the U.S. FDA; 1 freeze-dried aseptic production line of Wanbang Pharma received cGMP certifications from the EU and 1 production line for oral formulation of Wanbang Pharma received cGMP certifications from the U.S. FDA.

While intensively cultivating the business, the Group also actively participated in the pilot reform of the pharmaceutical industry, promoting continuous improvement in the Group's ability to exert quality management throughout the life cycle of pharmaceuticals, and push forward the expansion of the pharmaceutical manufacturing business.

Meanwhile, the Group continued to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group also consolidated and integrated its current product lines and various resources, and proactively expanded its international business in order to expand its pharmaceutical manufacturing and R&D segment while achieving continuous and rapid growth of its revenue and profit.

Healthcare Services

Through continuous promotion of specialties layout at medical institutions, as well as internal integration and external expansion, the Group established regional medical centers and a supply chain spanning major health industries to enhance operating capabilities and profitability. As at the end of the Reporting Period, the Group had completed the preliminary strategic deployment of its healthcare services with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC, and had completed the industrial layout of key discipline planning, specialty hospitals and third-party diagnosis on the provincial, municipal and regional level.

As at the end of the Reporting Period, the medical institutions controlled by the Group mainly included Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatric Hospital, Guangji Hospital, Jimin Hospital, Wuhan Jihe Hospital, Zhuhai Chancheng, Huai'an Xinghuai Hospital and Suqian Rehabilitation Hospital* (宿遷市康復醫院). During the Reporting Period, the healthcare services entities controlled by the Group realized total revenue of RMB1,459 million, representing an increase of 21.68% as compared to the corresponding period of 2018. During the Reporting Period, segment results were RMB169 million, representing an increase of 8.40% as compared to the corresponding period of 2018, and segment profit was RMB101 million, representing a decrease of 24.47% as compared to the corresponding period of 2018. The period-on-period decrease in net profit was mainly due to the initial losses in certain hospitals that were newly established or recently commenced during the expansion period, the increase of operating costs, the gains from assets disposal in the corresponding period of last year and other factors. As at the end of the Reporting Period, the total number of authorized beds available for the public in Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatric Hospital, Guangji Hospital, Jimin Hospital, Wuhan Jihe Hospital, Zhuhai Chancheng, Huai'an Xinghuai Hospital and Suqian Rehabilitation Hospital controlled by the Group was 4,328 in aggregate.

During the Reporting Period, among the medical institutions controlled by the Group, Suqian Rehabilitation Hospital was approved by the Suqian Health Commission as a class II rehabilitation hospital. Through the efforts in establishing hospital class, the groundwork for the business layout had been laid, which involved 4 Class II hospitals led and supported by 3 Class III hospitals in terms of business and discipline development. At the same time, Chancheng Hospital took a further step in giving full play to its medical advantage and exemplary position in Southern China, serving as a demonstrative purpose to hospitals from near to far. The health hive project, which was based on the medical resources of Chancheng Hospital, the acquired Hengsheng Hospital and Zhuhai Chancheng all played an important role in the strategic layout of healthcare services in Southern China as well as the business expansion in developed coastal cities and regions. Meanwhile, the Group continued to actively explore and participate in the new business model of providing healthcare services through the Internet to achieve a seamless integration of online and offline services and formed a closed-loop so as to explore the innovation of medical services operation and model. In addition, the newly established Shanghai Zhuorui Integrated Outpatient Limited Company* (上海卓瑞綜合門診部有限公司) was being prepared to become a high-end clinic and health-check center, which was an integration of resources across major health industries. Moreover, the Group also cooperated with local governments, universities, hospitals and other parties to further reserve and consolidate various resources in achieving complementary advantages and mutual development.

In addition, during the Reporting Period, the Group continued to actively support and facilitate the development and deployment of hospital and clinic network under United Family Hospital, a leading high-end healthcare services brand.

Management Discussion and Analysis

Medical Devices and Medical Diagnosis

In the first half of 2019, the Group continued to push the development of the medical devices and medical diagnosis segment forward.

During the Reporting Period, the Group realized revenue of RMB1,793 million from the medical devices and medical diagnosis segment, representing an increase of 6.60% as compared to the corresponding period of 2018. During the Reporting Period, segment results amounted to RMB292 million, which increased by 4.03% as compared to the corresponding period of 2018. Segment profit amounted to RMB230 million, which decreased by 8.78% as compared to the corresponding period of 2018. The period-on-period decrease in net profits was mainly attributable to that: (1) Intuitive Fosun, an associate, was still in the preliminary investment phase and recorded intensified operating losses due to business expansions; and that the installation volume of Da Vinci surgical robotic system fell below expectations for the first half of 2019, albeit the number of surgeries performed by the system maintained rapid growth, increasing period-on-period by 16% in mainland China and Hong Kong; (2) new products of Breas were launched during the first half of 2019, though delayed compared with expectations.

During the Reporting Period, Sisram Medical continued to accelerate the development of the global market and especially key emerging markets while strengthening its new product portfolio, in particular, by increasing R&D of medical treatment devices and extending its production line into the clinical treatment area. In the first half of 2019, 4 products of Sisram Medical products passed EU CE certification, and 2 new products were launched, including Soprano Titanium and Colibri. Soprano Titanium was one of the most advanced laser hair removal platforms on the market. Designed for non-surgical orbital surgery and wrinkle removal, Colibri was also well received by the market. In the first half of 2019, the revenue of Sisram Medical amounted to US\$85 million and net profit amounted to US\$14 million, representing an increase of 9.31% and 23.20% as compared to the corresponding period of 2018 (based on the financial statements of Sisram Medical in its reporting currency), respectively.

In the first half of 2019, the revenue of HPV diagnostic reagent and T-SPOT test kits increased rapidly as compared to the first half of 2018. The self-developed fully automated chemiluminescence instrument had been launched into the market. Its relevant supporting reagents were gradually improved, some of which had entered the registration and review phase. The diagnosis product, glycotest (liver cancer diagnosis), and imprinted gene product (thyroid cancer diagnosis) had begun transformation into products.

Pharmaceutical Distribution and Retail

During the Reporting Period, Sinopharm, an investee of the Group, put continuous efforts in accelerating industry consolidation and expanding the distribution and retail network of pharmaceutical products. It also actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In the first half of 2019, Sinopharm realized a revenue of RMB201,665 million, net profit of RMB4,968 million and net profit attributable to shareholders of the parent of RMB2,975 million, which represented an increase of 23.36%, 13.08% and 6.33% as compared to the corresponding period of last year (after restatement for the corresponding period of last year), respectively.

In respect of the pharmaceutical distribution sector, Sinopharm, with an integrated pharmaceutical supply chain and advanced supply chain management model, continued to step up its efforts in facilitating integrated operations, planned for logistics network resources, promoted the set-up and optimization of logistics system and enhanced efficiency of internal supply chain. During the Reporting Period, Sinopharm's revenue from the pharmaceutical distribution business increased by 22.22% period-on-period to RMB164,701 million. In respect of retail pharmacy, the retail network of Sinopharm covered 30 provinces, municipalities and autonomous regions as at the end of the Reporting Period, with the total number of retail pharmacies reaching 5,602, the scale of which continued to lead in the industry. During the Reporting Period, Sinopharm's sales revenue from retail pharmacy maintained a relatively rapid growth, reaching RMB8,842 million or an increase of 24.51% as compared to the corresponding period of last year. In respect of medical device distribution, Sinopharm actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In the first half of 2019, the sales of Sinopharm's medical device business achieved rapid growth. Sinopharm's revenue from the medical device business increased by 35.96% as compared to the corresponding period of last year to RMB29,025 million.

Internal Integration and Operation Enhancement

During the Reporting Period, the Group continued to increase its investment in internal integration, further strengthened the internal communication of the Group and proactively improved operational efficiency. During the Reporting Period, the Group strengthened the linkage within the segments as well as between the segments by way of internal consolidation of shareholding and cooperation for products and services between segments in order to further consolidate resources and achieve integration and circulation of the Group's internal resources to facilitate business development. In respect of the pharmaceutical manufacturing and R&D segment, the Group forged production and technological cooperation between domestic and overseas enterprises and personnel exchanges, which further accelerated its internationalization process, enhanced the market shares of its products and increased its R&D capabilities together with its internationalized drug registration and declaration capabilities, pushing forward the industrial upgrade and R&D capabilities of the Group's pharmaceutical manufacturing business. In respect of pharmaceutical distribution and retail, by virtue of the cooperation and linkage with Sinopharm, the Group also fully utilized Sinopharm's advantages in distribution network and logistics to facilitate the expansion of sales channels of the Group's pharmaceutical products.

In respect of digital technology innovation, adhering to the double-engine business model comprising predictable works (mainly involving traditional information services) and exploratory works (mainly involving innovative services), the Group took forward its digital transformation strategy. By actively building a smart data platform matching the business needs of the Group as a core strategy, further integration and interconnectivity of informatization was accelerated, so as to realize the value of data. During the Reporting Period, various information systems were upgraded, including the pharmacovigilance system for the pharmaceutical manufacturing and R&D segment, the clinical trial management system (CTMS) and the R&D management system (RDMS). The Group also continued its efforts in promoting standardization for the hospital information system (HIS) of medical institutions under the healthcare services segment, and the hospital resources planning (HRP) project.

In collective procurement and strategic procurement, the Group further promoted collective procurement projects in cross-business segments and sectors during the Reporting Period. As at the end of the Reporting Period, 9 collective procurement and strategic bidding projects for production materials, production equipment, etc. had been completed. Through the advancement of the collective procurement project and strategic agreement, the Group exerts a platform effect, realizing cost reduction and efficiency. During the Reporting Period, the Group revised its procurement management guidelines to strengthen cross-function collaboration between departments, fueling up the enterprise's purchasing power. The Group produced quarterly computation and analysis on reduction of purchasing cost as well as the implementation of strategies on the Group's business segments to provide further basis for the management to optimize procurement strategy. During the Reporting Period, the Group continued to promote the digitalized procurement platform, which demonstrated a closed-loop characteristic, integrity, transparency, comparability and traceability in the procurement business, realizing the goal of procurement cost reduction by increasing procurement efficiency.

In respect of anti-corruption compliance, the Company formulated systems including the Anti-Corruption Regulations of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (《上海復星醫藥(集團)股份有限公司反腐敗條例》), the Administrative Regulations on Reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (《上海復星醫藥(集團)股份有限公司舉報管理規定》) and the Regulations on the Protection and Reward of Informers and Witnesses of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (《上海復星醫藥(集團)股份有限公司舉報人、證人保護與獎勵規定》). Being determined to the combination of preventing of corruption and corporate governance, the Company constrained to enhance its anti-corruption compliance control system, which was established to prevent, monitor and remedy such situations. The Group also focused on investigating reported clues and monitoring areas of higher corruption risk to ensure lawful operations of the Group.

Environment, Health and Safety

The Group fulfilled its social responsibility by continuously developing its environmental, health and safety (EHS) management and tirelessly enhancing the operation and management thereof. By continuously optimizing and encouraging an EHS culture and highlighting "excellent execution skills and strong motivation", a pyramidal culture pattern was formed concerning EHS, paying attention to the different tasks of EHS and facilitating them top-down. Driven by the leadership and commitment of the management and through establishing and reviewing systems, the Group facilitated an excellent SOP-based EHS management with a focus on core responsibilities and employee participation.

Management Discussion and Analysis

During the Reporting Period, the Group focused on assisting the core enterprises to establish and enhance the EHS management system for the pharmaceutical manufacturing and R&D segment, so as to monitor EHS implementation by adopting a cross-checking model and ensure effective risk control. With reference to the requirements from a safety design diagnosis on new and ongoing projects, the Group actively promoted the intrinsic safety of API enterprises by launching a process safety management. The Group also took the process safety investigation as an opportunity to map out the circumstance, and engaged in skills exchange to improve the standard of process safety management. The Group continued to accelerate and promote the enhancement and risk management of the EHS management system standard (HOPES) for hospitals in the healthcare services segment, and established HOPES leading hospitals to assist and help core enterprises in the healthcare services segment rise to EHS management standard.

While improving EHS management and risk control, the Group also worked on building up the competency of EHS teams. In addition to hiring caliber EHS talents, the Group provided intensive training at micro classes, annual camps of operation and other occasions to enhance the knowledge and competency of EHS professionals at each controlled subsidiary/entity.

Besides performing its social responsibilities, the Group has promoted social responsibility awareness for suppliers through the supply chain system, and considers the level of social responsibility performance as a criteria for the assessment of quality suppliers. Through auditing the green supply chain, the Group promoted social responsibility performance of companies on the supply chain, and regarded it as a core component of supply chain management. During the Reporting Period, the Group made improvements to the established green supply chain auditing standard, and the annual green supply chain auditing is underway.

Financing

During the Reporting Period, the Group completed the issuance of super short-term commercial papers amounting to RMB1 billion and overseas syndicated financing amounting to US\$400 million. At the same time, the Group continued to strengthen its cooperation with PRC-funded banks in financing business and intensified businesses with foreign banks, and further increased the credit facilities on the basis of maintaining good cooperative relationship between Chinese and foreign-funded financial institutions. During the Reporting Period, new credit facilities from PRC and foreign-funded banks amounted to approximately RMB3.5 billion, providing favorable conditions for the Group to strengthen the development of its principal business and implement internationalization strategies. As at the end of the Reporting Period, the Group received over RMB40 billion in credit facilities from major cooperative banks.

A. Analysis on Principal Operations

(1) Analysis of Changes in Relevant Items of Financial Statements

Unit: RMB million

Items	January to June 2019	January to June 2018	Period-on-period increase/decrease (%)
Revenue	14,085	11,767	19.70
Cost of sales	5,599	4,946	13.21
Selling and distribution expenses	4,998	3,804	31.39
Administrative expenses	1,148	1,038	10.60
R&D expenses	849	709	19.80
Finance costs	547	441	24.04
Net cash flow generated from operating activities	1,450	1,279	13.40
Net cash flow generated from investment activities	-1,079	-1,831	41.10
Net cash flow generated from financing activities	-496	1,829	-127.11
R&D expenditure	1,351	1,188	13.69

The increase in selling and distribution expenses was mainly due to (i) the intensified efforts into new products and new markets of the Group: the preparation of sales and market forces before the launch and promotion after the launch of rituximab injection (Han Li Kang) and other products proposed to be launched for sales, the set up of sales force for Fosun Pharma in the U.S., and the expansion of direct-sales network for Sisram Medical in North America, and other factors, and (ii) the change of sales model and in sales structure for certain products.

The increase in R&D expenses was mainly due to the increase in the R&D investment in innovative biopharmaceutical drugs, biosimilar, and small molecular innovative drugs, concentrated investment in consistency evaluation and increase in R&D investment in innovation incubation platform during the Reporting Period.

The increase in finance costs was mainly due to an average increase in interest-bearing debts and the increase in discounted expenses of right-of-use liabilities due to the adoption of the new leasing standards during the Reporting Period.

The increase in net cash flow generated from investment activities was mainly due to the amount received for the transfer of 3.79% equity interest in Simcere Holding Limited during the Reporting Period.

The decrease in net cash flow generated from financing activities was mainly due to the receipt of minority investment in Shanghai Henlius, a subsidiary during the corresponding period of last year, and the repayment of loans during the Reporting Period.

(2) R&D investment

① R&D investment

Unit: RMB million

R&D investment expensed for the period	849
R&D investment capitalized for the period	502
Total R&D investment	1,351
Total R&D investment as a percentage of revenue (%)	9.5
R&D investment in the pharmaceutical manufacturing segment as a percentage of the revenue from the pharmaceutical manufacturing segment (%)	11.1
Percentage of R&D investment capitalized (%)	37.13

② Descriptions

During the Reporting Period, the R&D investment in the pharmaceutical manufacturing and R&D segment amounted to RMB1,205 million, representing an increase of RMB141 million or 13.23% as compared to the corresponding period of 2018, accounting for 11.1% of the revenue from the pharmaceutical manufacturing and R&D segment. The increase was mainly due to the increase in the R&D investment in biosimilar, innovative biopharmaceutical drugs and small molecular innovative drugs, concentrated investment in consistency evaluation and increase in R&D investment in innovation incubation platform.

(3) Progress of operation plans

During the Reporting Period, the Group adhered to its strategies of “organic growth, external expansion and integrated development”, focused its competitive strengths and resources on its major business of pharmaceutical manufacturing and R&D, insisted on product innovation and further enhanced the competitiveness of its products. Meanwhile, the Group continued to increase its investment in the healthcare services segment and substantially completed the strategic deployment of its healthcare services segment to combine high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC.

Management Discussion and Analysis

B. Analysis of Segment and Regional Operations (1) Principal Operations by Segments and Products

Unit: RMB million

Segments	Revenue	Principal Business by Segment				
		Cost of sales	Gross margin (%)	Period-on-period increase/decrease in revenue as compared to the previous year (%)	Period-on-period increase/decrease in cost of sales as compared to the previous year (%)	Period-on-period increase/decrease in gross margin as compared to the previous year
Pharmaceutical manufacturing and R&D	10,814	3,617	66.55	21.89	14.12	increase of 2.27 percentage points
Healthcare services	1,459	1,080	25.98	21.68	23.53	decrease of 1.11 percentage points
Medical devices and medical diagnosis	1,793	877	51.08	6.60	2.58	increase of 1.92 percentage points

Products	Revenue	Principal Business by Products				
		Cost of sales	Gross margin (%)	Period-on-period increase/decrease in revenue as compared to the previous year (%)	Period-on-period increase/decrease in cost of sales as compared to the previous year (%)	Period-on-period increase/decrease in gross margin as compared to the previous year
Major products of the cardiovascular system therapeutic area (Note 1)	1,103	396	64.11	21.14	46.50	decrease of 6.22 percentage points
Major products of the central nervous system therapeutic area (Note 2)	1,224	58	95.27	78.80	27.93	increase of 1.87 percentage points
Major products of the blood system therapeutic area (Note 3)	419	20	95.11	35.80	3.04	increase of 1.56 percentage points
Major products of metabolism and the alimentary system therapeutic area (Note 4)	1,807	291	83.88	17.22	5.09	increase of 1.86 percentage points
Major products of the anti-infection therapeutic area (Note 5)	2,331	642	72.45	16.45	18.44	decrease of 0.46 percentage points
Major products of the anti-tumor therapeutic area (Note 6)	264	69	73.72	2.47	-12.97	increase of 4.66 percentage points
Major products of the APIs and intermediate products	675	480	28.90	1.40	-0.40	increase of 1.28 percentage points

Management Discussion and Analysis

- Note 1:* The revenue of major products of the cardiovascular system therapeutic area recorded a period-on-period increase of 21.14%, which was mainly due to the net impact of the increased sales revenue from enoxaparin injection and other heparin series preparations, pitavastatin calcium tablets (Bang Zhi) and meglumine adenosine cyclophosphate for injection (Xin Xian An), as well as the decreased sales volume of alprostadi dried emulsion for injection (You Di Er). The decrease in gross profit margin, as compared to the corresponding period of last year, was mainly due to the product mix change in such therapeutic area.
- Note 2:* The revenue of major products of the central nervous system therapeutic area recorded a period-on-period increase of 78.80%, mainly due to the sales volume growth of escitalopram tablets (Qi Cheng) and quetiapine fumarate tablets (Qi Wei), as well as the sales volume recovery of deproteinized calf blood injection (Ao De Jin) as compared to the corresponding period.
- Note 3:* The revenue of major products of the blood system therapeutic area recorded a period-on-period increase of 35.80%, mainly due to the sales volume growth of hemocoagulase for injection (Bang Ting).
- Note 4:* The revenue of major products of the metabolism and the alimentary system therapeutic area recorded a period-on-period increase of 17.22%, mainly due to the sales growth of febuxostat tablets (You Li Tong), alfacalcidol tablets (Li Qing) and thioctic acid injection (Fan Ke Jia).
- Note 5:* The revenue of major products of the anti-infection therapeutic area recorded a period-on-period increase of 16.45%, mainly due to the sales growth of products including daptomycin, cefmetazole sodium for injection (Cefmetazon), piperacillin sodium and sulbactam sodium (Qiang Shu Xi Lin) and cefminox sodium for injection (Mei Shi Ling).
- Note 6:* The gross profit of core products of the anti-tumor therapeutic area recorded an increase as compared to the corresponding period of last year, mainly due to the product mix change and the increased proportion of revenue from high-gross-margin products.

(2) Principal Business by Geographical Location

Unit: RMB million

Region	Revenue	Period-on-period increase/ decrease in revenue as compared to the previous year (%)
Mainland China	10,789	23.49
Other countries or regions	3,296	8.76

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C. Analysis of Major Subsidiaries and Investee Companies

(1) Operation and Results of Major Subsidiaries of the Group

① Operation and Results of Major Subsidiaries

Unit: RMB million

Name of subsidiary	Nature of business	Major products	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Yao Pharma	Pharmaceutical manufacturing	Atomolan, You Di Er, Sha Duo Li Ka, Xi Chang, Cefmetazon, etc.	197	5,072	2,900	3,098	483	406
Wanbang Pharma	Pharmaceutical manufacturing	You Li Tong, Yi Bao, Xihuang capsules, Wan Su Ping, enoxaparin sodium series, etc.	440	4,125	2,420	2,474	379	320
Aohong Pharma	Pharmaceutical manufacturing	Ao De Jin, Bang Ting	510	2,933	2,192	1,238	186	163
Gland Pharma	Pharmaceutical manufacturing	Enoxaparin injection, heparin sodium, vancomycin, rocuronium bromide, etc.	N/A	6,593	5,088	1,194	321	211

Note 1: The figures of revenue, operating profit and net profit of Yao Pharma included the revenue, operating profit and net profit of Hunan Dongting Pharmaceutical Co., Ltd.* (湖南洞庭藥業股份有限公司) and the impact of merger with Chongqing Pharmaceutical Research Institute Co., Ltd.* (重慶醫藥工業研究院有限責任公司) under common control during the Reporting Period.

Note 2: The above data included appreciation of asset evaluation and amortization of appreciation of asset evaluation.

② Status of Major Subsidiaries of Other Business Segments

Unit: RMB million

Name of subsidiary	Nature of business	Major products or services	Registered capital	Total assets	Net assets	Revenue	Net profit
Chancheng Hospital (Note 1)	Healthcare services	Healthcare services	50	2,140	1,532	775	94
Sisram Medical (Note 2)	Medical devices	Medical cosmetics devices, medical devices	N/A	2,659	2,199	580	94

Note 1: The data of Chancheng Hospital include appreciation of asset evaluation and amortization of appreciation of asset evaluation;

Note 2: The data of Sisram Medical is prepared in accordance with Hong Kong Financial Reporting Standards.

(2) *Operation and Results of Investee Companies whose Net Profit and Investment Income Contributing More Than 10% of the Group's Net Profit*

Unit: RMB million

Name of investee	Nature of business	Principal activities	Registered capital	Total		Revenue	Operating profit
				assets	Net assets		
Sinopharm Industrial Investment Co., Ltd.* (國藥產業投資有限公司)	Pharmaceutical investment	Pharmaceutical investment	100	274,446	72,895	201,665	4,975

(3) *Acquisition and Disposal of Subsidiaries for the Reporting Period (including the Methods and Effects of the Acquisitions and Disposals and the Effects on the Group's Overall Operation and Results)*

① *Acquisition of Subsidiaries during the Reporting Period*

On 15 November 2018, Alma Lasers Ltd., a subsidiary of the Company, entered into a Share Purchase Agreement with Mr. Ofer Gerassi, Mrs. Sabina Biran and Mr. Jacob Sayif Aaron, pursuant to which Alma Lasers Ltd. acquired 60% of equity interest in Nova Medical Israel Ltd.. As at the end of the Reporting Period, Alma Lasers Ltd. held 60% of equity interest in Nova Medical Israel Ltd..

The acquisition of the subsidiary during the Reporting Period have the following effect on the Group's production and results:

Unit: RMB million

Name of subsidiary	Acquired through	Net assets (as at the end of Reporting Period)	Net profit (from date of acquisition/merger up to the end of Reporting Period)		Date of acquisition/merger
Nova Medical Israel Ltd.	Equity transfer	47	11		15 January 2019

Note: The above data included appreciation of asset evaluation and amortization of appreciation of asset evaluation.

② *Disposal of Subsidiaries during the Reporting Period*

On 11 January 2019, the company cancellation of a subsidiary, namely Nanjing Junxing, was completed.

On 17 January 2019, the company cancellation of a subsidiary, namely Shandong Yixing, was completed.

On 25 January 2019, the company cancellation of a subsidiary, namely Qiguang Investment, was completed.

On 28 April 2019, a subsidiary, namely Aohong Pharma, entered into an equity transfer agreement with Zeng Jikai, pursuant to which Aohong Pharma transferred 100% equity in Hainan Peng Kang to Zeng Jikai. As at the end of the Reporting Period, Aohong Pharma no longer held any equity in Hainan Peng Kang.

On 15 May 2019, a subsidiary, namely Tianjin Qianda, entered into an equity transfer agreement with Zhang Wei, Dong Kuikui and Zhang Hongqi, pursuant to which Tianjin Qianda transferred 100% equity in Denuo Dental. As at the end of the Reporting Period, Tianjin Qianda no longer held any equity in Denuo Dental.

Management Discussion and Analysis

On 14 June 2019, the company cancellation of a subsidiary, namely Yulin Guanghai, was completed.

The disposals of the subsidiaries during the Reporting Period have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name of subsidiary	Disposed through	Net assets disposed of	Net profit (from the beginning of the Reporting Period to the date of disposal)	Date of disposal
Nanjing Junxing	Company cancellation	1	—	11 January 2019
Shandong Yixing	Company cancellation	—	—	17 January 2019
Qiguang Investment	Company cancellation	1	—	25 January 2019
Hainan Peng Kang	Equity transfer	-1	—	22 May 2019
Denuo Dental	Equity transfer	2	-1	22 May 2019
Yulin Guanghai	Company cancellation	—	—	14 June 2019

D. Core Competence Analysis

According to its strategy, the Group mainly develops its pharmaceutical manufacturing and R&D as well as healthcare services segments. It also maintains its long-term investment in Sinopharm. The pharmaceutical manufacturing and R&D as well as medical devices and medical diagnosis segments of the Group are in a leading position in the industry. The healthcare services business of the Group also took the lead in terms of business development and integration capability in the industry. The core competitiveness of the Group can be reflected in its multi-layered and strong R&D capability, highly standardized production management capability, high-quality service capability, professional marketing capability and international business development and integration capability, as well as the capability of constructing a global manufacturing and supply chain with cost advantages.

In addition, the Group's capabilities in investment, merger and acquisition activities and consolidation have been widely recognized in the pharmaceutical industry. The dual listing status creates favorable conditions for the Group to enhance its competitiveness.

In order to maintain its continuous growth, the Group will continue to follow the direction of China's Thirteenth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and adhere to the strategies of organic growth, external expansion and integrated development.

E. Employees and Remuneration Policies

As at the end of the Reporting Period, the Group had a total of 29,656 employees. The employee's remuneration policies of the Group are formulated on the basis of the results, work experience and salary level prevailing in the market.

2. Business Outlook for the Second Half of 2019

In the second half of 2019, the Group will continue to be committed to its mission of improving human health, adhere to its corporate philosophy of “Innovation for Good Health”, and it will endeavor to capture the opportunities presented by the broad pharmaceutical market in China as well as the rapid growth of generic drugs in mainstream markets such as Europe and the U.S. and emerging markets in the world, in order to insist on the development strategies of organic growth, external expansion and integrated development. While strengthening R&D capabilities, the Group will continue to achieve the transformation and practice of global innovative advanced technology by adopting technology introduction and “deep incubation” models to access the global innovative advanced technology so as to facilitate the innovation and transformation, and propel the international expansion of the Group. Meanwhile, the Group will also step up its efforts to acquire and integrate with domestic and overseas quality pharmaceutical manufacturing companies. By strengthening the upgrading and optimization of production and manufacturing systems and product marketing systems, the Group will proactively implement internationalization. Meanwhile, the Group will seize the development opportunities of healthcare services to strengthen its investment and management in the healthcare services segment. The Group will further enhance its core competence to improve its operating results. In addition, the Group will continue to actively explore the financing channels domestically and internationally and create favorable conditions for the continuous development of the Group.

Pharmaceutical R&D and Manufacturing

In the second half of 2019, the Group will continue to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group seeks to achieve continuous and rapid growth of its revenue and profit.

Following the completion of the acquisition of Gland Pharma and its deeper integration into the Group, the Group will continue to increase its own capabilities in innovative R&D and internationalized drug registration and declaration, while establishing and promoting integration and synergy in the product lines and supply chains.

The Group will proactively push forward the development of professional marketing teams and follow-on products in therapeutic areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary system, anti-tumor and anti-infection. In addition to solidifying the market position and product growth in its existing key segments and products, the Group will further its efforts in promoting products including the rituximab injection (Han Li Kang), as well as febuxostat tablets (You Li Tong), pitavastatin calcium tablets (Bang Zhi), recombinant human erythropoietin injection (CHO cells) (Yi Bao), quetiapine fumarate tablets (Qi Wei), antimalaria series such as artesunate, products that have passed the consistency evaluation of generic drugs and other newly launched products so as to maintain and further improve the leading position in their respective market segments.

The Group will continue to adopt the strategy to integrate generic and innovation drugs, in combination with international technology licenses and domestic industry-university-research cooperation, and increase its investments in R&D driven by the cooperation tie of “project plus technology platform”. Project approval process for new products will continue to be strictly implemented by the Group in order to enhance the efficiency of research and development. The Group will strengthen the development of the teams for the registration of pharmaceutical products in order to accelerate the approval process of existing products as well as to support innovation. The Group will actively facilitate the R&D and registration processes for products including monoclonal antibody products and small molecular innovative drugs and ensure that the development and registration processes will be completed on schedule. Furthermore, the Group will continue to accelerate its efforts to link its R&D with market conditions so that demand and supply are better matched. The Group will fully take advantage of the benefits of various R&D platforms, and strive to develop strategic product lines as well as R&D systems that are in line with international standards for new pharmaceutical products, and accelerate the development and reserve for follow-on strategic products.

At the same time, the Group will seize such opportunity of consistency evaluation on generic drugs, to maintain and expand its market position in advantage types and make a new deployment in the market for the Group’s products. For the second half of 2019, the Group will continue to advance the consistency evaluation.

In addition, the Group will also further expand and intensify its cooperation with the leading pharmaceutical companies in the world in order to give full play to the advantages of connecting momentum in China to global resources, making innovations in the cooperation model and searching for new momentum. In the second half of 2019, the Group will proceed to make use of the industry experience of the Group and the leading research and development in the world for the purpose of active cooperation among pharmaceutical manufacturing enterprises, in order to solidify the core competence of its pharmaceutical manufacturing business.

Management

Discussion and Analysis

Healthcare Services

In the second half of 2019, the Group will continue to seize the business and investment opportunities arising from the opening up of the healthcare services segment to social enterprises. The Group will continuously increase its investments in the healthcare services segment, strengthen the established strategic deployment of its healthcare services business which integrates high-end healthcare services in coastal developed cities and specialty hospitals and general hospitals in second-tier and third-tier cities in an effort to expand the scale of our healthcare services business, and focus on building the healthcare system of the Greater Bay Area and the Yangtze River Delta region. The Group plans to establish a hospital management system at the group level, improve operational modules such as disciplines and talents, quality and safety, care and services, and performance and evaluation, and integrate internal drugs, devices, diagnosis and other resources. It will further strengthen healthcare institutions it controls in terms of their disciplines and quality management, operational efficiency and business development. Chancheng Hospital gained JCI international certification and the Group further increased its shareholdings in Chancheng Hospital, which will facilitate the further expansion of radiation coverage and regional influence of medical services of Chancheng Hospital and the improvement in the layout of the Group's medical services industry in Southern China. The Group will also promote the reconstruction and expansion of Taizhou Zhedong Hospital, Zhongwu Hospital and Guangji Hospital as well as the implementation of the Huai'an Xinghuai International Hospital Project, and positively seeking new opportunities for merger and acquisition of healthcare services.

Medical Devices and Medical Diagnosis

In the second half of 2019, the Group will increase its investments in R&D, manufacturing and sales of medical devices. Sisram Medical will further stimulate the R&D and sales of medical and medical cosmetic devices and actively explore synergy and innovation in service models with other business segments in order to extend its coverage in the industry chain. Meanwhile, the Group will continue to leverage its strengths in expanding international operations, and with its existing overseas companies as platforms, vigorously explore cooperation with overseas companies on the basis of proactive integration and seek investment opportunities in outstanding domestic and foreign medical devices enterprises and introduction of high-end medical devices while targeting precise medical care, so as to achieve growth in the scale of its medical devices business.

In the second half of 2019, the Group will continue to develop and introduce products, launch new products and enrich new product lines for its diagnostic business. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, strive to increase the market share of its diagnostic products including those newly introduced and registered, and actively seek opportunities to invest in quality diagnostic companies both domestically and internationally.

Pharmaceutical Distribution and Retail

In the second half of 2019, the Group will continue to facilitate consolidation and rapid development of Sinopharm in pharmaceutical distribution, and the continued expansion of the competitive advantages of Sinopharm in its distribution of pharmaceutical and medical device and in the retail sector.

Financing

In the second half of 2019, the Group will continue to explore the financing channels domestically and internationally, optimize its financing channels and debt structure, lower finance costs and further enhance its core competence, so as to consolidate its leading position in the industry.

3. Potential Risks

A. Risks in relation to industry policies and system reforms

The pharmaceutical industry is one of the industries most affected by national policies in the PRC. Enterprises which engage in the production and sale of pharmaceutical products, diagnostic products and medical devices must obtain relevant permits issued by drug supervision and administration authorities. The product quality is regulated under stringent laws and regulations. The pharmaceutical industry is currently at the stage where relevant state policies are under significant adjustment and is strictly controlled.

Although the Group's major business segments in manufacturing and sale of pharmaceutical products, medical devices and diagnostic products have obtained the above-mentioned permits and approvals issued by drug supervision and administration authorities, the state may adjust its regulations, policies and measures in respect of the manufacturing and sale of pharmaceutical products, diagnostic products and medical devices. If the Group is unable to make corresponding adjustment and improvement, the production and operation of the Group may be adversely affected. In addition, with the intensified efforts in the reform of drugs and pharmaceutical system, industry consolidation and transformation in business models are inevitable. China's continuing medical and health system reform and medical insurance reform will directly affect the development trend of the entire pharmaceutical industry, while policies and measures such as centralized and bulk purchase of drugs, generic drug quality consistency evaluation, medical insurance price negotiation and centralized procurement, production quality standards and environmental protection also affect the profitability and production cost of the entire pharmaceutical industry, which in turn affect the production and operation of the Group.

In the field of healthcare services, uncertainties remained in the reforms of public hospitals, which accounted for the mainstay of medical services. They proposed a variety of strategic options for the entry of social forces, and were of the view that social forces might contribute greatly in the long-term if state-owned enterprises in medical institutions were given policy opportunities.

B. Market risks

Due to the huge market size and great development potential of the pharmaceutical market in the PRC, the world's major pharmaceutical companies have proactively strengthened their business development. The large number of domestic pharmaceutical manufacturers led to low market concentration and further intensified market competition. Intensive promulgation of new regulations on healthcare and medical insurance accelerated the transformation of the industry as a whole. All these factors further intensify the uncertainty of the development of pharmaceutical manufacturers.

With respect to the overseas regulatory markets dominated by the United States, which had been entered into through acquisitions, the competition for generic drugs was fierce, the price of which continued to fall, and drug regulatory agencies implemented increasingly stringent requirements on production quality. These factors constituted unavoidable risks during the deepening of internationalization. In emerging markets such as Africa, with the continuous entry of generic pharmaceutical companies such as those from India, the Group was also under pressure from government tenders. Meanwhile, the Group is also exposed to potential payment risks brought about by currency/foreign exchange instability.

C. Business and operating risks

Being a special commodity, pharmaceutical products are directly related to life and health. The quality issues arising from raw materials, production, transportation, storage and usage of pharmaceutical products may have an adverse impact on the production, operation and market reputation of the Group. On the other hand, in the event that the drugs of the Group do not align with the changing market demand, or the Group fails to develop new products or the Group's new products do not receive positive market response, the operating costs of the Group will increase, which may adversely affect the Group's profitability and future development.

Pharmaceutical manufacturing companies are exposed to environmental risks during the production process. Residue, waste gas, waste liquid and other pollutants produced may be harmful to the nearby environment if they are not treated properly, which in turn affect the normal production and operation of the Group. Despite the strict compliance by the Group of the relevant environmental protection laws, regulations and standards for its waste treatment and emission of residue, waste gas and waste liquid, the environmental protection costs incurred by the Group may increase in light of the enhanced social awareness on environmental protection over time, and the potential implementation of more stringent environmental protection laws and regulations by central and local government.

The healthcare services segment is exposed to medical malpractice risks, including complaints and disputes between doctors and patients arising from misdiagnosis, surgical risk and incidents relating to defects of treatment devices. In the event of serious medical malpractice, relevant compensation and loss may be incurred by the Group, and operation results, brand and market reputation of the Group's healthcare services segment could be adversely affected.

Management Discussion and Analysis

D. Management risks

(1) *Management risks in relation to business expansion*

With the implementation of the internationalization strategies of the Group, the scale of export of the Group's products and the region coverage of its overseas production will be expanded. The Group may face various problems during the process of implementation of internationalization strategies, including unfamiliarity with the overseas markets, difference in the demands between overseas and domestic customers, and implementation of trade protection policies in certain countries. At the same time, with the further expansion in global sales network of the Group, the scale of sales and the scope of business, there are higher requirements on the operating and management ability of the Group. If the Group's capability regarding production, marketing, quality control, risk management, compliance with integrity and talent training does not align with the development pace of the internationalization of the Group or the requirement for the expansion of the Group, the Group is exposed to operating and management risks. In addition, as the proportion of procurement, sales and acquired businesses that are settled in foreign currencies have been increasing, the exchange fluctuation between RMB and other currencies may affect the operation of the Group.

(2) *Risks arising from acquisitions and reorganizations*

It is one of the development strategies of the Group to facilitate acquisitions and business consolidations so as to achieve economies of scale. However, there might be legal, policy and operating risk exposures during the process of acquisitions and business consolidations. Upon successful acquisitions, the requirements on the operation and management of the Group will become higher. If acquisitions cannot bring about the synergistic impact, the operating results of the Group may be adversely affected.

E. Force majeure risks

Severe natural disasters and abrupt public health incidents may harm the properties and personnel of the Group, and may affect the ordinary production and operation of the Group.

4. Other Events

A. 2018 Shareholding Increase Plan of the Controlling Shareholder

As notified and confirmed by Fosun High Tech, the controlling shareholder of the Company, in writing on 3 July 2018 and 26 July 2018, Fosun High Tech (and/or by parties acting in concert with it) intended to further increase its shareholding in the Company (including A Shares and/or H Shares) on the secondary market during the 12-month period from 3 July 2018 (inclusive), if and where appropriate, and the cumulative total amount thereof shall not be less than RMB100 million. The increased shareholding percentage of Fosun High Tech and parties acting in concert with it shall not in aggregate exceed 2% of the total issued Shares on 3 July 2018 (i.e. 2,495,060,895 Shares, the same for below).

On 2 July 2019 (after trading hours), the implementation of the 2018 shareholding increase plan of the controlling shareholder of the Company lapsed. From 3 July 2018 to 2 July 2019 (inclusive), Fosun High Tech acquired a total of 23,964,300 Shares (including 1,519,800 A Shares and 22,444,500 H Shares) of the Company for an aggregate amount of approximately RMB562.78 million, and the increased shareholding percentage of Fosun High Tech in aggregate represents approximately 0.96% of the total issued Shares on 3 July 2018.

B. The Mandate to Issue Inter-bank Market Debt Financing Instruments

The mandate to issue inter-bank market debt financing instruments was approved by the Shareholders on 29 June 2017. The National Association of Financial Market Institutional Investors accepted the registration for the Company's mid-term notes and super short-term commercial papers by issuing the "Notice of Acceptance for Registration" (Zhong Shi Xie Zhu 2018 MTN No. 208) and "Notice of Acceptance for Registration" (Zhong Shi Xie Zhu 2018 SCP No. 90) on 17 April 2018. The registered amounts for each of the Company's midterm notes and super short-term commercial papers are RMB5 billion, respectively, and are valid for 2 years commencing from the date of issuance of the relevant notices. The Company may issue the aforementioned in tranches within the effective period of registration.

The issuance of the first tranche of super short-term commercial papers for 2019 was completed by the Company on 21 January 2019 with the aggregate principal amount of RMB1 billion. The value date of such super short-term commercial papers issued was 21 January 2019, with the final coupon rate at 3.73%.

RESULTS AND DIVIDENDS

The Group's profit for the Reporting Period and the state of affairs of the Group at 30 June 2019 are set out in the interim condensed consolidated financial statements and the accompanying notes on pages 36 to 79.

The Board does not recommend the distribution of any interim dividend for the Reporting Period.

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

The Restricted A Share Incentive Scheme II

As (1) the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Li Chun, Mr. Li Dongjiu, Mr. Shao Ying, Ms. Shi Jiajue, Ms. Zhou Ting, Ms. Yan Jia, Ms. Zhang Ye and Mr. Deng Jie, had resigned from the respective positions in the Company or its subsidiaries and terminated their employment contracts with the Company or its subsidiaries; (2) the 2017 performance appraisal results of Mr. Song Dajie, a grantee of the Restricted A Share Incentive Scheme II, failed to achieve the benchmark of "Pass" in his performance target for 2017, they no longer fulfilled the conditions for incentives. On 13 November 2018, the Board considered and approved the repurchase and cancellation of 162,350 Restricted A Shares which were granted to the above 9 grantees, which had not been unlocked, at a repurchase price of RMB10.54 per share for a total repurchase amount of RMB1,711,169. Such repurchased Restricted A Shares were cancelled on 29 April 2019.

Repurchase of "16 Fosun 01" Corporate Bond

In accordance with the stipulation of options for the issuer to adjust the coupon rate and for investors to sell back "16 Fosun 01" in "Prospectus on the Public Issuance of Corporate Bonds (First Tranche) to Qualified Investors in 2016 by Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*" (《上海復星醫藥(集團)股份有限公司2016年公開發行公司債券(面向合格投資者)(第一期)募集說明書》), on 4 March 2019, the Company made payment of principal and current interest to holders of 55,000 "16 Fosun 01" who had made valid report in respect of such repurchase. After the completion of the repurchase, the number of "16 Fosun 01" being listed and traded on the Shanghai Stock Exchange was reduced to 29,945,000 with a nominal value of RMB100 each.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

DIRECTORS

As at the end of the Reporting Period, the Board was constituted by eleven Directors. The Directors are as follows:

Executive Directors

Mr. Chen Qiyu (陳啟宇) (*Chairman*)
Mr. Yao Fang (姚方) (*Co-Chairman*)
Mr. Wu Yifang (吳以芳) (*President and Chief Executive Officer*)

Non-executive Directors

Mr. Xu Xiaoliang (徐曉亮)
Mr. Wang Can (王燦)
Ms. Mu Haining (沐海寧)
Mr. Liang Jianfeng (梁劍峰)

Statutory Disclosures

Independent Non-executive Directors

Mr. Jiang Xian (江憲)
Dr. Wong Tin Yau Kelvin (黃天祐)
Ms. Li Ling (李玲)
Mr. Tang Guliang (湯谷良)

During the Reporting Period, a new session of the Board of the Company had been elected. At the Annual General Meeting held on 25 June 2019, Mr. Chen Qiyu, Mr. Yao Fang and Mr. Wu Yifang were re-elected as executive Directors of the eighth session of the Board; Mr. Wang Can and Ms. Mu Haining were re-elected as non-executive Directors of the eighth session of the Board, and Mr. Xu Xiaoliang and Mr. Liang Jianfeng were elected as non-executive Directors of the eighth session of the Board; and Mr. Jiang Xian and Dr. Wong Tin Yau Kelvin were re-elected as independent non-executive Directors of the eighth session of the Board, and Ms. Li Ling and Mr. Tang Guliang were elected as independent non-executive Directors of the eighth session of the Board by the Shareholders. On 25 June 2019, Mr. Wang Qunbin and Mr. Zhang Xueqing retired as non-executive Directors, and Mr. Cao Huimin and Mr. Wai Shiu Kwan Danny retired as independent non-executive Directors.

SUPERVISORS

As at the end of the Reporting Period, the Supervisory Committee was constituted by three Supervisors. The Supervisors are as follows:

Ms. Ren Qian (任倩) (*Chairman*)
Mr. Cao Genxing (曹根興)
Mr. Guan Yimin (管一民)

During the Reporting Period, a new session of the Supervisory Committee had been elected. Ms. Ren Qian was re-elected by the employee congress of the Company held on 10 May 2019 to hold the position of staff Supervisor for the eighth session of the Supervisory Committee, and was re-elected at a meeting of the Supervisory Committee held on 25 June 2019 as the chairman of the Supervisory Committee. At the Annual General Meeting held on 25 June 2019, Mr. Cao Genxing and Mr. Guan Yimin were re-elected by the Shareholders as Supervisors of the eighth session of the Supervisory Committee.

CHANGE OF INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. Wang Can, a non-executive Director, was appointed as Chief Growth Officer of Fosun International with effect from 18 April 2019 and ceased to be Chief Financial Officer of Fosun International.

Mr. Guan Yimin, a Supervisor, ceased to serve as an independent non-executive director of Shanghai International Port (Group) Co., Ltd.* (上海國際港務(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600018), on 31 May 2019.

Mr. Tang Guliang, an independent non-executive Director, serves as an independent director of Appotronics Corporation Limited* (深圳先鋒科技股份有限公司), which was listed on the Science and Technology Innovation Board of Shanghai Stock Exchange (stock code: 688007) on 22 July 2019.

Save as disclosed above, during the Reporting Period and as at the date of this report, there was no change to information which was required to be disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Hong Kong Listing Rules.

SHARE INCENTIVE SCHEMES

Gland Pharma Share Option Incentive Scheme

The Shareholders approved, among other matters, the Gland Pharma Share Option Incentive Scheme, on 25 June 2019. The purpose of the Gland Pharma Share Option Incentive Scheme is to (i) reward the employees for their past as well as future performance, (ii) align the interests of the employees with those of shareholders of Gland Pharma, (iii) foster the sense of ownership of the employees, and (iv) reward the employees for their loyalty.

Subject to the terms of the Gland Pharma Share Option Incentive Scheme, the maximum number of Gland Pharma shares that may be issued pursuant to exercise of options granted to the participants under the Gland Pharma Share Option Incentive Scheme shall not exceed 170,444 shares, representing 1.1% of the total number of issued Gland Pharma shares as at the date on which the shareholders of Gland Pharma approved the adoption of the Gland Pharma Share Option Incentive Scheme. Subject to the limitations prescribed under the Gland Pharma Share Option Incentive Scheme, Gland Pharma reserves the right to increase or reduce such number of Gland Pharma shares as it deems fit.

On 27 June 2019, a total of 154,950 options were granted to 103 participants under the Gland Pharma Share Option Incentive Scheme with an exercise price of INR5,420 per Gland Pharma share. The number of Gland Pharma shares may be issued upon the exercise of the granted options represents approximately 1% of the total issued shares of Gland Pharma on the date of adoption of the Gland Pharma Share Option Incentive Scheme.

The details of the options granted under the Gland Pharma Share Option Incentive Scheme during the Reporting Period are set out below:

Participant	Date of Grant (dd-mm-yyyy)	Options Granted	Exercise Price Per Share (INR)	Vesting Date (dd-mm-yyyy) <i>Note</i>	Exercise Period		Number of Options				
					Portion of Granted Options	<i>Note</i>	1 January 2019	Exercised	Lapsed	Cancelled	30 June 2019
Employees of Gland Pharma	27-6-2019	154,950	5,420	26-6-2020	40%	26-6-2020 to 26-6-2029	0	—	—	—	154,950
				31-3-2021		31-3-2021 to 26-6-2029					
				31-3-2022	30%	31-3-2022 to 26-6-2029	—	—	—	—	
				31-3-2021		31-3-2021 to 26-6-2029					
				31-3-2022	30%	31-3-2022 to 26-6-2029	—	—	—	—	
				31-3-2022		31-3-2022 to 26-6-2029					

Note: The vesting of the options granted shall be subject to the requirement for a minimum period of one year between the date of grant and vesting of the options and the relevant performance targets under the Gland Pharma Share Option Incentive Scheme.

Statutory Disclosures

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

As at 30 June 2019, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules were as follows:

(1) Long positions in the Shares, underlying Shares and debentures of the Company

Name of Directors/ chief executive	Capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage of Shares in relevant class of Shares
Mr. Chen Qiyu	Beneficial owner	A Share	114,075 (L)	0.01%
Mr. Yao Fang	Beneficial owner	A Share	781,000 (L)	0.04%
Mr. Wu Yifang	Beneficial owner	H Share	342,000 (L)	0.06%
Mr. Wu Yifang	Beneficial owner	A Share	718,900 (L)	0.04%

Note:

(1) (L) — Long position

(2) Long positions in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO)

Name of Directors/ chief executive	Name of associated corporation	Class of Shares	Capacity	Number of Shares ⁽¹⁾	Approximate percentage of Shares in relevant class of Shares
Mr. Chen Qiyu	Fosun International	Ordinary share	Beneficial owner	17,418,000 (L)	0.20%
	Fosun Tourism	Ordinary share	Beneficial owner	1,478 (L)	0.00%
Mr. Xu Xiaoliang	Fosun International	Ordinary share	Beneficial owner	14,985,000 (L)	0.18%
	Fosun Tourism	Ordinary share	Beneficial owner	2,328 (L)	0.00%
Mr. Wang Can	Fosun International	Ordinary share	Beneficial owner	10,035,000 (L)	0.12%
	Fosun Tourism	Ordinary share	Beneficial owner	829 (L)	0.00%
Ms. Mu Haining	Fosun International	Ordinary share	Beneficial owner	3,638,000 (L)	0.04%
Mr. Liang Jianfeng	Fosun International	Ordinary share	Beneficial owner	3,255,000 (L)	0.04%

Note:

(1) (L) — Long position

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, so far as is known to the Directors and Supervisors, the persons or entities, other than the Directors, Supervisors or chief executive of the Company, who had interests or short positions in the shares 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 who were deemed to be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name of Shareholders	Nature of interest	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage of Shares in relevant class of Shares
Fosun High Tech	Beneficial owner	H Share	32,433,500 (L) ⁽²⁾	5.88%
Fosun High Tech	Beneficial owner	A Share	938,095,290 (L) ⁽²⁾	46.65%
Fosun International	Interest of a controlled corporation	H Share	32,433,500 (L) ⁽²⁾	5.88%
Fosun International	Interest of a controlled corporation	A Share	938,095,290 (L) ⁽²⁾	46.65%
Fosun Holdings	Interest of a controlled corporation	H Share	32,433,500 (L) ⁽²⁾	5.88%
Fosun Holdings	Interest of a controlled corporation	A Share	938,095,290 (L) ⁽²⁾	46.65%
Fosun International Holdings	Interest of a controlled corporation	H Share	32,433,500 (L) ⁽²⁾	5.88%
Fosun International Holdings	Interest of a controlled corporation	A Share	938,095,290 (L) ⁽²⁾	46.65%
Mr. Guo Guangchang	Interest of a controlled corporation	H Share	32,433,500 (L) ⁽²⁾	5.88%
	Interest of a controlled corporation	A Share	938,095,290 (L) ⁽²⁾	46.65%
	Beneficial owner	A Share	114,075 (L)	0.01%
Edinburgh Partners Limited	Investment manager	H Share	32,623,000 (L)	5.91%
The Capital Group Companies, Inc.	Interest of a controlled corporation	H Share	36,446,500 (L) ⁽³⁾	6.60%
Wellington Management Group LLP	Investment manager	H Share	32,412,638 (L)	5.87% (L)
			2,687,930 (S)	0.49% (S)

Notes:

- (1) (L) — Long position; (S) — Short position
- (2) These Shares are held by Fosun High Tech. Fosun High Tech is wholly owned by Fosun International, which in turn is owned as to 70.75% by Fosun Holdings, and Fosun Holdings is a wholly-owned subsidiary of Fosun International Holdings. Fosun International Holdings is owned as to 85.29% by Mr. Guo Guangchang. Therefore, Fosun International, Fosun Holdings, Fosun International Holdings and Mr. Guo Guangchang are deemed to be interested in these Shares.
- (3) The Capital Group Companies, Inc. is deemed to be interested in 36,446,500 H Shares, which include (i) 12,353,006 H Shares held by Capital Research and Management Company, its wholly-owned subsidiary, and (ii) 24,093,494 H Shares through Capital Group International, Inc., a wholly-owned subsidiary of Capital Research and Management Company. Capital Research and Management Company is deemed to be interested in H Shares held by Capital Guardian Trust Company as to 11,423,800 H Shares, Capital International, Inc. as to 7,215,594 H Shares and Capital International Sarl as to 5,454,100 H Shares, all of which are wholly-owned subsidiaries of Capital Group International, Inc..

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors and Supervisors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement which enabled the Directors or Supervisors of the Company to acquire such rights in any other body corporate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code and has formulated the Written Code as its codes of conduct regarding securities transactions.

Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the standards as set out in the Model Code and the Written Code throughout the Reporting Period.

COMPLIANCE WITH THE CG CODE

As a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company has remained in strict compliance with the Articles of Association, relevant laws and regulations, the Shanghai Listing Rules and Hong Kong Listing Rules. The Company seeks to continually improve its corporate governance structure, and to optimize its internal management and control and corporate operations in order to improve the Company's corporate governance.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Hong Kong Listing Rules. The Company has complied with all the applicable code provisions contained in the CG Code during the Reporting Period, save as set out below the supplemented disclosure in relation to the election of directors of the Company.

Pursuant to code provision A.5.5(2) of the CG Code, where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, it should set out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, and the grounds for the board being of the view that such individual would still be able to devote sufficient time to the board. The Company refers to its circular dated 26 April 2019 in relation to, among other things, the re-election of the Board. Dr. Wong Tin Yau Kelvin is a director of seven companies listed on the Hong Kong Stock Exchange (including the Company). Aside from COSCO SHIPPING Ports Limited where he is an executive director, Dr. Wong Tin Yau Kelvin acts as an independent non-executive director for the other companies. As an independent non-executive director of these companies, Dr. Wong Tin Yau Kelvin is only required to attend relevant board meetings, committee meetings and general meetings of these companies and will not be involved in the daily management of these companies. During the term of his office as an independent non-executive Director, he has maintained a high attendance rate for board meetings and committee meetings. With the rich experience of Dr. Wong Tin Yau Kelvin in corporate governance, he has provided professional advice to the Company to discharge his duties and responsibilities as an independent non-executive Director. On this basis, the Company is satisfied that Dr. Wong Tin Yau Kelvin is able to devote sufficient time to discharge his duties as an independent non-executive Director.

REVIEW OF INTERIM RESULTS AND INTERIM REPORT BY THE AUDIT COMMITTEE

As at the end of the Reporting Period, the audit committee of the Company comprised Mr. Tang Guliang (chairman), an independent non-executive Director of the Company, Mr. Jiang Xian, an independent non-executive Director, and Mr. Wang Can, a non-executive Director. The main duties of the audit committee are to review and monitor the financial reporting procedures, risk management and internal control system of the Company, and to provide recommendations and advice to the Board.

The audit committee of the Company has reviewed the unaudited interim results and the interim report of the Group for the six months ended 30 June 2019.

On Behalf of the Board
Chen Qiyu
Chairman

Shanghai, the PRC
26 August 2019

Interim Condensed Consolidated Statement of Profit or Loss

Six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	5	14,085,146	11,766,540
Cost of sales		(5,598,983)	(4,945,865)
Gross profit		8,486,163	6,820,675
Other income	6	109,724	103,582
Selling and distribution expenses		(4,998,448)	(3,804,390)
Administrative expenses		(1,147,889)	(1,038,009)
Research and development expenses		(849,383)	(708,982)
Impairment losses on financial assets		(21,918)	(9,094)
Other gains	7	389,686	383,396
Other expenses		(45,617)	(35,844)
Interest income		86,650	60,074
Finance costs	9	(546,940)	(441,470)
Share of profits and losses of:			
Joint ventures		(25,933)	(20,341)
Associates		760,055	728,100
PROFIT BEFORE TAX	8	2,196,150	2,037,697
Income tax expense	10	(376,521)	(299,745)
PROFIT FOR THE PERIOD		1,819,629	1,737,952
Attributable to:			
Owners of the parent		1,516,120	1,560,471
Non-controlling interests		303,509	177,481
		1,819,629	1,737,952
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
— Basic		RMB0.59	RMB0.63
— Diluted		RMB0.59	RMB0.63

Interim Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	1,819,629	1,737,952
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	100,825	(311,466)
Share of other comprehensive (loss)/income of associates	(30,026)	6,658
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	70,799	(304,808)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive loss		
Changes in fair value	(26,819)	(105,340)
Income tax effect	(5)	(39)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(26,824)	(105,379)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	43,975	(410,187)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,863,604	1,327,765
Attributable to:		
Owners of the parent	1,544,923	1,161,686
Non-controlling interests	318,681	166,079
	1,863,604	1,327,765

Interim Condensed Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	9,511,615	9,218,250
Prepaid land lease payments		—	1,522,752
Right-of-use assets		2,009,676	—
Goodwill		8,861,251	8,853,913
Other intangible assets		8,056,471	7,669,365
Investments in joint ventures		420,960	446,567
Investments in associates		21,849,532	20,924,073
Equity investments designated at fair value through other comprehensive income		99,258	126,313
Financial assets at fair value through profit or loss		2,411,618	2,505,807
Deferred tax assets		232,836	173,135
Other non-current assets		1,802,681	1,052,572
Total non-current assets		55,255,898	52,492,747
CURRENT ASSETS			
Inventories		3,638,240	3,287,392
Trade and bills receivables	13	4,623,412	4,336,151
Prepayments, other receivables and other assets		1,452,227	1,215,538
Financial assets at fair value through profit or loss		573,011	616,124
Debt investments at fair value through other comprehensive income		350,156	—
Cash and bank balances		7,739,777	8,546,522
Total current assets		18,376,823	18,001,727
CURRENT LIABILITIES			
Trade and bills payables	14	2,540,637	2,333,283
Other payables and accruals		5,364,324	4,312,390
Interest-bearing bank and other borrowings	15	9,252,030	10,533,021
Contract liabilities		405,772	530,897
Tax payable		278,553	213,655
Total current liabilities		17,841,316	17,923,246
NET CURRENT ASSETS		535,507	78,481
TOTAL ASSETS LESS CURRENT LIABILITIES		55,791,405	52,571,228
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	15,003,936	12,670,119
Deferred tax liabilities		2,889,016	2,908,359
Deferred income		360,568	363,488
Other long term liabilities		2,980,576	3,021,922
Contract liabilities		96,823	71,513
Total non-current liabilities		21,330,919	19,035,401
Net assets		34,460,486	33,535,827

Interim Condensed Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the parent			
Issued share capital		2,562,899	2,563,061
Treasury shares		—	(1,711)
Reserves		26,108,576	25,359,500
		28,671,475	27,920,850
Non-controlling interests		5,789,011	5,614,977
Total equity		34,460,486	33,535,827

Chen Qiyu
Director

Wu Yifang
Director

Interim Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2019

	Attributable to owners of the parent										Non-controlling interests RMB'000	Total equity RMB'000
	Issued share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Fair value reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000			
At 1 January 2019 (Audited)	2,563,061	11,386,711*	(1,711)	30,105*	2,374,998*	(701,196)*	(293,315)*	12,562,197*	27,920,850	5,614,977	33,535,827	
Profit for the Period	—	—	—	—	—	—	—	1,516,120	1,516,120	303,509	1,819,629	
Other comprehensive loss for the Period:												
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	(26,838)	—	—	—	—	(26,838)	14	(26,824)	
Share of other comprehensive income of associates	—	—	—	(30,026)	—	—	—	—	(30,026)	—	(30,026)	
Exchange differences on translation of foreign operations	—	—	—	—	—	—	85,667	—	85,667	15,158	100,825	
Total comprehensive income for the Period	—	—	—	(56,864)	—	—	85,667	1,516,120	1,544,923	318,681	1,863,604	
Acquisition of non-controlling interests	—	—	—	—	—	(81,915)	—	—	(81,915)	(9,499)	(91,414)	
Cancellation of restricted A shares	(162)	(1,549)	1,711	—	—	—	—	—	—	—	—	
Acquisition of a new subsidiary (note 17)	—	—	—	—	—	—	—	—	—	23,284	23,284	
Deemed acquisition of non-controlling interests	—	—	—	—	—	1,129	—	—	1,129	(1,129)	—	
Disposal of associates	—	—	—	—	—	(2,214)	—	—	(2,214)	—	(2,214)	
Disposal of subsidiaries	—	—	—	—	(1,000)	—	—	1,000	—	—	—	
Cancellation of subsidiaries	—	—	—	—	(314)	—	—	314	—	(662)	(662)	
Capital injections from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	31,290	31,290	
Dividends declared to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(170,553)	(170,553)	
A subsidiary's equity-settled share-based payment	—	—	—	—	—	—	—	—	—	61,867	61,867	
Fair value adjustment on the share redemption option granted to a non-controlling shareholder of subsidiaries	—	—	—	—	—	39,361	—	—	39,361	(86,121)	(46,760)	
Share of changes in equity other than comprehensive income and distributions received of associates	—	—	—	—	—	67,968	—	—	67,968	6,876	74,844	
Final 2018 dividend declared and paid (note 16)	—	—	—	—	—	—	—	(818,627)	(818,627)	—	(818,627)	
At 30 June 2019 (Unaudited)	2,562,899	11,385,162*	—	(26,759)*	2,373,684*	(676,867)*	(207,648)*	13,261,004*	28,671,475	5,789,011	34,460,486	

* These reserve accounts comprise the consolidated reserves of RMB26,108,576,000 (31 December 2018: RMB25,359,500,000) in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2019

	Attributable to owners of the parent										
	Issued share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Available for-sale investment revaluation/ fair value reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
As at 31 December 2017 (Audited)	2,495,131	9,221,287*	(9,523)	364,418*	2,254,973*	(2,154)*	43,605*	10,902,244*	25,269,981	4,414,586	29,684,567
Impact of adopting HKFRS 9	—	—	—	(62,697)	—	—	—	46,018	(16,679)	(5,094)	(21,773)
At 1 January 2018 (Audited)	2,495,131	9,221,287	(9,523)	301,721	2,254,973	(2,154)	43,605	10,948,262	25,253,302	4,409,492	29,662,794
Profit for the Period	—	—	—	—	—	—	—	1,560,471	1,560,471	177,481	1,737,952
Other comprehensive income for the Period:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	(105,278)	—	—	—	—	(105,278)	(101)	(105,379)
Share of other comprehensive income of associates	—	—	—	6,658	—	—	—	—	6,658	—	6,658
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(300,165)	—	(300,165)	(11,301)	(311,466)
Total comprehensive income for the Period	—	—	—	(98,620)	—	—	(300,165)	1,560,471	1,161,686	166,079	1,327,765
Cancellation of restricted A shares	(70)	(669)	739	—	—	—	—	—	—	—	—
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	—	144,100	144,100
Share of changes in equity other than comprehensive income and distributions received of associates	—	—	—	—	—	249,234	—	—	249,234	—	249,234
Acquisition of non-controlling interests	—	—	—	—	—	(854,235)	—	—	(854,235)	(531,153)	(1,385,388)
Deemed acquisition of non-controlling interests	—	—	—	—	—	(308)	—	—	(308)	308	—
Disposal of partial interest in subsidiaries without loss of control	—	—	—	—	—	30,101	—	—	30,101	20,999	51,100
Deemed partial disposal of a subsidiary without loss of control	—	—	—	—	—	629,997	—	—	629,997	733,609	1,363,606
Dividends declared to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(102,239)	(102,239)
Disposal of an associate	—	—	—	—	—	3	—	—	3	—	3
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(21,703)	(21,703)
Capital injections from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	98,780	98,780
Equity-settled share-based payment	—	—	—	—	—	1,517	—	—	1,517	—	1,517
Fair value adjustment on the share redemption option granted to a non-controlling shareholder of subsidiaries	—	—	—	—	—	9,305	—	—	9,305	(9,305)	—
Final 2017 dividend declared and paid	—	—	—	—	—	—	—	(973,963)	(973,963)	—	(973,963)
At 30 June 2018 (Unaudited)	2,495,061	9,220,618*	(8,784)	203,101*	2,254,973*	63,460*	(256,560)*	11,534,770*	25,506,639	4,908,967	30,415,606

* These reserve accounts comprise the consolidated reserves of RMB23,020,362,000 (31 December 2017: RMB22,784,373,000) in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cash generated from operations	1,849,335	1,664,677
Income tax paid	(399,147)	(385,884)
Net cash inflow from operating activities	1,450,188	1,278,793
Purchases of items of property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets	(2,040,985)	(1,201,821)
Acquisition of subsidiaries, net of cash acquired	(133,162)	(338,075)
Purchases of shareholdings in associates and joint ventures	(174,524)	(866,767)
Purchases of financial assets at fair value through profit or loss	(109,283)	(46,055)
Disposals of shareholdings in a joint venture and associates	35,418	364,816
Disposal of financial assets at fair value through profit or loss	642,245	82,082
Disposals of subsidiaries, net of cash paid	2,296	—
Dividends received from associates	41,866	56,255
Dividends received from a joint venture	1,039	—
Dividends received from financial assets at fair value through profit or loss	20,053	11,628
Proceeds from disposals of items of property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets	26,015	6,318
Decrease in non-pledged time deposits with original maturity of three months or more when acquired and deposits for other acquisitions	570,562	143,167
Others	39,801	(42,947)
Net cash flows used in investing activities	(1,078,659)	(1,831,399)

Interim Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
New bank and other borrowings	5,357,409	5,751,039
Disposal of partial interest in a subsidiary without loss of control	—	25,550
Repayment of bank and other borrowings	(4,910,278)	(3,130,833)
Interest paid	(508,082)	(398,139)
Principal portion of lease payments/finance lease rental payments	(48,517)	(5,706)
Capital injections from non-controlling shareholders of subsidiaries	31,290	1,145,163
Dividends paid to non-controlling shareholders of subsidiaries	(155,587)	(187,761)
Acquisition of non-controlling interests	(262,006)	(1,370,345)
Net cash (used in)/flows from financing activities	(495,771)	1,828,968
Net (decrease)/increase in cash and cash equivalents	(124,242)	1,276,362
Cash and cash equivalents at beginning of the Period	7,175,005	6,350,319
Effect of foreign exchange rate changes, net	799	(7,549)
Cash and cash equivalents at end of the Period	7,051,562	7,619,132
Analysis of balances of cash and cash equivalents:		
Cash and bank balances at end of the Period	7,739,777	8,212,975
Less: Pledged bank balances and term deposits with original maturity of more than three months	(688,215)	(593,843)
Cash and cash equivalents at end of the Period	7,051,562	7,619,132

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

1. CORPORATE AND GROUP INFORMATION

Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (the "Company") was established as a joint stock company with limited liability on 31 May 1995 in the PRC. The Company's A Shares have been listed on the Shanghai Stock Exchange since 7 August 1998. The Company's H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") since 30 October 2012. The operating term is from 31 December 1998 to indefinite period.

The holding company of the Company is Shanghai Fosun High Technology (Group) Co., Ltd. ("Fosun High Tech"). The ultimate holding company of the Company is Fosun International Limited. The ultimate controlling shareholder of the Company is Mr. Guo Guangchang.

During the six months ended 30 June 2019 (the "Period"), the Group was principally engaged in the development, manufacture and sale of pharmaceutical products and medical devices, import and export of medical devices and the provision of related and other consulting services and investment management.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does 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 2018.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards amendments effective as of 1 January 2019 as follows:

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policies and Disclosures (Continued)

Other than as explained below regarding the impact of HKFRS 16 Leases, Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures and HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

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

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

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

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB24,216,000 that were reclassified from property, plant and equipment.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

Impacts on transition (Continued)

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

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	1,936,620
Decrease in prepaid land lease payments	(1,522,752)
Decrease in property, plant and equipment	(24,216)
Increase in total assets	389,652
Liabilities	
Increase in interest-bearing bank and other borrowings	412,221
Decrease in other payables and accruals	(3,776)
Decrease in other long term liabilities	(18,793)
Increase in total liabilities	389,652

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

	RMB'000 (Unaudited)
Operating lease commitments as at December 31, 2018	448,164
Weighted average incremental borrowing rate as at January 1, 2019	4.72%
Discounted operating lease commitments as at January 1, 2019	409,160
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before December 31, 2019	19,755
Commitments relating to leases of low-value assets	49
Add: Commitments relating to leases previously classified as finance leases	22,569
Payments for optional extension periods not recognised as at 31 December 2018	296
Lease liabilities as at 1 January 2019	412,221

Notes to Interim Condensed Consolidated Financial Statements

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

Summary of new accounting policies

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

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

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

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

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank and other borrowings"), and the movement during the Period are as follow:

	Right-of-use assets				Total RMB'000	Lease liabilities RMB'000
	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Land RMB'000		
As at 1 January 2019	378,239	11,412	24,217	1,522,752	1,936,620	412,221
Additions	112,559	3,424	5,295	26,454	147,732	107,796
Depreciation charge	(51,646)	(2,489)	(6,339)	(14,442)	(74,916)	—
Interest expense	—	—	—	—	—	12,355
Payments	—	—	—	—	—	(54,377)
Effect of foreign exchange rate changes, net	83	157	—	—	240	2,752
As at 30 June 2019	439,235	12,504	23,173	1,534,764	2,009,676	480,747

The Group recognised rental expenses from short-term leases and low-value assets of RMB10,981,000 for six months ended 30 June 2019.

(b) Adoption of HK(IFRIC)-Int 23

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

(c) Adoption of Amendments to HKAS 28

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

3. SEASONALITY OF OPERATIONS

The Group's operations are not subject to seasonality.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the pharmaceutical manufacturing and R&D segment mainly engages in the production, sale and research of medicine;
- (b) the healthcare service segment mainly engages in the provision of healthcare service and hospital management;
- (c) the medical devices and medical diagnosis segment mainly engages in the production and sale of medical devices and diagnostic products;
- (d) the pharmaceutical distribution and retail segment mainly engages in the retail and wholesale of medicine; and
- (e) the other business operations segment comprises businesses other than those mentioned above.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit or loss after tax except that dividend income from financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, gain or loss on disposal of financial assets at fair value through profit or loss, fair value gain or loss on financial assets at fair value through profit or loss, as well as head office and investment management entities income and expenses are excluded from such measurement.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets exclude financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and unallocated head office and investment management entities assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, interest payable and unallocated head office and investment management entities liabilities as these liabilities are managed on a group basis.

Notes to Interim Condensed Consolidated Financial Statements

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4. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2019 (unaudited)

	Pharmaceutical manufacturing and R&D RMB'000	Healthcare Service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	10,814,123	1,458,512	1,792,865	—	19,646	—	14,085,146
Intersegment sales	8,421	1,876	19,401	—	20,674	(50,372)	—
Total revenue	10,822,544	1,460,388	1,812,266	—	40,320	(50,372)	14,085,146
Segment results*	1,204,721	168,982	291,795	—	10,328	(19,887)	1,655,939
Other income	75,540	3,681	13,034	—	3,326	—	95,581
Other gains	281,499	(748)	(3,481)	7,274	2,679	—	287,223
Interest income	50,628	21,874	16,153	—	216	(1,236)	87,635
Finance costs	(56,712)	(12,032)	(9,467)	—	(6,320)	29,102	(55,429)
Other expenses	(15,616)	(15,446)	(22,095)	—	1,121	—	(52,036)
Share of profits and losses of:							
Joint ventures	(25,565)	—	477	—	(845)	—	(25,933)
Associates	37,529	(13,655)	(25,330)	774,939	(13,428)	—	760,055
Unallocated other income, interest income and other gains							115,621
Unallocated finance cost							(491,511)
Unallocated expenses							(180,995)
Profit before tax	1,552,024	152,656	261,086	782,213	(2,923)	7,979	2,196,150
Tax	(319,655)	(51,774)	(30,673)	—	(258)	—	(402,360)
Unallocated tax							25,839
Profit for the Period	1,232,369	100,882	230,413	782,213	(3,181)	7,979	1,819,629
Segment assets:	36,425,494	10,781,464	6,874,258	12,429,996	4,362,843	(1,490,584)	69,383,471
Including:							
Investments in joint ventures	399,018	—	12,808	—	9,134	—	420,960
Investments in associates	2,153,707	3,232,275	948,143	12,429,996	3,085,411	—	21,849,532
Unallocated assets							4,249,250
Total assets							73,632,721
Segment liabilities:	15,346,659	1,698,142	1,505,277	—	281,002	(8,590,276)	10,240,804
Unallocated liabilities							28,931,431
Total liabilities							39,172,235
Other segment information:							
Depreciation and amortisation	502,504	133,338	85,220	—	19,190	—	740,252
Provision for impairment of inventories	698	—	3,539	—	—	—	4,237
Impairment losses on financial assets	1,737	6,493	15,886	—	(2,198)	—	21,918
Capital expenditure**	1,016,436	160,766	85,165	—	95,489	—	1,357,856

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisition of subsidiaries).

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2018 (unaudited)

	Pharmaceutical manufacturing and R&D RMB'000	Healthcare Service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	8,871,813	1,199,330	1,682,119	—	13,278	—	11,766,540
Intersegment sales	8,128	1,658	11,872	—	46,267	(67,925)	
Total revenue	8,879,941	1,200,988	1,693,991	—	59,545	(67,925)	11,766,540
Segment results*							
Other income	79,051	8,832	12,135	—	—	—	100,018
Other gains	178,213	15,069	27,902	—	72,898	—	294,082
Interest income	34,604	22,067	9,130	—	135	(3,499)	62,437
Finance costs	(55,256)	(3,696)	(7,282)	—	(4,387)	51,438	(19,183)
Other expenses	(31,796)	1,354	(12,899)	—	(17)	—	(43,358)
Share of profits and losses of:							
Joint ventures	(19,957)	—	555	—	(939)	—	(20,341)
Associates	43,762	(15,516)	(11,688)	747,595	(36,053)	—	728,100
Unallocated other income, interest income and other gains							
							90,515
Unallocated finance cost							
							(422,287)
Unallocated expenses							
							(191,818)
Profit before tax	1,263,799	183,998	298,358	747,595	39,634	27,903	2,037,697
Tax	(258,519)	(50,440)	(45,780)	—	(1,467)	—	(356,206)
Unallocated tax							56,461
Profit for the Period	1,005,280	133,558	252,578	747,595	38,167	27,903	1,737,952
Segment assets:							
Including:							
Investments in joint ventures	401,031	—	12,947	—	11,020	—	424,998
Investments in associates	1,991,462	3,072,175	407,108	11,073,445	2,415,337	—	18,959,527
Unallocated assets							4,414,641
Total assets							66,142,484
Segment liabilities:							
Unallocated liabilities	12,884,622	1,249,893	835,391	—	384,854	(7,002,804)	8,351,956
Total liabilities							27,374,922
							35,726,878
Other segment information:							
Depreciation and amortisation	480,913	50,729	53,535	—	15,933	—	601,110
Provision for impairment of inventories	17,962	—	1,944	—	—	—	19,906
Impairment losses on financial assets	4,891	(4,198)	8,401	—	—	—	9,094
Capital expenditure**	788,720	237,374	93,057	—	216,743	—	1,335,894

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisition of subsidiaries).

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

5. REVENUE

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

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Sale of goods	12,262,812	10,277,575
Rendering of services	1,801,231	1,472,731
Sale of materials	21,103	16,234
	14,085,146	11,766,540

Customer contract revenue

Disaggregated revenue information for revenue from contracts with customer
For the six months ended 30 June 2019 (unaudited)

Segments	Pharmaceutical manufacturing and R&D RMB'000	Healthcare service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Total RMB'000
Type of goods or services						
Sale of goods	10,564,089	27,181	1,671,542	—	—	12,262,812
Rendering of services	238,852	1,431,331	111,402	—	19,646	1,801,231
Sale of materials	11,182	—	9,921	—	—	21,103
Total revenue from contracts with customers	10,814,123	1,458,512	1,792,865	—	19,646	14,085,146
Geographical markets						
Mainland China	8,288,905	1,458,512	1,024,242	—	17,908	10,789,567
Overseas countries and regions	2,525,218	—	768,623	—	1,738	3,295,579
Total revenue from contracts with customers	10,814,123	1,458,512	1,792,865	—	19,646	14,085,146
Timing of revenue recognition						
Goods and materials transferred at a point in time	10,575,271	27,181	1,681,463	—	—	12,283,915
Services transferred at a point in time	128,290	1,431,331	41,595	—	19,646	1,620,862
Services transferred over time	110,562	—	69,807	—	—	180,369
Total revenue from contracts with customers	10,814,123	1,458,512	1,792,865	—	19,646	14,085,146

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

5. REVENUE (Continued)

Customer contract revenue (Continued)

Disaggregated revenue information for revenue from contracts with customers (Continued)
For the six months ended 30 June 2018 (unaudited)

Segments	Pharmaceutical manufacturing and R&D RMB'000	Healthcare service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Total RMB'000
Type of goods or services						
Sale of goods	8,633,725	18,071	1,625,779	—	—	10,277,575
Rendering of services	223,713	1,181,259	54,481	—	13,278	1,472,731
Sale of materials	14,375	—	1,859	—	—	16,234
Total revenue from contracts with customers	8,871,813	1,199,330	1,682,119	—	13,278	11,766,540
Geographical markets						
Mainland China	6,545,714	1,199,330	979,758	—	11,637	8,736,439
Overseas countries and regions	2,326,099	—	702,361	—	1,641	3,030,101
Total revenue from contracts with customers	8,871,813	1,199,330	1,682,119	—	13,278	11,766,540
Timing of revenue recognition						
Goods and materials transferred at a point in time	8,648,092	18,071	1,627,646	—	—	10,293,809
Services transferred at a point in time	171,982	1,181,259	31,426	—	13,278	1,397,945
Services transferred over time	51,739	—	23,047	—	—	74,786
Total revenue from contracts with customers	8,871,813	1,199,330	1,682,119	—	13,278	11,766,540

Notes to Interim Condensed Consolidated Financial Statements

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6. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend income from financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income	17,523	2,944
Government grants	92,104	100,638
Others	97	—
	109,724	103,582

7. OTHER GAINS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of shareholdings in joint ventures and associates	27,528	97,119
Fair value gains on financial assets at fair value through profit or loss	327,405	228,976
Gain on disposal of subsidiaries	2,186	15,052
Others	32,567	42,249
	389,686	383,396

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cost of inventories sold	4,263,438	3,978,177
Cost of services provided	1,335,545	967,688
Staff costs (including Directors', Supervisors' and Chief Executive's remuneration)		
Salaries and other staff costs	1,952,209	1,644,363
Retirement benefits:		
Defined contribution fund	134,290	90,619
Accommodation benefits:		
Defined contribution fund	67,904	52,564
Share-based payment	46,956	1,517
	2,201,359	1,789,063
Research and development expenses:		
Current period expenditure excluding amortisation of other intangible assets	816,188	675,403
Less: Government grants for R&D projects*	12,128	6,403
	804,060	669,000
Operating lease payments	—	49,594
Rental expenses from short term and low value assets	10,981	—
Depreciation of property, plant and equipment	458,599	396,166
Depreciation of right-of-use assets	74,916	—
Amortisation of prepaid land lease payments	—	14,132
Amortisation of other intangible assets	206,737	190,812
Provision for impairment of inventories	4,237	19,906
Impairment losses on financial assets	21,918	9,094
Fair value gain on financial assets at fair value through profit or loss	(327,405)	(228,976)
Foreign exchange gain, net	(6,028)	(37,363)
(Gain)/loss on disposal of property, plant and equipment	(18,465)	2,497

* The Group received various government grants related to research and development projects. The government grants received have been deducted from the research and development expenses to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Interim Condensed Consolidated Financial Statements

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9. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings (excluding lease liabilities)	543,161	447,513
Interest on lease liabilities	12,355	—
Less: Interest capitalised	(8,576)	(6,043)
Interest expenses, net	546,940	441,470

10. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% (for the six months ended 30 June 2018: 25%) of the taxable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China, which are taxed at preferential rates of 0% to 20%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated taxable profits arising in Hong Kong during the Period. The provision of current income tax of Alma Lasers Ltd., a subsidiary of the Company incorporated in Israel, is based on a preferential rate of 8.44%. The provision of current tax of Gland Pharma Limited ("Gland Pharma"), a subsidiary of the Group incorporated in India, is based on a statutory rate of 34.61% before 1 April 2018, and 34.94% after 1 April 2018. The provision of current tax of Breas Medical Holdings AB ("Breas"), a subsidiary of the Group incorporated in Sweden, is based on a statutory rate of 22%. The provision of current tax of Tridem Pharma S.A.S ("Tridem Pharma"), a subsidiary of the Group incorporated in France, is based on a statutory rate of 33.33%.

The major components of tax expenses for the six months ended 30 June 2019 and 2018 are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current	464,045	343,055
Deferred	(87,524)	(43,310)
Total tax charge for the Period	376,521	299,745

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent excluding cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as of the balance sheet date and the weighted average number of ordinary shares of 2,563,006,778 (for the six months period ended 30 June 2018: 2,494,227,495) in issue excluding restricted shares during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	1,516,120	1,560,471
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	—	(317)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	1,516,120	1,560,154

	Number of shares Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,563,006,778	2,494,227,495
Effect of dilution — weighted average number of ordinary shares: Restricted shares	—	586,286
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	2,563,006,778	2,494,813,781

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019.

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12. PROPERTY, PLANT AND EQUIPMENT

	RMB'000 (Unaudited)
Carrying value at 31 December 2018	9,218,250
Impact of adopting HKFRS 16	(24,216)
Carrying value at 1 January 2019	9,194,034
Additions	813,268
Acquisitions of a subsidiary	4,613
Disposals	(55,843)
Disposal of subsidiaries	(392)
Depreciation charge for the Period	(458,599)
Exchange realignment	14,534
Carrying value at 30 June 2019	9,511,615

The Group's property, plant and equipment with a net carrying value of RMB188,839,000 (31 December 2018: RMB215,801,000), were pledged as security for interest-bearing bank loans as set out in note 15 to the interim condensed consolidated financial statements.

13. TRADE AND BILLS RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	4,411,974	3,623,640
Bills receivable	211,438	712,511
	4,623,412	4,336,151

The credit period for trade receivables is generally three months, which may be extended up to six months for major customers. Trade and bills receivables are non-interest-bearing.

Notes to Interim Condensed Consolidated Financial Statements

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13. TRADE AND BILLS RECEIVABLES (Continued)

An aged analysis of trade receivables as at the end of the Reporting Period, based on the invoice date, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Outstanding balances with ages:		
Within 1 year	4,332,001	3,559,594
1 to 2 years	103,264	80,773
2 to 3 years	42,386	70,289
Over 3 years	97,218	70,012
Less: Provision for impairment	4,574,869 (162,895)	3,780,668 (157,028)
	4,411,974	3,623,640

Included in the Group's trade receivables are amounts due from the Group's joint ventures, associates and other related parties of RMB2,692,000 (31 December 2018: RMB1,180,000), RMB652,874,000 (31 December 2018: RMB510,355,000) and RMB11,122,000 (31 December 2018: RMB10,953,000), respectively. Included in the Group's bills receivable are amounts due from the Group's associates of RMB125,412,000 (31 December 2018: RMB133,926,000). These balances due from joint ventures, associates and other related parties were trade in nature, non-interest-bearing and collectible on credit terms similar to those offered to the major customers of the Group.

As at 30 June 2019, trade receivables with a book value of RMB7,870,000 (31 December 2018: RMB20,300,000) were used to obtain bank loans.

Notes to Interim Condensed Consolidated Financial Statements

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14. TRADE AND BILLS PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	2,312,110	2,184,280
Bills payable	228,527	149,003
	2,540,637	2,333,283

Trade and bills payables are non-interest-bearing and are normally settled on a three-month term.

An aged analysis of trade payables as at the end of the Reporting Period is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Outstanding balances with ages:		
Within 1 year	2,265,937	2,136,439
1–2 years	31,719	30,222
2–3 years	5,684	9,072
Over 3 years	8,770	8,547
	2,312,110	2,184,280

Included in the Group's trade payables are amounts due to the Group's joint venture, associates and other related parties of RMB1,282,000 (31 December 2018: RMB1,179,000), RMB80,815,000 (31 December 2018: RMB69,705,000) and RMB1,607,000 (31 December 2018: RMB1,395,000), respectively. These balances due to joint venture, associates and other related companies were trade in nature, non-interest-bearing and repayable on credit terms similar to those offered by the joint venture, associates and other related companies to their major customers.

Notes to Interim Condensed Consolidated Financial Statements

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15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bank loans:	(1)		
— Secured		470,093	336,317
— Unsecured		15,275,704	15,834,198
		15,745,797	16,170,515
Super short-term commercial papers	(3)	999,542	—
Corporate bonds	(2)	7,029,880	7,032,625
Lease liabilities		480,747	—
Total		24,255,966	23,203,140
Portion classified as current liabilities		(9,252,030)	(10,533,021)
Non-current portion		15,003,936	12,670,119

A repayable analysis of interest-bearing bank and other borrowings (excluding lease liabilities) is as follows:

Repayable:			
Within 1 year		9,140,848	10,533,021
1 to 2 years		3,955,314	3,591,947
2 to 5 years		10,430,093	8,984,112
Over 5 years		248,964	94,060
		23,775,219	23,203,140
Portion classified as current liabilities		(9,140,848)	(10,533,021)
Non-current portion		14,634,371	12,670,119

Notes:

(1) Bank loans

The bank loans bear interest at rates ranging from 0.4500% to 7.5000% (31 December 2018: 0.4500% to 7.5000%) per annum.

As at 30 June 2019, certain of the Group's bank loans are secured by the mortgage of certain of the Group's property, plant and equipment (note 12) amounting to RMB188,839,000 (31 December 2018: RMB215,801,000), land in right-of-use assets amounting to RMB258,318,000 (prepaid land lease payments on 31 December 2018: RMB30,431,000) and all assets of Nova Medical Israel Ltd. ("Nova").

Notes to Interim Condensed Consolidated Financial Statements

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15. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(1) Bank loans (Continued)

As at 30 June 2019, certain of the Group's bank loans are secured by the pledge of the Group's and Pramerica-Fosun China Opportunity Fund, L.P.'s 100% shareholdings in Alma Lasers Ltd. and Alma Lasers Inc. (31 December 2018: the Group's and Pramerica-Fosun China Opportunity Fund, L.P.'s 100% shareholdings in Alma Lasers Ltd. and Alma Lasers Inc.).

As at 30 June 2019, certain of the Group's bank loans are secured by the pledge of the Group's accounts receivables amounting to RMB7,870,000 (31 December 2018: RMB20,300,000).

(2) Corporate bonds

On 4 March 2016, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB3,000,000,000, which bear interest at 3.35% per annum. The interest is payable annually in arrears and the maturity date is 4 March 2021. On 4 March 2019, a total redemption amount of RMB5,500,000 was paid by the Company, and the remaining bondholders chose to continue holding until 4 March 2021. In the remaining interest-bearing years, the interest rate is changed to 4.50%.

On 14 March 2017, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB1,250,000,000, which bear interest at 4.50% per annum. The interest is payable annually in arrears and the maturity date is 14 March 2022. Since holders of these corporate bonds have the right, at their option, to require the Company to repurchase the corporate bonds for cash in whole or in part at interest payment date of the third interest-bearing year (i.e. 2020), the corporate bonds was presented as current liabilities as at 30 June 2019.

On 13 August 2018, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB1,300,000,000, which bear interest at 5.10% per annum. The interest is payable annually in arrears and the maturity date is 13 August 2023.

On 30 November 2018, the Company issued corporate bonds with a maturity of four years in an aggregate amount of RMB500,000,000 and corporate bonds with a maturity of five years in an aggregate amount of RMB1,000,000,000, which bear interest at 4.47% and 4.68% per annum. The interest of the corporate bonds with a maturity of four years is payable annually in arrears and the maturity date is 30 November 2022. The interest of the corporate bonds with a maturity of five years is payable annually in arrears and the maturity date is 30 November 2023.

(3) Super Short-term Commercial Paper

On 21 January 2019, the Company issued super short-term commercial papers in an aggregate amount of RMB1,000,000,000, which bear interest at 3.73% per annum. The interest of Super Short-term Commercial Papers is payable on the maturity date and the maturity date is 18 October 2019.

16. DIVIDENDS

The Directors did not recommend the payment of an interim dividend in respect of the Period (for the six months period ended 30 June 2018: Nil).

The proposed final dividend of RMB0.32 (tax included) per ordinary share for the year ended 31 December 2018 was approved by the shareholders at the annual general meeting of the Company on 25 June 2019.

17. BUSINESS COMBINATION

The major acquisition of a subsidiary accounted for as business combination is set out as follow:

In January 2019, Alma Lasers Ltd., a subsidiary of the Group, acquired a 60% equity interest in Nova at a consideration of US\$7,884,000 equivalent to RMB53,250,000. The acquisition was completed on 15 January 2019 when the Group obtained control of the operating and financial policies of Nova.

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17. BUSINESS COMBINATION (Continued)

The above acquisition was undertaken to consolidate Alma's distribution operation and gain more market opportunities in Israel.

The Group has elected to measure the non-controlling interests in all the subsidiary acquired at the non-controlling interests' proportionate share of the acquired subsidiaries' identifiable net assets.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the Period as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	RMB'000
	(Unaudited)
Net assets acquired of:	
Property, plant and equipment (<i>note 12</i>)	4,613
Other intangible assets	33,708
Deferred tax assets	159
Inventories	11,988
Prepayments, other receivables and other assets	4,501
Trade and bills receivables	44,969
Cash and bank balances	1,329
Interest-bearing bank and other borrowings	(7,393)
Trade and bills payables	(14,191)
Other payables and accruals	(9,786)
Contract liabilities	(3,052)
Deferred tax liabilities	(8,635)
Total identifiable net assets at fair value	58,210
Non-controlling interests	(23,284)
Goodwill on acquisition	18,324
	53,250
Satisfied by:	
Cash consideration paid	52,984
Cash consideration payable	266
	53,250

The fair values of the acquired trade and bills receivables and other receivables as at the date of acquisition approximate to their gross contractual amounts. None of these receivables are expected to be uncollectible.

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17. BUSINESS COMBINATION (Continued)

An analysis of the cash flows in respect of the acquisitions of a subsidiary is as follows:

	RMB'000 (Unaudited)
Cash consideration paid	(52,984)
Cash and cash equivalents acquired	1,329
	(51,655)
Payment of unpaid cash consideration as at 31 December 2018	(81,507)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(133,162)

18. DISPOSAL OF SUBSIDIARIES

On 28 April 2019, Aohong Pharmaceutical Co., Ltd.*, a subsidiary of the Group, signed an equity transfer agreement with a third-party natural person to dispose of a 100% equity interest in Hainan Pengkang Pharmaceutical Co., Ltd.* ("Hainan Pengkang") at a consideration of RMB400,000. The disposal was completed on 22 May 2019 and Hainan Pengkang was not consolidated in the condensed consolidated financial statements of the Group hereafter.

Chindex (Tianjin) International Trade Co., Ltd.*, a subsidiary of the Group, transferred a 100% equity interest in Beijing Chindex Denuo Dental Clinic Co., Ltd.* ("Chindex Denuo") held by the Company to third-party natural persons at RMB3,120,000. The disposal was completed on 22 May 2019 and Chindex Denuo was not consolidated in the condensed consolidated financial statements of the Group hereafter.

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

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18. DISPOSAL OF SUBSIDIARIES (Continued)

The financial information of Hainan Pengkang and Chindex Denuo at the date of disposal is as follows:

	As of the disposal date
	RMB'000
	(Unaudited)
Net assets disposed of:	
Property, plant and equipment	2,333
Other intangible assets	392
Prepayments, other receivables and other assets	814
Cash and cash equivalents	110
Other payables and accruals	(2,221)
Deferred tax liabilities	(94)
	<u>1,334</u>
Gain on disposal of a subsidiary	2,186
	<u>3,520</u>
Satisfied by:	
Cash consideration received	2,406
Cash consideration receivable	1,114
	<u>3,520</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
	(Unaudited)
Cash consideration received	2,406
Cash and cash equivalents disposed of	(110)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>2,296</u>

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19. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Prepaid land lease payments, plant and machinery	1,239,409	1,920,414
Investments in subsidiaries and associates	1,414,908	433,483
Investment in financial assets at fair value through profit or loss	280,967	284,476
Authorized, but not signed:		
Prepaid land lease payments, plant and machinery	5,237,352	4,651,565
	8,172,636	7,289,938

20. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere, the Group had the following transactions with related parties during the Period:

(a) Sales of pharmaceutical products and services

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Sinopharm Group Co., Ltd. and its subsidiaries (<i>notes 4 & 6 & 15</i>)	1,567,956	1,085,842
C.Q. Pharmaceutical Holding Co., Ltd. and its subsidiaries (<i>notes 1 & 4 & 16</i>)	205,246	213,609
Intuitive Surgical-Fosun (Hong Kong) Co., Ltd. (<i>notes 1 & 4</i>)	49,757	—
Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. (<i>notes 1 & 4</i>)	42,836	329
Zhejiang Di'an Diagnostics Co., Ltd. and its subsidiaries (<i>notes 4 & 9</i>)	32,492	20,229
Shanghai Xingyao Medical Technology Development Co., Ltd. (<i>notes 2 & 4</i>)	4,702	12,465
Shanghai Lingjian Information Technology Co., Ltd. (<i>notes 1 & 4</i>)	3,256	2,124
Healthy Harmony Holdings L.P. and its subsidiaries (<i>notes 1&4&6</i>)	1,575	3,434
Shanghai Diai Medical Instrument Co., Ltd. (<i>notes 1 & 4</i>)	1,453	1,676
Fosun International Limited and its subsidiaries (<i>notes 3 & 4 & 10</i>)	216	8,917
Shanghai Lonza Fosun Pharmaceutical Science and Technology Development Ltd. (<i>notes 2 & 4</i>)	148	1
Shanghai Xingmai Information Technology Co., Ltd. (<i>notes 1 & 4</i>)	60	—
Shanghai Qinmiao Technology Co., Ltd. (<i>notes 1 & 4</i>)	17	—
Jingfukang Pharmaceutical Group Co., Ltd. (<i>notes 1 & 4</i>)	22	31
Tongde Equity Investment and Management (Shanghai) Co., Ltd. (<i>notes 4 & 7</i>)	17	17
Fosun Kite Biological Technology Co., Ltd. (<i>notes 2 & 4</i>)	12	595
SINNOWA Medical Science & Technology Co., Ltd. (<i>notes 1 & 4</i>)	1	—
Gland Chemicals Pvt Ltd. (<i>notes 4 & 9</i>)	—	4,206
Shanghai Anbo pharmaceutical Co., Ltd. (<i>notes 4 & 6</i>)	—	7
Shanghai Xinglian Commercial Factoring Co., Ltd. (<i>notes 4 & 17</i>)	—	6
	1,909,766	1,353,488

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20. RELATED PARTY TRANSACTIONS (Continued)

(b) Purchase of pharmaceutical products and services

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Sinopharm Group Co., Ltd. and its subsidiaries (notes 4 & 6 & 15)	125,937	92,314
Gland Chemicals Pvt Ltd. (notes 4 & 9)	8,899	75,183
Zhejiang Di'an Diagnostics Co., Ltd. and its subsidiaries (notes 4 & 9)	3,352	2,930
Anhui Sunhere Pharmaceuticals Excipients Co., Ltd. (notes 1 & 4)	2,126	1,470
Saladax Biomedical, Inc. (notes 1 & 4)	1,318	1,309
Ximike (Suzhou) Pharmaceutical Technology Co., Ltd. (notes 1 & 4)	1,228	393
SINNOWA Medical Science & Technology Co., Ltd. (notes 1 & 4)	1,164	400
Fosun International Limited and its subsidiaries (notes 3 & 4 & 11)	1,156	118
C.Q. Pharmaceutical Holding Co., Ltd. and its subsidiaries (notes 4 & 6 & 15)	410	—
Shanghai Xingyao Medical Technology Development Co., Ltd. (notes 2 & 4)	85	14
Yong'an Property Insurance Company Limited (notes 4 & 9)	3	167
Shanghai Lingjian Information Technology Co., Ltd. (notes 1 & 4)	—	15
	145,678	174,313

(c) Leasing and property management services

As lessor	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Fosun International Limited and its subsidiaries (notes 3 & 5 & 12 & 16)	7,895	7,072
Fosun Kite Biological Technology Co., Ltd. (notes 2 & 5)	5,310	2,465
Tongde Equity Investment and Management (Shanghai) Co., Ltd. (notes 5 & 7)	454	402
Shanghai Xingyao Medical Technology Development Co., Ltd. (notes 2 & 5)	325	—
Shanghai Qinmiao Technology Co., Ltd. (notes 1 & 5)	264	—
Healthy Harmony Holdings L.P. and its subsidiaries (notes 1&5&6)	131	—
Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. (notes 1 & 5)	86	126
Shanghai Anbo pharmaceutical Co., Ltd. (notes 5 & 6)	—	281
Shanghai Lonza Fosun Pharmaceutical Science and Technology Development Ltd. (notes 2 & 5)	—	212
	14,465	10,558

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20. RELATED PARTY TRANSACTIONS (Continued)

(d) Loans from/to related parties (Continued)

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
A loan from a related party		
Fosun Group Finance Corporation Limited (<i>notes 8 & 16</i>)	—	300,000

Fosun Industrial Co, Limited ("Fosun Industrial") offered Nature's sunshine (Far East) limited a one-year loan of RMB10,312,000 at a rate of 3%.

Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd. offered Fosun Kite Biological Technology Co., Ltd a five-year loan of RMB117,957,000 at a rate of 10% higher than the benchmark lending rate for the same period.

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Loans to related parties		
Nature's sunshine (Far East) limited (<i>notes 1 & 16</i>)	10,312	10,295
Fosun Kite Biological Technology Co., Ltd. (<i>notes 2 & 16</i>)	117,957	67,562
	128,269	77,857

(e) Interest income from/to related parties

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest income		
Fosun Group Finance Corporation Limited (<i>notes 8 & 16</i>)	1,845	2,836
Fosun Kite Biological Technology Co., Ltd. (<i>notes 2 & 16</i>)	2,002	1,515
Nature's Sunshine (Far East) Limited (<i>notes 1 & 16</i>)	154	—
	4,001	4,351

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20. RELATED PARTY TRANSACTIONS (Continued)

(e) Interest income from/to related parties (Continued)

The interest rate for deposits in Fosun Finance is made reference to the benchmark interest rates on deposits issued by the People's Bank of China ("PBOC"), and is no less than the higher of (i) the interest rate payable to the Group by the domestic commercial banks; and (ii) that to others by Fosun Finance for the deposit service with similar terms and amounts. The loan rate offered to Fosun Kate is 10% above the benchmark interest rate for loans over the same period. The loan rate to Nature's Sunshine (Far East) Limited is 3%.

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest expense		
Fosun Group Finance Corporation Limited (notes 8 & 16)	1,619	5,335

Notes:

- (1) They are associates of the Group.
- (2) They are joint ventures of the Group.
- (3) They are subsidiaries of Fosun International Limited, the ultimate holding company of the Group.
- (4) The sales and purchases were undertaken on commercial terms similar to those offered to/by unrelated customers/suppliers in the ordinary course of business of the relevant companies.
- (5) The fees for the leasing and property management services received from or paid to these related companies were determined based on prices available to third party customers of these related companies.
- (6) They are subsidiaries of associates of the Group.
- (7) They are subsidiaries of joint ventures of the Group.
- (8) Fosun Finance is a subsidiary of Fosun International Limited, the ultimate holding company of the Company.
- (9) They are other related parties of the Group.
- (10) During this period, the Group offered Fosun International Limited and its subsidiaries with other services at market prices. The Fosun International Limited and its subsidiaries include Shanghai Fosun High Tech (Group) Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., Shanghai Fuheng Insurance Brokers Ltd., Zhangxingbao (Shanghai) Network Technology Co. Ltd., Liangfu Credit Investigation Management Co., Ltd., Shanghai Xingchong Business Consulting Co., Ltd., Shanghai Ceyuan Estate Broker Co., Shanghai Zzkur Information Technology Co., Ltd., Shanghai Yunji Information Co., Ltd., Shanghai Xingxin Investment Management Co., Ltd., and Shanghai Pingao Investment Management Co., Ltd.
- (11) During this period, the Group received services from the Fosun International Limited and its subsidiaries at market prices. The Fosun International Limited and its subsidiaries include Beijing Golte Property Management Co., Ltd., Shanghai Golte Property Management Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., Zhejiang Fuyi Cosmetics Co., Ltd., Shanghai New Shihua Investment Management Co., Ltd., and Shanghai Yunji Information Technology Co., Ltd.
- (12) During this period, the Group leased out the office buildings to the Fosun International Limited and its subsidiaries. The Fosun International Limited and its subsidiaries include Shanghai Fosun High Tech (Group) Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., Shanghai Fuheng Insurance Broker Co., Ltd., Shanghai Fosun Venture Capital Management Co., Ltd., Liangfu Credit Investigation Management Co., Ltd., Shanghai Yunji Information Technology Co., Ltd., Shanghai Xingxin Investment Management Co., Ltd., and Shanghai Pingao Investment Management Co., Ltd., and Zhangxingbao (Shanghai) Network Technology Co., Ltd.

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20. RELATED PARTY TRANSACTIONS (Continued)

(e) Interest income from/to related parties (Continued)

Notes: (Continued)

- (13) During this period, the Group leased office buildings from the Fosun International Limited and its subsidiaries. The Fosun International Limited and its subsidiaries include Shanghai New Shihua Investment and Management Co., Ltd., Beijing Golte Property Management Co., Ltd., and Chuangfu Finance Leasing Co., Ltd.
- (14) During this period, the Group received management services from the Fosun International Limited and its subsidiaries. The Fosun International Limited and its subsidiaries is Shanghai Golte Property Management Co., Ltd.
- (15) Sinopharm Group Co., Ltd. is a major subsidiary of Sinapharm Investment, an associate of the Group.
- (16) The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Group confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of these transactions.
- (17) They are under the same ultimate control of the Group.

(f) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Performance related bonuses	25,416	26,501
Salaries, allowances and benefits in kind	12,417	19,123
Restricted A share incentive scheme	—	602
Pension scheme contributions	501	465
	38,334	46,691

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21. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial Assets:				
Equity investments designated at fair value through other comprehensive income	99,258	126,313	99,258	126,313
Debt investments at fair value through other comprehensive income	350,156	—	350,156	—
Financial assets at fair value through profit or loss	2,984,629	3,121,931	2,984,629	3,121,931
	3,434,043	3,248,244	3,434,043	3,248,244
Financial liabilities:				
Non-current portion of interest-bearing bank borrowings	8,851,299	8,630,662	8,831,529	8,836,810
Other borrowings	7,029,881	7,032,625	7,024,532	7,041,981
Other long-term liabilities	2,936,702	2,988,568	2,936,702	3,194,464
	18,817,882	18,651,855	18,792,763	19,073,255

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, debt investments at fair value through other comprehensive income, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for non-current portion of interest-bearing bank and other borrowings as at 30 June 2019 was assessed to be insignificant.

The fair values of listed equity investments without a lock-up period are based on quoted market prices. The fair values of listed equity investments with a lock-up period have been estimated based on assumptions that are supported by observable market prices and discount for lack of marketability. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income or profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments as at 30 June 2019:

Unobservable inputs for Level 3 assets

The financial assets measured at fair value held by the Group which were classified in Level 3 primarily correspond to unlisted equity investments not quoted in an active market.

For the fair value of the unlisted equity investments is based on valuation techniques for which the input that is significant to the fair value measurement is unobservable. For certain unlisted equity investments, the Group adopts quotation from counterparties' quotations or valuation techniques to determine the fair value. Valuation techniques include a discounted cash flow analysis, the market comparison approach, etc. The fair value measurement of these financial instruments may involve unobservable inputs such as price to book ratio, price to earnings ratio, liquidity discount, etc. Fair value change resulting from changes in the unobservable inputs was not significant. The Finance Department periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in Level 3.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Unobservable inputs for Level 3 liabilities

As part of the purchases agreement, contingent consideration included in other long-term liabilities is payable, which is dependent on the share profit of Gland Pharma's enoxaparin product and 50 percent of the milestone payment before 31 December 2019. The amount recognised as at 30 June 2019 was RMB103,120,500 (31 December 2018: RMB102,948,000) which was determined using the discounted cash flow model and is under Level 3 fair value measurement. The consideration is due for final measurement and payment to the shareholders in 2020 and beyond. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

Significant unobservable valuation input for the share redemption option granted to non-controlling shareholders of subsidiaries included in other payables and accruals and other long-term liabilities of RMB2,857,464,000 (31 December 2018: RMB2,810,928,000) is EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) of Breas from April 2018 to March 2019, EBITDA of Gland Pharma during year 2018, and predicted EBITDA of Nova during the year 2019.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	755,750	442,310	1,786,569	2,984,629
Debt investments at fair value through other comprehensive income	—	350,156	—	350,156
Equity investments designated at fair value through other comprehensive income	1,950	44,618	52,690	99,258
	757,700	837,084	1,839,259	3,434,043

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2018 (Audited)

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	864,159	102,479	2,155,293	3,121,931
Equity investments designated at fair value through other comprehensive income	2,157	41,855	82,301	126,313
	866,316	144,334	2,237,594	3,248,244

The movements in fair value measurements in Level 3 during the year are as follows:

	Financial assets at fair value through profit and loss RMB'000	Equity investments Designated at fair value through other comprehensive income RMB'000
As at 31 December 2018	2,155,293	82,301
Total gains recognised in the statement of profit or loss included in other gains	132,603	—
Total losses recognised in other comprehensive income	—	(29,271)
Purchases	116,220	—
Disposal	(226,493)	—
Exchange realignment	3,124	(340)
Transfer to level 2	(384,178)	—
As at 30 June 2019	1,786,569	52,690

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active Markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Amounts included in other payable and accruals	—	—	206,241	206,241
Amounts included in other long-term liabilities	—	—	2,754,343	2,754,343
	—	—	2,960,584	2,960,584

As at 31 December 2018 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active Markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Amounts included in other payable and accruals	—	—	205,896	205,896
Amounts included in other long-term liabilities	—	—	2,707,980	2,707,980
	—	—	2,913,876	2,913,876

The movements in fair value measurements in Level 3 during the Period are as follows:

	Six months ended 30 June 2019 RMB'000 (Unaudited)	Year ended 31 December 2018 RMB'000 (Audited)
Amounts included in other long-term liabilities:		
At 1 January	2,913,876	2,022,919
Total gains recognized in the statement of profit or loss included in other gains	—	(60,407)
Addition	46,708	951,364
	2,960,584	2,913,876

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Assets for which fair values are disclosed:

The Group did not have financial assets for which fair values are disclosed as at 30 June 2019 (31 December 2018: nil).

Liabilities for which fair values are disclosed:

As at 30 June 2019 (Unaudited)

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Non-current portion of interest-bearing bank borrowings	—	8,831,529	—	8,831,529
Other borrowings	4,283,350	2,741,182	—	7,024,532
Amounts included in other long-term liabilities	—	182,358	—	182,358
	4,283,350	11,755,069	—	16,038,419

As at 31 December 2018 (Audited)

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using		Total RMB'000
		Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Non-current portion of interest-bearing bank borrowings	—	8,836,810	—	8,836,810
Other borrowings	4,302,540	2,739,441	—	7,041,981
Amounts included in other long-term liabilities	—	280,588	—	280,588
	4,302,540	11,856,839	—	16,159,379

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 (2018: Nil).

Notes to Interim Condensed Consolidated Financial Statements

30 June 2019

22. CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, the Group did not have any contingent liabilities.

23. EVENTS AFTER THE REPORTING PERIOD

(a) Partial disposal of Healthy Harmony Holdings, L.P. (“HHH”) shares

On 30 July 2019, Fosun Industrial, a subsidiary of the Company, together with other limit partners of HHH, entered in to a transaction agreement with NF Unicorn Acquisition L.P. (“NF”) and its controlling shareholder New Frontier Corporation (“NFC”). On the same day, Fosun Industrial also signed a rollover agreement with NFC. According to the agreements, Fosun Industrial proposed to transfer its all 10,360,842 limited partnership interests in HHH and 4.32 shares in Healthy Harmony GP to NF, with a total amount of US\$523.15 million, of which amounting to US\$429.15 million will be paid in cash by NF, while the remaining US\$94 million will be used to exchange 9.4 million new shares to be issued by NFC. Fosun Industrial will be granted the rights to designated the director to NFC. Fosun Industrial’s equity investment in NFC will be measured at the equity method.

(b) Acquisition of subsidiary

On 25 June 2019, Aohong Pharmaceutical Co., Ltd.* (錦州奧鴻藥業有限責任公司) (“Aohong Pharma”), a subsidiary of the Group, submitted an application to the Shanghai United Assets and Equity Exchange (“SUAEE”), to participate in bidding for the public transfer of 54,752,825 shares of List Pharma (accounting for 75.9085% of the total share capital) held by China Sdic Gaoxin Industrial Investment Co, Ltd.* (中國國投高新產業投資有限公司) (“SDIC GAOXIN”). On the same day, Aohong Pharma signed a share transfer agreement with Chengdu List Investment(group) Co., Ltd.* (力思特投資(集團)有限公司) (“List Group”) and seven natural persons, including Mr. Huang Shaoyuan, proposed to obtain 15,808,417 shares of List Pharma (accounting for 21.9166% of the total share capital) from above transferors with the consideration of RMB156.66 million.

As confirmed by SUAEE, Aohong pharma is qualified as the transferee and is the only competitive buyer. On 5 July 2019, Aohong Pharma signed the property rights transaction contract with SDIC GAOXIN, and Aohong Pharma proposed to receive 54,752,825 shares (accounting for about 75.9085% of the total share capital) of List Pharma held by SDIC GAOXIN at RMB579.63 million. Upon completion of the listing transfer and the agreement transfer, the Group (through its holding subsidiary, Aohong Pharma) will hold a total of 70,561,242 shares of List Pharma, accounting for 97.8251% of the total share capital.

24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 26 August 2019.

Definitions

In this interim report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“A Share(s)”	domestic share(s) of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“A Shareholder(s)”	holder(s) of A Shares
“AGM” or “Annual General Meeting”	the annual general meeting of the Company
“Articles” or “Articles of Association”	the articles of association of the Company
“associates”	has the meaning given to it under the Hong Kong Listing Rules
“Aohong Pharmaceutical”	Jinzhou Aohong Pharmaceutical Company Limited* (錦州奧鴻藥業有限責任公司), a subsidiary of the Company
“Australia”	Commonwealth of Australia
“Board” or “Board of Directors”	the board of Directors
“Breas”	Breas Medical Holdings AB (originally named as Goldcup 14112AB), a company registered in Sweden, and a subsidiary of the Company
“CAPA”	Corrective Action & Preventive Action
“CG Code”	the Corporate Governance Code and the Corporate Governance Report contained in Appendix 14 to the Hong Kong Listing Rules
“cGMP”	Current Good Manufacture Practices
“Chancheng Hospital”	Foshan Chancheng Central Hospital Company Limited* (佛山市禪城區中心醫院有限公司), a for-profit medical institution established with the approval by the Population, Health and Drug Administration of Chancheng District, Foshan (佛山市禪城區人口和衛生藥品監督管理局), a subsidiary of the Company
“Company” or “Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares and A Shares of which are listed and traded on the Main Board of the Hong Kong Stock Exchange and Shanghai Stock Exchange, respectively
“connected person(s)”	has the meaning given to it under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning given to it under the Hong Kong Listing Rules and in the context of our Company, means Messrs. Guo Guangchang, Wang Qunbin, Fosun International Holdings, Fosun Holdings, Fosun International and Fosun High Tech
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities market
“Director(s)”	director(s) of the Company
“Denuo Dental”	Beijing Qianda Denuo Dental Clinic Co., Ltd.* (北京謙達德喏口腔門診部有限公司)

“EBITDA”	earnings before interest, taxes, depreciation and amortisation
“EU”	European Union
“Fosun High Tech”	Shanghai Fosun High Technology (Group) Company Limited* (上海復星高科技(集團)有限公司), a direct wholly-owned subsidiary of Fosun International and a Controlling Shareholder of the Company. Fosun High Tech is a connected person under Rule 14A.07(1) of the Hong Kong Listing Rules
“Fosun Holdings”	Fosun Holdings Limited (復星控股有限公司), a direct wholly-owned subsidiary of Fosun International Holdings and a Controlling Shareholder of the Company
“Fosun International”	Fosun International Limited (復星國際有限公司), an indirect subsidiary of Fosun International Holdings and a Controlling Shareholder of the Company, which is listed on the Hong Kong Stock Exchange (Stock Code: 0656)
“Fosun International Holdings”	Fosun International Holdings Limited (復星國際控股有限公司), which is held as to 85.29% and 14.71% by Messrs. Guo Guangchang and Wang Qunbin, respectively, and a Controlling Shareholder of the Company
“Fosun Kite”	Fosun Kite Biological Technology Co., Ltd.* (復星凱特生物科技有限公司), a joint venture of the Company
“Fosun Lead”	Fosun Lead (Shanghai) Healthcare Technology Co., Ltd.* (復星領智(上海)醫藥科技有限公司), a subsidiary of the Company
“Fosun Orinove”	Fosun Orinove Pharma Tech Inc.* (復星弘創(蘇州)醫藥科技有限公司), a subsidiary of the Company
“Fosun Pharmaceutical Industrial”	Shanghai Fosun Pharmaceutical Industrial Development Company Limited* (上海復星醫藥產業發展有限公司), a subsidiary of the Company
“Gland Pharma”	Gland Pharma Limited, a company registered in India and a subsidiary of the Company
“Gland Pharma Share Option Incentive Scheme”	the share option incentive scheme adopted by Gland Pharma, which was approved by the Shareholders at the Annual General Meeting held on 25 June 2019 and the shareholders of Fosun International at its annual general meeting held on 5 June 2019
“GMP”	Good Manufacturing Practices
“Group”, “we” or “us”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the Controlling Shareholder of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
“Guangji Hospital”	Yueyang Guangji Hospital Company Limited* (岳陽廣濟醫院有限公司), a subsidiary of the Company
“Guilin Pharma”	Guilin South Pharma Company Limited* (桂林南藥股份有限公司), a subsidiary of the Company
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.0 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars

Definitions

“H Shareholder(s)”	holder(s) of H Shares
“Hainan Peng Kang”	Hainan Peng Kang Pharmaceutical Co., Ltd.* (海南鵬康藥業有限公司)
“Health Canada”	Health Canada
“Hengsheng Hospital”	Shenzhen Hengsheng Hospital* (深圳恒生醫院), a subsidiary of the Company
“HKFRS”	the Hong Kong Financial Reporting Standards
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars”, “HK dollars” or “HK\$”	The lawful currency of Hong Kong
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huai’an Xinghuai Hospital”	Huai’an Xinghuai International Hospital Co., Ltd.* (淮安興淮國際醫院有限公司)
“independent third part(ies)”	a person or persons or a company or companies that is not or are not connected person(s) of the Company
“Intuitive Fosun”	Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd* (直觀復星醫療器械技術(上海)有限公司), an associate of the Company
“INR”	Rupees, the lawful currency of India
“Jimin Hospital”	Anhui Jimin Cancer Hospital* (安徽濟民腫瘤醫院), a private non-enterprise unit (民辦非企業單位) established in the PRC, a subsidiary of the Company
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Nanjing Junxing”	Nanjing Junxing Medical Service Co., Ltd.* (南京君星醫療服務有限公司)
“NMPA”	National Medical Products Administration* (中華人民共和國國家藥品監督管理局), the PRC governmental authority responsible for the regulation of drugs
“OOS”	Out of Specification
“PCT”	Patent Cooperation Treaty
“Philippines”	The Republic of the Philippines
“Poland”	The Republic of Poland
“PRC” or “China”	the People’s Republic of China, include the Hong Kong and Macau Special Administrative Region of the PRC and Taiwan region

“Qiguang Investment”	Shanghai Qiguang Investment Management Co., Ltd.* (上海齊廣投資管理有限公司)
“R&D”	research and development
“Reporting Period”	the 6-month period from 1 January 2019 to 30 June 2019
“Restricted A Share(s)”	the Restricted A Shares granted under the Restricted A Share Incentive Scheme
“Restricted A Share Incentive Scheme II”	the Restricted A Share Incentive Scheme II of the Company, as approved by the Shareholders on 16 November 2015
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Shandong Yixing”	Shandong Yixing Nursing Service Co., Ltd.* (山東頤星護理服務有限公司)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Henlius”	Shanghai Henlius Biotech Company Limited* (上海復宏漢霖生物技術股份有限公司), a subsidiary of the Company
“Shanghai Listing Rules”	the Stock Listing Rules of the Shanghai Stock Exchange* (《上海證券交易所股票上市規則》)
“Shanghai Stock Exchange”	the Shanghai Stock Exchange* (上海證券交易所)
“Shareholders”	holders of the Shares
“Shares”	ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Sinopharm”	Sinopharm Group Co. Ltd. * (國藥控股股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 01099)
“Sisram Medical”	Sisram Medical Ltd, a company listed on the Hong Kong Stock Exchange (Stock code: 01696) and a subsidiary of the Company
“Substantial Shareholder(s)”	has the meaning given to it under the Hong Kong Listing Rules
“Supervisors”	the members of the Supervisory Committee
“Supervisory Committee”	the Supervisory Committee of the Company
“Taizhou Zhedong Hospital”	Taizhou Zhedong Hospital Company Limited* (台州浙東醫院有限公司), a subsidiary of the Company
“Tianjin Qianda”	Qianda (Tianjin) International Trade Co., Ltd.* (謙達(天津)國際貿易有限公司)
“U.K.”	United Kingdom of Great Britain and Northern Ireland

Definitions

"U.S." or "United States"	United States of America, its territories and possessions, any State of the United States and the District of Columbia
"US dollars", "USD" or "US\$"	The lawful currency of the United States
"Ukraine"	Ukraine
"U.S. FDA"	U.S. Food and Drug Administration
"Wanbang Pharma"	Jiangsu Wanbang Biopharmaceutical Company Limited* (江蘇萬邦生化醫藥集團有限責任公司), a subsidiary of the Company
"Wenzhou Geriatric Hospital"	Wenzhou Geriatric Hospital Limited Company* (溫州老年病醫院有限公司), a subsidiary of the Company
"WHO"	World Health Organization
"Wuhan Jihe Hospital"	Wuhan Jihe Hospital Co., Ltd.* (武漢濟和醫院有限公司)
"Written Code"	Written Code for Securities Transactions by Directors/Relevant Employees of the Company* (《董事／有關僱員進行證券交易的書面指引》)
"Yao Pharma"	Chongqing Yao Pharmaceutical Company Limited* (重慶藥友製藥有限責任公司), a subsidiary of the Company
"Yulin Guanghai"	Yulin Guanghai Medical Investment Management Co., Ltd.* (玉林廣海醫療投資管理有限公司)
"Zhongwu Hospital"	Suqian Zhongwu Hospital Co., Ltd.* (宿遷市鐘吾醫院有限責任公司), a subsidiary of the Company
"Zhuhai Chancheng"	Zhuhai Yannian Hospital Company Limited* (珠海延年醫院有限公司), now renamed as Zhuhai Chancheng Hospital Limited* (珠海禪誠醫院有限公司), a subsidiary of the Company
"%"	per cent

In this report, if there is any inconsistency between the Chinese names of the entities, authorities, organisations, institutions or enterprises established in China or the awards or certificates given in China and their English translations, the Chinese version shall prevail.