# Sinco Pharmaceuticals Holdings Limited
# 兴科蓉医药控股有限公司

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock Code: 6833)**

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

### FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 6.7% or RMB38.5 million to RMB535.4 million for the Reporting Period (for the six months ended 30 June 2018: RMB573.9 million), among which revenue from sales of Human Albumin Solution increased by approximately RMB43.3 million, and revenue from sales of antibiotics and other products decreased by approximately RMB35.5 million and RMB46.3 million respectively.

- Gross profit of the Group decreased by RMB24.0 million to RMB90.9 million for the Reporting Period (for the six months ended 30 June 2018: RMB114.9 million), which gross profit margin decreased from 20.0% to 17.0%. The decrease of the gross profit was mainly resulted from the decrease of sales of the antibiotics and other products.

- During the Reporting Period, the Group recorded net profit of RMB15.2 million (for the six months ended 30 June 2018 net loss: RMB48.7 million), mainly due to the decrease of the selling and distribution expense, administrative expenses and finance cost, etc. as compared with the corresponding period of 2018.

- During the Reporting Period, net profit attributable to owners of the Company amounted to RMB15.2 million (for the six months ended June 2018 net loss: RMB48.7 million), representing an increase in net profit by RMB63.9 million.

- Basic earnings per share amounted to RMB0.009 for the Reporting Period (basic loss per share for the six months ended 30 June 2018: RMB0.029).

- The Board resolved not to declare any interim dividend for the Reporting Period (for the six months ended 30 June 2018: Nil).

**RESULTS**

The board (the "**Board**") of directors (the "**Directors**") of Sinco Pharmaceuticals Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2018 as follows:

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

*For the six months ended 30 June 2019*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | | *(Note)* |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (unaudited) |
| **REVENUE** | *3* | **535,441** | 573,894 |
| Cost of sales | | **(444,514)** | (459,015) |
| Gross profit | | **90,927** | 114,879 |
| Other income and gains | *4* | **13,297** | 2,920 |
| Selling and distribution expenses | | **(44,469)** | (118,301) |
| Administrative expenses | | **(21,008)** | (27,190) |
| Impairment losses on trade receivables | | **(5,624)** | – |
| Other expenses | | **(1,120)** | (6,357) |
| Finance costs | *5* | **(10,213)** | (20,675) |
| Fair value gains on financial assets at fair value through profit or loss classified as held for trading | | **–** | 3,351 |
| **PROFIT/(LOSS) BEFORE TAX** | *6* | **21,790** | (51,373) |
| Income tax (expense)/credit | *7* | **(6,584)** | 2,636 |
| **PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | | **15,206** | (48,737) |

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | | *(Note)* |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (unaudited) |
| Attributable to: | | | |
| Equity shareholders of the Company | | **15,207** | (48,736) |
| Non-controlling interests | | **(1)** | (1) |
| | | **15,206** | (48,737) |
| Earnings/(loss) per share | *8* | **RMB** | RMB |
| – Basic | | **0.009** | (0.029) |
| – Diluted | | **0.009** | (0.029) |

*Note:* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.2.

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

| | Notes | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *(Note)* *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment property | *9* | **7,218** | – |
| Other property, plant and equipment | *9* | **171,416** | 181,809 |
| Intangible assets | | **57** | 113 |
| Payments in advance | | **39,085** | 39,455 |
| Goodwill | | **–** | – |
| Deposit | | **3,000** | 3,000 |
| Deferred tax assets | | **2,712** | 1,300 |
| **Total non-current assets** | | **223,488** | 225,677 |
| **CURRENT ASSETS** | | | |
| Inventories | | **14,034** | 214,806 |
| Trade and bills receivables | *10* | **59,581** | 26,177 |
| Prepayments, other receivables and other assets | | **44,450** | 64,759 |
| Pledged bank balances | *11* | **7,891** | 13 |
| Cash and cash equivalents | *11* | **31,503** | 80,330 |
| **Total current assets** | | **157,459** | 386,085 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *12* | **81,793** | 106,901 |
| Contract liabilities | | **87,912** | 129,670 |
| Other payables and accruals | | **26,005** | 205,525 |
| Interest-bearing bank and other borrowings | | **140,000** | 145,000 |
| Lease liabilities | | **959** | – |
| Tax payable | | **6,006** | 1,943 |
| **Total current liabilities** | | **342,675** | 589,039 |

| | Notes | 30 June 2019 RMB'000 (unaudited) | 31 December 2018 (Note) RMB'000 |
|---|---|---|---|
| **NET CURRENT LIABILITIES** | | **(185,216)** | (202,954) |
| **Total assets less current liabilities** | | **38,272** | 22,723 |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | | **393** | – |
| **Net assets** | | **37,879** | 22,723 |
| **EQUITY** | | | |
| **Equity attributable to equity shareholders of the Company** | | | |
| Issued capital | | **136** | 136 |
| Reserves | | **38,650** | 23,493 |
| | | **38,786** | 23,629 |
| **Non-controlling interests** | | **(907)** | (906) |
| **Total equity** | | **37,879** | 22,723 |

*Note:* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.2.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2019*

## 1. CORPORATE AND GROUP INFORMATION

Sinco Pharmaceuticals Holdings Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands on 16 March 2015. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal place of business in Hong Kong is Unit 3105, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong with effect from 29 January 2019.

During the six months ended 30 June 2019 (the "**Period**"), the Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in marketing, promotion and channel management services for improved human plasma-based pharmaceuticals, antibiotics and other pharmaceuticals focused on therapeutic areas and complementary to human plasma-based products and other fast-growing categories in Mainland China. There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of directors of the Company (the "**Directors**"), Risun Investments Limited ("**Risun**"), a company incorporated in the British Virgin Islands ("**BVI**"), is the parent and the ultimate holding company of the Company.

## 2.1 BASIS OF PREPARATION

The unaudited interim condensed financial information for the Period has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting" issued by International Accounting Standards Board. It was authorised for issue on 30 August 2019.

The interim condensed financial information has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for investment property and rental income from operating leases listed below and the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.2.

The preparation of an interim condensed financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim condensed financial information contains condensed consolidated financial statements and certain selected explanatory notes. These notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by Crowe (HK) CPA Limited in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. The extract of independent review report to the Board of Directors is included on page 42.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

**Going concern basis**

As at 30 June 2019, the Group had net current liabilities of RMB185,216,000. (31 December 2018: RMB202,954,000).

In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(a) As at 30 June 2019, the Group had unused bank facilities in aggregation of RMB4.9 million;

(b) The Group has budgeted and laid out its business plan for the next twelve months, and seeks to attain profits and generate net cash inflows from the operating activities during the next twelve months with the efforts of actively further improving its sales model under the new policies for stabilising its business development. The Group will continuously promote presence in the downstream of marketing network channels and extend it to the end market by establishing multi-mode cooperation with hospitals and pharmacies; and

(c) The Group have obtained financial support from substantial shareholder of the Group.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the Period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the interim condensed financial information of the Group for the six months ended 30 June 2019 on a going concern basis.

Should the going concern assumption for whatever reason or as a result of changing circumstances, becomes inappropriate, necessary accounting adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the interim condensed financial information.

The Group has actively implemented, or is actively implementing, all the improvement targets outlined above for the purposes of increasing profits and improving the cash flow position of the Group, in order to remove material uncertainties relating to the going concern of the Group for the next twelve months.

**Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Such properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the straight-line basis over the estimated useful lives of 34-60 years.

Any gains of losses from the retirement or disposal of an investment property are recognised in the profit of loss. Rental income from investment properties is accounted for as described below.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its carrying amount at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use.

**Rental income from operating leases**

Rental income receivable under operating leases is recognised in profit of loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit of loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

## 2.2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim condensed financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**IFRS 16, Leases**

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

**(a) Changes in the accounting policies**

***(i) New definition of a lease***

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

### *(ii) Lessee accounting*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 14(b).

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of use asset has been reduced to zero.

*(iii)* ***Leasehold investment property***

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("**leasehold investment properties**"). The adoption of IFRS 16 does not have a significant impact on the Group's financial statements.

*(iv)* ***Lessor accounting***

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

**(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies**

*(i)* ***Classification of interest in leasehold land and buildings held for own use***

In accordance with IAS 16, *Property, plant and equipment*, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies.

*(ii)* ***Determining the lease term***

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

**(c) Transitional impact**

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.66%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 14 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | **1 January 2019**<br>***RMB'000***<br>(unaudited) |
|---|---|
| Operating lease commitments at 31 December 2018 | **2,218** |
| Less: commitments relating to leases exempt from capitalisation: | |
| – short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | **(353)** |
| Less: total future interest expenses | **(48)** |
| Total lease liabilities recognised at 1 January 2019 | **1,817** |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

| | **Carrying amount at 31 December 2018** | **Capitalisation of operating lease contracts** | **Carrying amount at 1 January 2019** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| | | (unaudited) | (unaudited) |
| Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16: | | | |
| Other property, plant and equipment | **181,809** | **1,817** | **183,626** |
| **Total non-current assets** | **225,677** | **1,817** | **227,494** |
| Lease liabilities (current) | **–** | **(959)** | **(959)** |
| **Current liabilities** | **(589,039)** | **(959)** | **(589,998)** |
| **Net current liabilities** | **(202,954)** | **(959)** | **(203,913)** |
| **Total assets less current liabilities** | **22,723** | **858** | **23,581** |
| Lease liabilities (non-current) | **–** | **(858)** | **(858)** |
| **Total non-current liabilities** | **–** | **(858)** | **(858)** |
| **Net assets** | **22,723** | **–** | **22,723** |

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

| | **At 30 June 2019** | At 1 January 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Included in "Other property, plant and equipment": | | |
| Other properties leased for own use, carried at depreciated cost | **1,343** | 1,817 |

**(d) Lease liabilities**

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

| | **At 30 June 2019** | | At 1 January 2019 | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments** *RMB'000* (unaudited) | **Total minimum lease payments** *RMB'000* (unaudited) | Present value of the minimum lease payments *RMB'000* (unaudited) | Total minimum lease payments *RMB'000* (unaudited) |
| Within 1 year | **959** | **973** | 959 | 973 |
| After 1 year but within 2 years | **393** | **405** | 858 | 892 |
| | **1,352** | **1,378** | 1,817 | 1,865 |
| Less: total future interest expenses | | **(26)** | | (48) |
| Present value of lease liabilities | | **1,352** | | 1,817 |

**(e) Impact on the financial result, segment results and cash flows of the Group**

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial information to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | **Amounts reported under IFRS 16 (A)** | **Add back: IFRS 16 depreciation and interest expense (B)** | **Deduct: Estimated amounts related to operating leases as if under IAS 17 (note 1) (C)** | **Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)** | Compared to amounts reported for 2018 under IAS 17 |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | *RMB'000* |
| Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16: | | | | | |
| Administrative expense | **(21,008)** | **474** | **–** | **(20,534)** | (27,190) |
| Finance costs | **(10,213)** | **22** | **–** | **(10,191)** | (20,675) |
| Profit/(loss) before tax | **21,790** | **496** | **(487)** | **21,799** | (51,373) |
| Profit/(loss) for the period | **15,206** | **496** | **(487)** | **15,215** | (48,737) |

| | 2019 | | | 2018 |
|---|---|---|---|---|
| | **Amounts reported under IFRS 16 (A)** | **Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B)** | **Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)** | Compared to amounts reported under IAS 17 |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | *RMB'000* |
| Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16: | | | | |
| Cash generated from operations | **122,953** | **(487)** | **122,466** | 95,070 |
| Net cash generated from operating activities | **119,103** | **(487)** | **118,616** | 93,651 |
| Capital element of lease rentals paid | **(465)** | **465** | **–** | – |
| Interest element of lease rentals paid | **(22)** | **22** | **–** | – |
| Net cash used in financing activities | **(167,804)** | **487** | **(167,317)** | (88,285) |

*Note 1:* The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

*Note 2:* In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

## 3. REVENUE AND SEGMENT REPORTING

The Group's revenue and contribution to consolidated results are mainly derived from its sales of human albumin solution, antibiotics and other pharmaceutical products focused on therapeutic areas and complementary to human plasma-based products and other fast-growing categories in Mainland China, which is regarded as a single operating and reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment. In addition, the principal non-current assets employed by the Group are located in Mainland China. Accordingly, no segment analysis is presented other than entity-wide disclosures.

**An analysis of revenue is as follows:**

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Revenue from contracts with customers within the scope of IFRS 15 | | |
| Sale of goods | **535,441** | 573,894 |

**Revenue from contracts with customers**

***(i) Disaggregated revenue information***

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Type of goods** | | |
| Human albumin solution | **361,505** | 318,194 |
| Antibiotics (Axetine, Medocef and Trifamox IBL) | **171,869** | 207,339 |
| Sale of other goods (Taurolite, Esafosfina, Diphereline, and Tanakan) | **2,067** | 48,361 |
| Total revenue from contracts with customers | **535,441** | 573,894 |

*Geographical markets*

All revenue from contracts with customers of the Group for the six months ended 30 June 2019 and 2018 was attributable to customers located in Mainland China, the place of domicile of the Group's principal operating entities. The Group's non-current assets are substantially located in Mainland China.

*Timing of revenue recognition*

All revenue from contracts with customers of the Group for the six months ended 30 June 2019 and 2018 are recognised when goods transferred at a point in time.

*Information about major customers*

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Customer A | **104,933** | – |
| Customer B | **59,869** | N/A* |
| Customer C | **N/A*** | 90,161 |
| Customer D | **–** | 86,840 |

* Less than 10% of the total revenue

***(ii) Performance obligations***

Information about the Group's performance obligations is summarised below:

*Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 45 days to 1 year from delivery, except for new and small customers, where payment in advance is normally required.

## 4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Bank interest income | **83** | 428 |
| Government grants* | **691** | – |
| Service income | **12,492** | – |
| Foreign exchange gains, net | **–** | 2,461 |
| Others | **31** | 31 |
| | **13,297** | 2,920 |

* There were no unfulfilled conditions or contingencies relating to the government grants.

## 5. FINANCE COSTS

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | | *(Note)* |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on bank and other borrowings | **10,058** | 13,539 |
| Interest on discounted bills receivable | **133** | 934 |
| Interest on lease liability | **22** | – |
| Interest on bonds | **–** | 6,202 |
| | **10,213** | 20,675 |

*Note:* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.2.

## 6. PROFIT/(LOSS) BEFORE TAX

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

| | Notes | For the six months ended 30 June 2019 RMB'000 (Unaudited) | 2018 (Note) RMB'000 (Unaudited) |
|---|---|---|---|
| Cost of inventories sold | | **444,514** | 459,015 |
| Employee benefit expense (including Directors' remuneration): | | | |
| Wages and salaries | | **4,618** | 4,749 |
| Welfare and other benefits | | **148** | 212 |
| Equity-settled share option expenses | *13* | **(50)** | 268 |
| Pension scheme contributions | | | |
| – Defined contribution fund | | **713** | 588 |
| Housing fund | | | |
| – Defined contribution fund | | **242** | 236 |
| Total employee benefit expense | | **5,671** | 6,053 |
| Depreciation of investment property | *9* | **29** | – |
| Depreciation of items of other property, plant and equipment | *9* | | |
| – owned property, plant and equipment | | **4,679** | 5,264 |
| – right-of-use assets | | **474** | – |
| Amortisation of intangible assets | | **56** | 55 |
| Write-down of inventories to net realisable value* | | **–** | 4,275 |
| Write-off of inventories* | | **–** | 971 |
| Research expenses | | **387** | 677 |
| Impairment losses recognised on trade receivables | | **5,624** | – |
| Minimum lease payments under operating leases | | **–** | 759 |
| Short term lease payments | | **124** | – |
| Foreign exchange losses/(gains), net | | **618** | (2,461) |
| Fair value gains on financial assets at fair value through profit or loss | | **–** | (3,351) |

*Note:* The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.2.

* Included in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

## 7. INCOME TAX (EXPENSE)/CREDIT

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current tax: | | |
| Corporate income tax in Mainland China ("**PRC CIT**") for the period | **(7,445)** | (728) |
| Hong Kong Profits Tax for the period | **(551)** | – |
| Deferred tax | **1,412** | 3,364 |
| Total tax (expense)/credit for the period | **(6,584)** | 2,636 |

*Notes:*

(a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(b) The provision for Hong Kong Profit Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

For the six months ended 30 June 2018, no provision for Hong Kong Profits Tax had been made as the Group had no assessable profits derived from or earned in Hong Kong during the period.

(c) The provision for PRC CIT is based on the respective PRC CIT rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of Mainland Chine for the period. All the PRC subsidiaries were subject to PRC CIT at a rate of 25% during the six months ended 30 June 2019 and 2018.

## 8. EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company for the Period of RMB15,207,000 (six months ended 30 June 2018: loss of RMB48,736,000), and the weighted average number of 1,691,890,585 ordinary shares (for the six months ended 30 June 2018: 1,685,113,075 ordinary shares) in issue during the Period.

### (b) Diluted earnings/(loss) per share

For the six months ended 30 June 2019, diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise price of the options was higher than the average market price per share.

For the six months ended 30 June 2018, diluted loss per share was the same as the basic loss per share as the potential ordinary shares outstanding had an anti-dilutive effort on the basic loss per share.

## 9. INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

Movements in investment property and other property, plant and equipment during the period are as follows:

| | Investment property *RMB'000* (Unaudited) | Other property, plant and equipment *RMB'000* (Unaudited) |
|---|---|---|
| Carrying amount at 1 January 2019 | **–** | **181,809** |
| Impact on initial application of IFRS 16 | **–** | **1,817** |
| Additions | **–** | **101** |
| Construction expenditure capitalised | **–** | **89** |
| Transfer to investment property | **–** | **(7,247)** |
| Transfer from other property, plant and equipment | **7,247** | **–** |
| Depreciation *(note 6)* | **(29)** | **(5,153)** |
| Carrying amount at 30 June 2019 | **7,218** | **171,416** |

As of 30 June 2019, the Group's buildings with net carrying amounts of approximately RMB83,421,000 (31 December 2018: RMB84,472,000), were erected on the land where the Group is still in the process of applying for the land use rights certificate. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as of 30 June 2019.

The Group's investment property and land included in other property, plant and equipment are situated in Mainland China and held under medium lease terms.

**Right-of-use assets**

As discussed in note 2.2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the carrying amount of the Group's right-of-use assets by class of underlying asset are set out in note 2.2.

## 10. TRADE AND BILLS RECEIVABLES

| | *Notes* | **At 30 June 2019** ***RMB'000*** **(Unaudited)** | At 31 December 2018 *RMB'000* |
|---|---|---|---|
| Trade receivables | *(a)* | **66,320** | 23,921 |
| Impairment | | **(6,739)** | (1,115) |
| Trade receivables, net of impairment | | **59,581** | 22,806 |
| Bills receivable | *(b)* | **–** | 3,371 |
| | | **59,581** | 26,177 |

(a) The Group granted credit terms ranging from 45 days to one year to majority customers after the delivery of goods, except for small and new customers which make payments in advance prior to the delivery of goods. The Group seeks to maintain strict control over the settlements of its outstanding receivables and has a credit control department to minimise credit risk. Trade receivables are non-interest-bearing and unsecured.

An ageing analysis of the trade receivables as at the end of the reporting period based on the invoice date is as follow:

| | **At 30 June 2019** *RMB'000* **(Unaudited)** | At 31 December 2018 *RMB'000* |
|---|---|---|
| Within 3 months | **40,847** | 20,684 |
| 3 to 12 months | **24,919** | 2,755 |
| Over 1 year | **554** | 482 |
| Trade receivables | **66,320** | 23,921 |

(b) An ageing analysis of the bills receivables as at the end of the reporting period based on the bills issue date is as follow:

| | **At 30 June 2019** *RMB'000* **(Unaudited)** | At 31 December 2018 *RMB'000* |
|---|---|---|
| Within 3 months | **–** | 3,371 |
| Bills receivable | **–** | 3,371 |

## 11. PLEDGED BANK BALANCES AND CASH AND CASH EQUIVALENTS

| | **At 30 June 2019** *RMB'000* **(Unaudited)** | At 31 December 2018 *RMB'000* |
|---|---|---|
| Deposits with banks | **31,429** | 80,227 |
| Cash at bank and in hand | **74** | 103 |
| Cash and cash equivalents in the statement of financial position | **31,503** | 80,330 |
| Pledged bank balances | **7,891** | 13 |
| | **39,394** | 80,343 |
| Less: Pledged bank deposits with original maturity of more than three months when acquired | **(7,891)** | – |
| Cash and cash equivalents in the cash flow statement | **31,503** | 80,343 |

## 12. TRADE PAYABLES

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

| | **At 30 June 2019** | At 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | |
| Within 3 months | **23,791** | 106,241 |
| 3 to 12 months | **58,002** | 660 |
| | **81,793** | 106,901 |

Trade payables of the Group are non-interest-bearing and are normally settled within 90 days.

## 13. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the development of the Group. Eligible participants of the Share Option Scheme are employees (whether full time or part time) of the Company, its subsidiaries or any entity in which the Group holds any equity interest (the "**Invested Entity**"), including Directors (including independent non-executive directors) and senior management of the Company, its subsidiaries and any Invested Entity. The Share Option Scheme was approved by the Company's shareholders on 1 February 2016 and became effective upon the listing of the shares of the Company and, unless otherwise cancelled or amended, will remain in force for 10 years from 1 February 2016.

The number and weighted average exercise price of share options during the Period are as follows:

| | *Notes* | **Weighted average exercise price** | **Number of options** |
|---|---|---|---|
| | | ***HK$ per share*** | ***'000*** |
| | | **(Unaudited)** | **(Unaudited)** |
| Outstanding at 1 January 2019 | *(i)* | **0.568** | **16,850** |
| Forfeited during the Period | *(ii)* | **0.568** | **(1,200)** |
| Outstanding at 30 June 2019 | | **0.568** | **15,650** |

*Notes:*

(i) The share options outstanding as at 1 January 2019 represented 16,850,000 share options granted by the Company on 21 September 2016 at an exercise price of HK$0.568 per share to certain eligible participants in respect of their contributions to the Group's development under the Share Option Scheme.

(ii) The share options granted to certain eligible participants under the Share Option Scheme were forfeited following their resignations during the Period.

The exercise prices and exercisable periods of the share options outstanding as of 30 June 2019 and 31 December 2018 are as follows:

| **30 June 2019** | | |
|---|---|---|
| **Number of options** *'000* | **Exercise price per share** *HK$* | Exercisable period |
| **6,260** | **0.568** | From 21 September 2017 to 20 September 2022 |
| **4,695** | **0.568** | From 21 September 2018 to 20 September 2022 |
| **4,695** | **0.568** | From 21 September 2019 to 20 September 2022 |
| **15,650** | | |

| 31 December 2018 | | |
|---|---|---|
| Number of options *'000* | Exercise price per share *HK$* | Exercisable period |
| 6,740 | 0.568 | From 21 September 2017 to 20 September 2022 |
| 5,055 | 0.568 | From 21 September 2018 to 20 September 2022 |
| 5,055 | 0.568 | From 21 September 2019 to 20 September 2022 |
| 16,850 | | |

## 14. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim condensed financial information:

| | **At 30 June 2019** *RMB'000* **(Unaudited)** | At 31 December 2018 *RMB'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| – Construction of a warehouse | **83,719** | 83,719 |

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | Properties *RMB'000* |
|---|---|
| Within 1 year | 1,466 |
| After 1 year but within 5 years | 752 |
| | 2,218 |

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.2.

## 15. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the Period, the Group had the following material transactions with related parties:

| | **At 30 June 2019** | At 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | |
| Guaranteed by Mr. Huang Xiangbin, a controlling shareholder and a key management personnel of the Group: | | |
| Interest-bearing other borrowings | **140,000** | 140,000 |
| Interest payable included in other payables and accruals | **13,865** | 12,759 |
| Secured by Risun's shares over the Company | | |
| Interest-bearing other borrowings | **140,000** | 140,000 |
| Interest payable included in other payables and accruals | **13,865** | 12,759 |

(b) Compensation of key management personnel of the Group:

| | **For the six months ended 30 June 2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Salaries, allowances and benefits in kind | **1,039** | 780 |
| Pension scheme contributions | **29** | 15 |
| | **1,068** | 795 |

## 16. DIVIDENDS

At a meeting of the Directors held on 30 August 2019, the Directors of the Company resolved not to declare or pay any interim dividends for the Period to equity shareholders of the Company (for the six months ended 30 June 2018: Nil).

## 17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### (a) Financial assets and liabilities measured at fair value

#### *(i) Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

| | | **Fair value measurements as at 30 June 2019 categorised into** | | |
|---|---|---|---|---|
| | **Fair value at 30 June 2019** | **Level 1** | **Level 2** | **Level 3** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| Recurring fair value measurement | | | | |
| Financial assets: | | | | |
| Bills receivable | – | – | – | – |

| | | Fair value measurements as at 31 December 2018 categorised into | | |
|---|---|---|---|---|
| | Fair value at 31 December 2018 | Level 1 | Level 2 | Level 3 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Recurring fair value measurement | | | | |
| Financial assets: | | | | |
| Bills receivable | 3,371 | 3,371 | – | – |

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2019 and at 31 December 2018.

## 18. COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.2.

## 19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the Board on 30 August 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The pharmaceutical industry continued to develop under the constant impact of government policies with a number of 2018 policies being fully implemented during the first half of 2019. The Company further improved its sales and marketing system in an attempt to reach a bigger share of terminal market. Looking back at the first half year, with the cooperation of sub-distributors and promoters, not only was the Group's distribution network able to cover top hospitals in large urban centers, we also managed to access end market of prefecture-level cities and tier 2 and tier 3 cities. An independent marketing system enables the Group to better adapt to the policy change, and to become more flexible to market volatility.

The core product distributed by the Company belongs to the category of plasma-derived product which tends to show significant cyclical changes. The first half of 2019 showed the completion of de-stocking and a slowdown of human albumin supply from major fractionators, both domestic and foreign, leading to a stabilized selling price of albumin product and an obvious market recovery. During the Reporting Period, a total volume of 22.7 million vials of human albumin has been released to the market, representing a 19.5% decrease as compared with the corresponding period of 2018. We estimate that human albumin supply will have a significant surge in the second half of 2019.

Throughout the Reporting Period, revenue of human albumin solution amounted to RMB361.5 million, representing an increase of approximately 13.6% or RMB43.3 million as compared with the corresponding period of 2018. Such increase in turnover is primarily due to the Group obtained the sole distribution right of the human albumin produced by supplier's Stockholm and Germany factories in the China market from 2019, while in the last year the sole distribution right was only to 24 provinces in China. Based on the scheduled increase in supply volume by supplier in the second half of 2019, the supply and the revenue of human albumin are expected to increase continuously.

With the completion of restructuring the Group's business model and enhancing its independent sales network, the Company managed to gradually reduce the cost of channel development and sales expense. This increased the profitability of the Group's products and enabled the Group to turnaround to profit in the first half of 2019. For the Reporting Period, the Group recorded a net profit of approximately RMB15.2 million. The successful transformation of the business system and the profitability in the first half of 2019 laid a good foundation for the Company's performance in the second half of 2019. The Group believed that the business of the Company in 2019 will be back on track.

## 1. Core products

***Human Albumin Solution***

Dating back to the 20th Century and the early 1940s, blood products have undergone decades of fast development. Such products have grown from Human Albumin at the very beginning to over 20 categories in three series currently, encompassing such sub-categories as Human Albumin, immune globulin and blood coagulation factors. Given the approval granted to new indications and an improved rate of diagnosis, the Plasma Protein Therapeutics Association (PPTA) predicts that the market demand for blood products will retain a high-speed growth globally. As the largest sales category in the market of blood products in the PRC, Human Albumin is the only blood product allowed to be imported at present. In the first half of 2019, the Human Albumin batch release amounted to 22.68 million bottles (the first half of 2018: 28.15 million bottles), among which the percentages of imported and domestic categories were 57.1% and 42.9% respectively. Manufactured by Octapharma, a global leading manufacturer of blood products, and included as a Category B product in the National Reimbursement Drug List (NRDL), the Human Albumin Solution operated by the Group is used to remedy the shock caused by hypovolemia, remove edema and poisonous substances, and treat neonatal hyper – bilirubinemia. Based on the lot release of the Human Albumin Solution in the PRC in the first half of 2019, the market share of the Human Albumin Solution manufactured by Octapharma was approximately 5.5% (the first half of 2018: 8.0%).

***Axetine (Cefuroxime Sodium for injection)***

Manufactured by Medochemie Ltd. ("**Medochemie**") from Cyprus, the Axetine operated by the Group is classified as the second generation of cephalosporin antibiotics. It is used to remedy bacterial infections caused by sensitive bacteria, including respiratory infection, urinary tract infection, and skin and soft tissue infections. The product has been included in the National Catalogue of Essential Pharmaceuticals and the Category A products of NRDL.

***Medocef (Cefoperazone Sodium for injection)***

Manufactured by Medochemie and operated by the Group, Medocef is classified as the third generation of cephalosporin antibiotics. The product is used to remedy bacterial infections caused by sensitive lactamase, including respiratory infection, urinary tract infection, biliary tract infection, abdominal infection, skin and soft tissue infections, pelvic infection and septicemia. The product is also effective in treating the brain infections caused by influenza and meningococcus.

## 2. Marketing Network Development

The Group provides its marketing service through its internal teams and their cooperation with third-party promoters. Hence, one of the Group's key development strategies is to continuously expand the marketing network and enhance distributor and promotor management. During the Reporting Period, the Group took "Flexible, Professional and Efficient" as its objective, and strove to develop its marketing team in respect of the ability of quickly responding to market changes and executing operational plans with high efficiency. Furthermore, the Group sorted out its human resources in each division. The marketing team had its structure streamlined and its performance management further refined, with optimized allocation of sales resources that are invested in each product and higher efficiency of business operation. As at 30 June 2019, the Group had an internal marketing team of approximately 60 members.

At the same time, the implementation of "Two-Invoice System" took place at a faster pace in each province. The Group positively responds to such implementation, the existing structure of distributor network was comprehensively sorted out. Based on sufficient communication with its distributors, the Group has further extended its sales channels to end markets through the collaboration between its internal sales team and local distributors. Originally, promoters were allocated by region. Now, the promoters are matched with each hospital of the region concerned, which enables the Company's sales network to reach the end market. Besides, the coverage of the network has also been extended from large top Class-III hospitals to provincial, municipal and county Class-I hospitals, to keep improving market penetration, thereby establishing a precision management system that each hospital will have its respective promoters.

In addition, the Group has further enhanced its direct participation of its internal marketing team in product marketing activities. In this regard, approaches include regularly training third-party promoters on product knowledge, hosting or taking part in medical or pharmaceutical conferences, symposiums and product seminars to directly partake in the academic promotion activities of products, and extend the opinion leadership network for the main therapeutic areas of products. All the approaches serve to ensure accurate and timely delivery of product information to doctors. In addition to product promotion, the Group has taken the initiative to invite third party promoters across the country to discuss and interpret the major impact of national policies, to increase the added value and attraction of the Group's training. During the Reporting Period, the Group had over 530 distributors and promoters in 31 provinces, municipalities and autonomous regions in China, covering approximately 1,300 Class-III hospitals, 1,500 Class-II hospitals, and over 1,200 Class-I hospitals, pharmacies and other medical institutions.

### 3. Cold Chain Storage Facility

Considering the future demand for business expansion and the significant demand for pharmaceutical cold chains in the storage and delivery of blood products and bio-products, the Group has constructed a cold chain storage facility in Shuangliu District, Chengdu, Sichuan Province. The Group has completed the first phase of its cold chain storage facility (15,000 square meters), which can satisfy the Group's storage demand and provide better control for the quality and safety of the blood products in our product portfolio. In addition, we will be able to provide third parties with high quality pharmaceutical cold-chain storage services upon completing the second-phase construction (which includes 25,000 square meters of cold chain storage and 47,000 square meters of research and development base), which will be a new business unit of the Group. Currently, the Group has applied to Shuangliu District Government for land transfer, with its procedures well under way.

Save as mentioned above, the Company did not hold any material investments, and there was no material acquisition or disposal of its subsidiaries, associates or joint ventures during the Reporting Period.

### 4. Research and Development

The Group has entered into a collaboration agreement with the China Academy of Chinese Medical Sciences to develop "Sinco I", a new realgar-based chemical medicine for treating acute promyelocytic leukemia. The collaboration aims for the upstream extension of the Group's business and the future provision of a new medicine for patients in the therapeutic area. The Group is currently making efforts in designing and building a pilot plant for pilot experiments. During the Reporting Period, the Group incurred RMB0.4 million as the research and development expenses for developing Sinco I.

## FUTURE AND OUTLOOK

In 2019, the domestic and global macro-economic environment still remains uncertain. Under the top-level strategy for a "Healthy China", the Chinese pharmaceutical and healthcare reform will enter a crucial year that features full implementation of multiple medical-reform policies, optimization of industrial structures, upgrade of technologies and facilities, and more support for international development. Meanwhile, there will be greater disparity in corporate and product landscape, together with faster industrial integration, presenting both opportunities and challenges. Factors, such as an aging population, greater health awareness, changes to disease spectrum and the application of new technologies, will generate long-term and strong demand which supports the development of the Chinese pharmaceutical industry. As an important sector in China relating to people's livelihood, the pharmaceutical and healthcare industry still enjoys a strong growth momentum and demand.

The Group will continue with its corporate development strategies of optimizing the marketing network and the product portfolio, and maintain the business of blood products and antibiotics as a core therapeutic area. By concentrating its advantageous resources, the Group spares no effort in reaching a speedy completion of the adjustment on sales pattern under the new policies for stabilising its business. In respect of expanding its marketing network, the Group will build its sales team at a faster pace, continuously localise the channels in its marketing network, and extend it to the end market by establishing multi-mode cooperation with hospitals, all in a bid to contribute higher profit to the Group, develop core marketing capabilities and build a terminal network to accommodate more products. In terms of the direction of business development, the Group will proactively expand its business to the downstream hospital industry and from time to time, explore business cooperation or expansion opportunities to capture synergetic effects that could be brought along by horizontal or vertical integration. The Group believes that such strategy may bring about long-term sustainable growth and strengthen the Group's core competitiveness and profit stability.

Apart from the above, the Group will continue to enhance the development of its internal control system and risk management, pay much attention to and fulfill its corporate social responsibilities throughout the Group's governance. The Group will offer its staff a great platform for career development, and keep working to create greater value for the Shareholders.

## FINANCIAL REVIEW

### Revenue

The Group recorded revenue of RMB535.4 million for the Reporting Period, representing a decrease of RMB38.5 million, or 6.7% as compared to RMB573.9 million in the corresponding period of 2018. The decrease could be further analyzed as follows:

| | | For the six months ended 30 June | | | |
|---|---|---|---|---|---|
| | | **2019** | | 2018 | |
| | | ***RMB million*** | ***% of revenue*** | *RMB million* | *% of revenue* |
| Human Albumin Solution | *1)* | **361.5** | **67.5** | 318.2 | 55.4 |
| Antibiotics | *2)* | **171.9** | **32.1** | 207.3 | 36.1 |
| Other products | *3)* | **2.0** | **0.4** | 48.4 | 8.5 |
| **Total** | | **535.4** | **100.0** | 573.9 | 100.0 |

*Note:*

1) Throughout the Reporting Period, revenue of human albumin solution amounted to RMB361.5 million, representing an increase of approximately 13.6% or RMB43.3 million as compared to the corresponding of 2018. Such increase in turnover is primarily due to the Group obtained the sole distribution right of the human albumin produced by supplier's Stockholm and Germany factories in the China market from 2019, while in the last year the sole distribution right was only to 24 provinces in China. Based on the scheduled increase in supply volume by supplier in the second half of 2019, the supply and the revenue of human albumin are expected to increase continuously.

2) During the Reporting Period, revenue from sales of antibiotics decreased by RMB35.4 million as compared with the corresponding period in 2018. The decrease was mainly caused by the decreased sales of product Axetine due to the tough market competition and the sales of the non-core product of Trifamox IBL stopped in this year.

3) During the Reporting Period, the percentage of revenue from other products was relatively low. As the Group has concentrated its resources on the business of core products such as Human Albumin Solution and antibiotics, revenue from sales of these products decreased by approximately RMB46.4 million during the Reporting Period as compared with the corresponding period in 2018.

**Cost of sales**

The Group recorded cost of sales of RMB444.5 million for the Reporting Period, representing a decrease of RMB14.5 million, or 3.2% as compared with RMB459.0 million in the corresponding period in 2018, which was generally in line with the decrease in sales.

**Gross profit and gross profit margin**

During the Reporting Period, the Group recorded gross profit of RMB90.9 million, representing a decrease of RMB24.0 million as compared with RMB114.9 million in the corresponding period of 2018; while gross profit margin decreased from 20.0% to 17.0% for the Reporting Period as compared with the corresponding period of 2018. The decrease was mainly due to the decrease of the gross profit of antibiotics by RMB38.7 million and other products by RMB0.8 million, and partially offset by the increase of gross profit of human albumin by RMB15.5 million.

**Other income and gains**

During the Reporting Period, other income and gains of the Group amounted to approximately RMB13.3 million, representing an increase of RMB10.4 million as compared with the corresponding period of 2018. Other income and gains for the Reporting Period mainly represented (i) service income of RMB12.5 million; and (ii) government grants of RMB0.7 million. The Group's bank interest income remained stable as compared with the corresponding period of 2018. Besides, the Group also recorded service income of RMB12.5 million during the Reporting Period while no such income was recognised during the corresponding period of 2018.

**Selling and distribution expenses**

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB44.5 million, representing a decrease of RMB73.8 million as compared with the corresponding period of 2018. The decrease was mainly resulted from the significantly reduced market development expenses. With the implementation of the "Two-Invoice System" in 2017 and 2018, the Group's substantial investment in the area has laid a solid foundation for the follow-up sales channel construction and adjustment.

**Administrative expenses**

During the Reporting Period, the Group recorded administrative expenses of RMB21.0 million, representing a decrease of RMB6.2 million as compared with the corresponding period of 2018, mainly due to the decrease in professional service fee of RMB5.6 million during the Reporting Period.

**Other expenses**

During the Reporting Period, the Group recorded other expenses of RMB1.1 million, representing a decrease of RMB5.3 million as compared with the corresponding period of 2018, mainly due to no write-down of inventories in the Reporting Period. During the corresponding period in 2018, there was write-down of inventories of RMB4.3 million.

**Finance costs**

During the Reporting Period, the Group recorded finance costs of RMB10.2 million, representing a decrease of RMB10.5 million as compared with the corresponding period of 2018, including (1) decrease in the bond interest expense of RMB6.2 million; (2) decrease in interest expenses on bank and other borrowings of RMB3.5 million; and (3) the decrease in the interest on discounted bills receivable of RMB0.8 million.

**Income tax expense**

During the Reporting Period, the Group recorded income tax expenses of RMB6.6 million as the operation result was in a profit position. In the corresponding period of 2018, as the operation result was in a loss position, the Group recorded income tax credit of RMB2.6 million.

**Profit for the Reporting Period**

As a result of the foregoing, the Group recorded the net profit of RMB15.2 million, while in the corresponding period of 2018 the Group recorded a net loss of RMB48.7 million.

**Inventories**

Inventory balances amounted to RMB14.0 million as of 30 June 2019 (31 December 2018: RMB214.8 million), representing a decrease of RMB200.8 million as compared with the year-end balance of 2018. The main reason for such decrease was because the Group enhanced the marketing and promotion of the products during the Reporting Period, which led to a drop in the inventory balance of Human Albumin Solution of RMB186.7 million, and the decline in inventory balance of antibiotics and other products of RMB14.1 million.

Due to the recovery of the sales volume during the Reporting Period, the Group's average inventory turnover days decreased by 79 days from 126 days in 2018 to 47 days for the Reporting Period.

**Trade and bills receivables**

The balance of trade receivables amounted to RMB59.6 million as of 30 June 2019 (31 December 2018: RMB22.8 million). The main reason for the increase of RMB36.8 million as compared with the year-end balance of 2018 was because the Group provided certain distributors and commercial pharmaceutical delivery companies with credit terms ranging from 45 to 360 days based on the sales conditions on the market to improve the sales performance of the products, which led to an increase in the balance of trade receivables.

There was no outstanding bills receivable as of 30 June 2019 (31 December 2018: RMB3.4 million).

**Prepayments, deposits, other receivables and other assets**

As of 30 June 2019, the current portion of prepayments, deposits, other receivables and other assets amounted to RMB44.5 million (31 December 2018: RMB64.8 million), representing a decrease of RMB20.3 million as compared with the year-end balance of 2018, mainly because: (1) prepaid professional consultation fee decreased by RMB1.6 million; and (2) prepayment in relation to purchase of inventories declined by RMB21.7 million.

**Trade payables**

As of 30 June 2019, trade payables amounted to RMB81.8 million (31 December 2018: RMB106.9 million), representing a decrease of RMB25.1 million as compared with the year-end balance of 2018, among which payables for the purchase of Human Albumin Solution decreased by approximately RMB47.5 million, and payables for the purchase of antibiotics and other products increased by RMB23.2 million.

**Other payables**

As of 30 June 2019, other payables amounted to RMB26.0 million (31 December 2018: RMB205.5 million), representing a decrease of RMB179.5 million as compared with the year-end balance of 2018. Payables in relation to marketing, promotion and consulting service decreased by RMB15.8 million, and deposits received from distributors decreased by RMB9.8 million; and payables for trading financing decreased by RMB144.2 million.

**Borrowings**

As of 30 June 2019, the Group has borrowings of RMB140.0 million in total and repayable within one year, with details set out below:

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* |
|---|---|---|
| Interest-bearing bank loans | **–** | 5,000 |
| Other interest-bearing loans | **140,000** | 140,000 |
| **Total** | **140,000** | 145,000 |

Other loan is the loan of RMB140.0 million borrowed from Mr. Gui Guoping ("**Mr. Gui**") in April 2018, who is not a connected person of the Company, with an interest rate of 13.2% per annum which due on 30 April 2019 for the repayment of principal and interest of the corporate bonds due in the same month. As at 27 March 2019, the Company, Mr. Gui, Risun Investments Limited ("**Risun**"), Mr. Huang Xiangbin ("**Mr. Huang**"), Guangsha Overseas Holding Limited (廣厦海外控股有限公司) ("**Guangsha Overseas**") and Mr. Ye Songshao ("**Mr. Ye**") entered into the Supplemental Agreement to extend the repayment date of the loan for an additional year from 30 April 2019 to 30 April 2020. In addition, according the Supplemental Agreement, Mr. Gui remains the lender, while Guangsha Overseas and Mr. Ye became the new lenders. The total loan of RMB140,000,000 will be due by the Company as to RMB61,044,150.90 to Mr. Gui, RMB65,420,560.70 to Guangsha Overseas and RMB13,535,288.40 to Mr. Ye. For details, please refer to Company's announcement dated 27 March 2019.

**Gearing ratio**

At the end of the Reporting Period, the Group's gearing ratio was calculated as follows:

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* |
|---|---|---|
| Interest-bearing bank and other borrowings | **140,000** | 145,000 |
| Trade payables | **81,793** | 106,901 |
| Other payables | **26,005** | 205,525 |
| Tax payables | **6,006** | 1,943 |
| Lease liabilities | **1,352** | – |
| Less: Cash and cash equivalents | **(31,503)** | (80,330) |
| Less: Pledged bank balances | **(7,891)** | (13) |
| **Net debt**[(a)] | **215,762** | 379,026 |
| Equity | **37,879** | 22,723 |
| **Equity and net debt**[(b)] | **253,641** | 401,749 |
| **Gearing ratio**[(a/b)] | **85.1%** | 94.3% |

**Liquidity and capital resources**

The following table sets out a condensed summary of the Group's consolidated statement of cash flows during the Reporting Period:

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (unaudited) |
| Net cash generated from operating activities | *1)* | **119,103** | 93,651 |
| Net cash used in investing activities | *2)* | **(187)** | (888) |
| Net cash used in financing activities | *3)* | **(167,804)** | (88,285) |
| Net (decrease)/increase in cash and cash equivalents | | **(48,888)** | 4,478 |
| Effect of foreign exchange rate changes, net | | **48** | (373) |
| Cash and cash equivalents at beginning of the period | *4)* | **80,343** | 75,651 |
| Cash and cash equivalents at end of the period | *4)* | **31,503** | 79,756 |

***1) Net cash generated from operating activities***

During the Reporting Period, the Group's net cash inflow from operating activities amounted to approximately RMB119.1 million (for the six months ended 30 June 2018: RMB93.7 million), which was mainly due to the increase in cash from sales during the Reporting Period as compared with the corresponding period of prior year.

***2) Net cash used in investing activities***

The Group did not incur significant capital expenditure during the Reporting Period, and net cash outflow used in investing activities amounted RMB0.2 million (for the six months ended 30 June 2018: RMB0.9 million).

***3) Net cash used in financing activities***

During the Reporting Period, the Group's net cash outflow from financing activities amounted to approximately RMB167.8 million (for the six months ended 30 June 2018: RMB88.3 million), including (i) repayment of bank loan of RMB5.0 million; (ii) payment of interests of RMB10.2 million; and (iii) repayment of interest-bearing other payables of RMB144.2 million to an independent third party, which is principally engaged in import agent services, for its settlement of trade payable on behalf of the Group.

4) The following table sets out the Group's cash and cash equivalents and pledged bank balances at the end of the Reporting Period:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | |
| Denominated in RMB | **34,819** | 25,849 |
| Denominated in US$ | **4,233** | 53,490 |
| Denominated in HK$ | **281** | 937 |
| Denominated in Singapore dollars | **63** | 67 |
| | **39,394** | 80,343 |

**Foreign currency risk**

Most of the Group's assets and liabilities are denominated in RMB, except for certain items below:

- Certain bank balances are denominated in US$, HK$ and Singapore dollars; and
- Purchase of products from overseas suppliers and relevant trade payables are denominated in US$.

The Group manages the potential fluctuation in foreign currencies by foreign currency forward and option contracts, and does not enter into any hedging transactions.

**Capital expenditure**

The following table sets out the Group's capital expenditure for the periods indicated:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Construction expenditure capitalised | **89** | – |
| Purchase of property, plant and equipment | **101** | 670 |
| | **190** | 670 |

**Contingent liabilities**

The Group had no material contingent liabilities as of 30 June 2019.

**Pledge of assets**

As of 30 June 2019, the carrying amounts of the Group's pledged assets were set out as follows:

| | **30 June 2019** *RMB'000* **(unaudited)** | 31 December 2018 *RMB'000* |
|---|---|---|
| For obtaining trade financing facilities | | |
| – Inventories | **–** | 147,516 |
| For issuance of letters of credit and billings | | |
| – Bank balances | **7,891** | 13 |

## DIVIDEND

The Directors resolved not to declare any interim dividend for the Reporting Period (for the six months ended 30 June 2018: Nil).

## EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2019, the Group had a total of 116 employees. For the Reporting Period, the total staff costs of the Group were RMB5.7 million (for the six months ended 30 June 2018: RMB6.1 million).

The Group's employee remuneration policy is determined by factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, the inflation level, corporate operating efficiency and employee performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary reviews and promotional assessments. The Group considered the employees' annual bonuses according to certain performance criteria and appraisals results. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service quality. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute during the Reporting Period.

In addition, the Company adopted a share option scheme to recognise the contribution by certain employees of the Group, and to provide them with incentives in order to retain them for their continuing support in the operation and development of the Group.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

During the Reporting Period, the Company has complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein except for the following provision:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the organization structure of the Company, Mr. Huang is the Chairman of the Board and the chief executive officer of the Company. With Mr. Huang's extensive experience in the pharmaceutical industry, the Board considered that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The check and balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high calibre individuals. Accordingly, the Board believes that this arrangement will not affect the balance of power and authorizations between the Board and the management of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the Reporting Period.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## CHANGE OF AUDITORS

The Company and Ernst & Young ("**EY**") had been unable to reach a consensus on the audit fee of EY for the financial year ending 31 December 2019. After considering the facts and circumstances, the Audit Committee, having been delegated the power to oversee the effectiveness of the external auditor, was of the view that it would be in the best interest of the Company and the Shareholders as a whole to replace EY with another sizeable accounting firm.

The Company had received a letter from EY confirming that there are no matters in connection with its removal that needs to be brought to the attention of the Shareholders or the creditors of the Company.

At the Company's extraordinary general meeting held on 18 July 2019, the Shareholders removed EY as the auditor of the Group pursuant to the Company's articles of association, and Crowe (HK) CPA Limited was appointed as the auditor of the Group in place of EY to hold office until the conclusion of the next annual general meeting of the Company.

## POSSIBLE ACQUISITIONS, PLACING AND CONVERTIBLE BOND ISSUE DURING THE REPORTING PERIOD

### Memorandum of understanding in respect of a possible acquisition

On 15 December 2018, the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with two third parties (the "**Vendor(s)**") in relation to a possible acquisition (the "**Possible Acquisition**") of majority stake in a company, and the relevant group of target companies were principally engaged in maternal and child care and its related services. Pursuant to the terms of the MOU, the MOU would be terminated if the relevant formal agreement had not been signed among the parties to the MOU upon the end of the relevant exclusive period under the MOU. As at the date of this announcement, no formal agreement was signed among the parties to the MOU and the parties to the MOU did not agree to such exclusive period. Accordingly, the Possible Acquisition did not proceed. The Board considered that the termination of the MOU had no material adverse impact on the existing business operation and financial position of the Group. Details of the Possible Acquisition was set out in the Company's announcements dated 15 December 2018 and 15 March 2019.

### Possible acquisition, placing of Shares and issuance of convertible bonds

On 4 February 2019, the Company entered into the placing agreement (the "**Placing Agreement**") with South China Securities Limited (the "**Placing Agent**") in relation to the conditional placing (the "**Placing**") of (i) up to 338,378,117 placing shares to not less than six placees at the placing price of not less than HK$0.443 per placing share; and (ii) the convertible bonds of up to an aggregate principal amount of HK$170.0 million to not less than six placees. In such connection, the Company entered into a non-legally binding memorandum of understanding dated 4 February 2019 (the "**PP MOU**") with PIEL Capital Company Limited in relation to the possible acquisition of a company, which intended to acquire certain interest in a provider of low-cost long-life and long-duration energy storage systems. On 13 March 2019 (after trading hours), the Company and the Placing Agent entered into a termination agreement to terminate the Placing Agreement. Each of the Company and the Placing Agent confirmed that it does not have any claim against the other party for any liability under the Placing Agreement and further agreed to waive all the rights that it may have against the other party of whatever nature in relation to the Placing Agreement. According to the PP MOU, it shall be terminated upon the expiry of the exclusivity period under the PP MOU, which was a period of six months from the date of the PP MOU. As at the date of this announcement, no definitive agreement relating to the possible acquisition was signed among the parties to the PP MOU, accordingly, the possible acquisition did not proceed. Details of the possible acquisition, Placing Agreement and termination agreement was set out in the Company's announcements dated 4 February 2019 and 13 March 2019.

## SUPPLEMENTAL AGREEMENT TO THE LOAN AGREEMENT

Reference is made to the announcements of the Company dated 23 April 2018, 27 March 2019 and 9 April 2019 (the "**Loan Announcements**") in relation to, among other things, the loan agreement (the "**Loan Agreement**") entered into on 23 April 2018 among the Company as the borrower, Mr. Gui as the lender, Risun as the chargor and Mr. Huang as the guarantor for the loan to the Company in the amount of RMB140,000,000 (the "**Loan**"). On 27 March 2019 (after trading hours), the Company, Mr. Gui, Risun, Mr. Huang, Guangsha Overseas and Mr. Ye, collectively, the "**New Lenders**") entered into the supplemental agreement (the "**Supplemental Agreement**") to extend the repayment date of the Loan for an additional year from 30 April 2019 to 30 April 2020, subject to certain conditions precedent, one of which relates to the transfer of certain Shares for partial settlement of the Loan in an aggregate principal amount of RMB78,955,849.10 and the related accrued interests pursuant to the share charge under the Loan Agreement by Risun (the "**Transfers**").

Under the Supplemental Agreement, the maturity date of the Loan would be extended from 30 April 2019 to 30 April 2020, subject to certain conditions precedent, one of which relates to the Transfers by Risun to the New Lenders for partial settlement of the Loan (the "**Transfers Condition Precedent**"). Subsequent to the signing of the Supplemental Agreement, the Transfers Condition Precedent was waived by Mr. Gui and the New Lenders, and hence, the Transfers were not executed and will not take place pursuant to the Supplemental Agreement. On 29 March 2019, as all conditions precedent to the Supplemental Agreement were either waived or fulfilled (including the waiver of the Transfers Condition Precedent), the Supplemental Agreement was completed and the maturity date of the Loan was extended from 30 April 2019 to 30 April 2020. Please refer to the Loan Announcements for information.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

No events after the reporting period need to be brought to the attention of the shareholders of the Company.

## AUDIT COMMITTEE

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the Group audit.

The Audit Committee, together with management and external auditor of the Company, have reviewed the unaudited condensed interim results of the Group for the Reporting Period.

## EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Company's auditors have qualified the report on review of the Company's interim financial information for the six months ended 30 June 2019, an extract of which is as follows:

### Basis for Disclaimer of Conclusion

#### *Multiple Uncertainties Relating to Going Concern*

As detailed in note 2.1 to the interim financial information, as at 30 June 2019, the Group had net current liabilities of RMB185,216,000. As at the same date, the Group had total borrowings of RMB140,000,000 which is repayable within one year and classified as current liabilities, while the Group only had cash and cash equivalents of RMB31,503,000.

These conditions, together with others described in note 2.1 to the interim financial information, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, to meet its liabilities as and when they fall due which are set out in note 2.1 to the interim financial information. The interim financial information have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including: (a) the substantial shareholder's ability to provide the financial support to the Group; (b) the Group's ability to continuously comply with the terms and conditions of all the outstanding financing agreements and to successfully negotiate with the lenders such that the unused bank facilities will continue to be made available to the Group; and (c) the Group's ability to generate operating cash flows to finance the Group's business and other funding needs.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the interim financial information.

### Disclaimer of Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the interim financial information. Accordingly, we do not express a conclusion on this interim financial information.

## PUBLICATION OF THE INTERIM RESULTS AND 2019 INTERIM REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinco-pharm.com), and the 2019 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
**Sinco Pharmaceuticals Holdings Limited**
**Huang Xiangbin**
*Chairman and Executive Director*

Dalian, PRC, 30 August 2019

*As at the date of this announcement, the executive Directors are Mr. Huang Xiangbin and Ms. Zhang Zhijie; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Wang Qing and Mr. Liu Wenfang.*