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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of RMB858.9 million for the Reporting Period, representing a decrease of RMB237.2 million, or 21.6% as compared to RMB1,096.1 million in 2015. This was mainly due to the decrease in sales of Human Albumin Solution of RMB153.7 million, as the Group encountered a temporary plunge of supply and the Group's decision to adjust our sales management strategy during the Reporting Period. Though the supply has returned to normal during the fourth quarter, several batches of orders were still under importation procedures by the end of the Reporting Period.

- Gross profit of the Group decreased by 31.4% to RMB104.6 million for the Reporting Period (2015: RMB152.5 million). This was mainly due to the decrease in sales volume and the increase in average unit cost of sales as a result of the depreciation of RMB against USD.

- Net profit of the Group decreased by 73.6% to RMB18.3 million for the Reporting Period (2015: RMB69.4 million).

- Profit attributable to owners of the Company decreased by 72.1% to RMB19.4 million for the Reporting Period (2015: RMB69.6 million).

- Basic earnings per share amounted to RMB0.013 for the Reporting Period (2015: RMB0.058).

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinco Pharmaceuticals Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**", "**we**" or "**our**") for the year ended 31 December 2016 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
REVENUE	*3*	**858,894**	1,096,071
Cost of sales		**(754,326)**	(943,564)
Gross profit		**104,568**	152,507
Other income and gains	*4*	**8,533**	827
Selling and distribution expenses		**(11,470)**	(5,709)
Administrative expenses		**(62,419)**	(40,524)
Other expenses		**(4,459)**	(13,358)
Finance costs	*5*	**(9,187)**	(7,105)
PROFIT BEFORE TAX	*6*	**25,566**	86,638
Income tax expense	*7*	**(7,229)**	(17,197)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,337**	69,441
Attributable to:			
Owners of the parent		**19,367**	69,614
Non-controlling interests		**(1,030)**	(173)
		18,337	69,441
Earnings per share attributable to ordinary equity holders of the parent:			
– Basic and diluted (RMB)	*9*	**0.013**	0.058

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**103,712**	96,922
Intangible assets	*10*	**32,454**	40,378
Payments in advance		**99,858**	69,427
Goodwill	*11*	**58,632**	35,526
Deposit		**3,000**	5,000
Total non-current assets		**297,656**	245,253
CURRENT ASSETS			
Inventories	*12*	**137,602**	46,563
Trade and bills receivables	*13*	**19,868**	77,186
Prepayments, deposits and other receivables		**67,115**	35,802
Financial assets at fair value through profit or loss classified as held for trading		**146**	–
Available for sale investment		**111,261**	–
Pledged bank balances		**52,029**	22,068
Cash and cash equivalents		**102,050**	38,138
Total current assets		**490,071**	219,757
CURRENT LIABILITIES			
Trade payables	*14*	**45,832**	62,793
Advances from customers		**45,665**	33,707
Other payables		**61,734**	84,132
Interest-bearing bank loans	*15*	**165,000**	81,915
Tax payable		**12,221**	8,909
Total current liabilities		**330,452**	271,456
NET CURRENT ASSETS/(LIABILITIES)		**159,619**	(51,699)
Total assets less current liabilities		**457,275**	193,554
Net assets		**457,275**	193,554
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*16*	**130**	95
Reserves		**458,049**	193,333
		458,179	193,428
Non-controlling interests		**(904)**	126
Total equity		**457,275**	193,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 16 March 2015. The registered office address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal place of business in Hong Kong is Unit 4408A, 44/F, Cosco Tower, 183 Queen's Road Central, Hong Kong.

During the Reporting Period, the Group was principally engaged in marketing, promotion and channel management services for improved human plasma-based pharmaceutical, antibiotics and other pharmaceuticals focused on therapeutic areas 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 Reporting Period.

In the opinion of 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "**IASB**"), and International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Reporting Period. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold, net of various types of government surcharges.

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 complementary to human plasma-based products and other fast-growing categories in Mainland China, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for 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.

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Reporting Period:

	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Sales of goods:				
Human albumin solution	**514,265**	**59.9**	668,007	60.9
Antibiotics (Axetine, Medocef and Trifamox IBL)	**272,069**	**31.7**	316,312	28.9
Others (Taurolite, TAD and Esafosfina)	**72,560**	**8.4**	111,752	10.2
	858,894	**100.0**	1,096,071	100.0

Geographical information

All external revenue of the Group during each of the two years ended 31 December 2016 and 2015 was attributable to customers located in Mainland China, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in Mainland China.

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:

	2016	2015
	RMB'000	*RMB'000*
Customer A	**159,587**	231,140
Customer B	*	180,310
Customer C	*	–
Customer D	*	–
Customer E	*	–

* Less than 10%

4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2016	2015
	RMB'000	*RMB'000*
Bank interest income	**655**	390
Government grants*	**1,205**	415
Foreign exchange gains, net	**4,231**	–
Interest income on an available-for-sale investment	**1,810**	–
Fair value gains on financial assets at fair value through profit or loss classified as held for trading	**146**	–
Others	**486**	22
	8,533	827

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**8,627**	5,688
Interest on discounted bills receivable *(note 13)*	**560**	1,417
	9,187	7,105

6. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**754,326**	943,564
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**9,152**	7,403
Welfare and other benefits	**1,078**	516
Equity-settled share option expense	**995**	–
Pension scheme contributions		
– Defined contribution fund	**1,080**	974
Housing fund		
– Defined contribution fund	**466**	439
Total employee benefit expense	**12,771**	9,332

		2016	2015
		RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment		**5,554**	5,185
Amortisation of intangible assets*	*10*	**5,112**	5,045
Research expenses		**5,089**	3,028
Operating lease rentals		**1,418**	1,048
Foreign exchanges losses/(gains), net		**(4,231)**	11,167
Loss on disposal of items of intangible assets	*10*	**1,435**	**–**
Auditors' remuneration		**2,680**	1,345

* The amortisation of intangible assets for the Reporting Period of RMB5,044,000 (note 10) is included in "Cost of sales" in profit or loss.

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

Hong Kong profit tax has been provided at the rate of 16.5% on the Group's assessable profit derived from Hong Kong. The Group had such profit during the Reporting Period and therefore provision for Hong Kong profits tax has been made accordingly.

The provision for the People's Republic of China ("**PRC**") corporate income tax ("**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 China for the year. Except for certain subsidiaries domiciled in the PRC (the "**PRC subsidiaries**") that are entitled to a preferential income tax rate, the PRC subsidiaries are subject to the PRC CIT rate of 25% during the Reporting Period and the year ended 31 December 2015.

The major components of income tax expense are as follows:

	2016	2015
	RMB'000	*RMB'000*
Current tax:		
Income tax in Mainland for the year	**5,961**	11,021
Income tax in Hong Kong for the year	**1,268**	6,176
Charge for the year	**7,229**	17,197

8. DIVIDENDS

	2016
	RMB'000
Interim – HK$0.33 cents (2015: not applicable) per ordinary share	**4,555**

The interim dividend has been paid out from the Company's share premium account.

At a meeting of the Directors held on 27 March 2017, the Directors resolved not to pay final dividends to shareholders (2015 final dividend: Not applicable).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the Reporting Period and the year ended 31 December 2015 is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,535,776,448 (2015: 1,200,000,000) in issue during the year.

No adjustment has been made to the basic earnings per share for the Reporting Period and the year ended 31 December 2015 as no diluting events occurred during the current and the prior years.

10. INTANGIBLE ASSETS

	Software *RMB'000*	**Exclusive distribution rights*** *RMB'000*	**Total** *RMB'000*
Cost at 1 January 2016, net of accumulated amortisation	30	40,348	40,378
Additions	372	–	372
Disposals	–	(3,184)	(3,184)
Amortisation provided during the year	(68)	(5,044)	(5,112)
At 31 December 2016	334	32,120	32,454
At 31 December 2016:			
Cost	403	41,298	41,701
Accumulated amortisation	(69)	(9,178)	(9,247)
Net carrying amount	334	32,120	32,454
Cost at 1 January 2015, net of accumulated amortisation	–	–	–
Additions	20	45,392	45,412
Acquisition of subsidiaries	11	–	11
Amortisation provided during the year	(1)	(5,044)	(5,045)
At 31 December 2015	30	40,348	40,378
At 31 December 2015:			
Cost	31	45,392	45,423
Accumulated amortisation	(1)	(5,044)	(5,045)
Net carrying amount	30	40,348	40,378

* It represented the purchased exclusive distribution rights by the Group from Vast Surplus Corporation Limited ("**Vast**"), a company controlled by Mr. Huang Xiangbin, in respect of the respective distribution rights for Taurolite, TAD and Esafosfina for nine years since 1 January 2015 in Mainland China, at a cash consideration in aggregate of RMB45,392,000. These exclusive distribution rights are amortised on a straight-line basis over the useful life of nine years.

As of 31 December 2016, the net carrying amount of the distribution right to TAD was RMB3,184,000. Given the longer-than-expected renewal period and the uncertainty in the renewal process in respect of the import drug license for TAD, the Group agreed to cease the distribution agreement of TAD with Trendful Development Limited, an independent third party with a compensation of RMB1,749,000 and hence caused a loss amounted to RMB1,435,000 (note 6) recorded as "other expenses" during the Reporting Period.

11. GOODWILL

	2016	2015
	RMB'000	*RMB'000*
Cost and net carrying amount at 1 January	**35,526**	–
Acquisition of subsidiaries *(note 18)*	**23,106**	35,526
Cost and net carrying amount at 31 December	**58,632**	35,526
At 31 December:		
Cost	**58,632**	35,526
Accumulated impairment	**–**	–
Net carrying amount	**58,632**	35,526

Goodwill is acquired through the business combination of Chengdu Hengsheng Ziguang Pharmaceutical Technology Co., Ltd. and its wholly-owned subsidiary, namely Xizang Linzhi Ziguang Pharmaceutical Co., Ltd. ("**Linzhi Ziguang Group**") on 31 March 2015 and the business combination of Qingdao Ruichi Pharmaceuticals Co., Ltd. ("**Qingdao Ruichi**") on 22 December 2016. Goodwill acquired through business combinations is allocated to the pharmaceutical products cash-generating units ("**CGUs**") which is the sole group of CGUs of the Group (the "**Pharmaceutical Product CGU**").

Impairment testing of goodwill

The recoverable amount of the group of CGUs has been determined based on a value in use calculation using cash flow projections which is based on financial forecast approved by the Company's Directors covering a period of five years. The discount rate applied to the cash flow projections is 20.1%, which is determined by reference to the average rates for similar industry and the business risk of the relevant business units. Cash flows beyond the five-year period were assumed to be stable.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected market development.

Discount rate – The discount rate used is pre-tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

12. INVENTORIES

At the end of the Reporting Period, all inventories represent finished goods of pharmaceutical products.

13. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**11,751**	–
Bills receivable	**8,117**	77,186
	19,868	77,186

The Group's trading terms with its customers are mainly on full payment in advance of delivery either in cash or in bills receivable accepted by a bank, except for certain customers which are granted credit terms ranging from 30 days to 60 days. The Group maintains 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.

Based on the invoice date, all trade receivables of the Group as of 31 December 2016 were aged within two months and were neither past due or impaired.

As of 31 December 2016, the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB94,687,270 (2015: RMB201,301,000) (the "**Derecognised Bills**"). The Derecognised Bills have been accepted by reputable banks in the PRC like China Construction Bank, Industrial and Commercial Bank of China, China Merchants Bank, Bank of Communications, Bank of China and Bank of Chengdu and have a maturity within two months at the end of the Reporting Period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated advances on discounting.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their face amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Reporting Period, the Group has recognised interest expense of RMB560,000 (2015: RMB1,417,000) (note 5) on discounted bills receivable. No gains or losses were recognised from the Continuing Involvement, both during the Reporting Period or cumulatively. The discounting has been made evenly throughout the Reporting Period.

14. TRADE PAYABLES

An ageing analysis of trade payables as of the end of the Reporting Period, based on the invoice date, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within three months	**45,832**	62,793

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

15. INTEREST-BEARING BANK LOANS

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Bank loans:			
Secured and guaranteed	*(a)*	**–**	15,000
Secured	*(b)*	**35,000**	46,915
Guaranteed	*(c)*	**110,000**	20,000
Unsecured	*(d)*	**20,000**	**–**
		165,000	81,915
Bank loans repayable:			
Within one year		**165,000**	81,915

Notes:

(a) The balances as of 31 December 2015 represent one-year bank loans granted by Bank of Chengdu to the Group, which bear interest at fixed rates ranging from 5.98% to 6.30% per annum and are guaranteed by Mr. Huang Xiangbin and secured by the Group's buildings. Such loans were repaid by the Group during the Reporting Period.

(b) The balance as of 31 December 2016 represents a one-year bank loan granted by Bank of Chengdu to the Group bearing a fixed interest rate of 5.22% per annum, which is secured by the Group's buildings.

(c) The balances as of 31 December 2016 consist of (i) a one-year bank loan of RMB100,000,000 granted by Ping An Bank to the Group bearing a fixed interest rate of 5.22% per annum, which is guaranteed by Sichuan Kelun Pharmaceuticals Trading Co., Ltd. (the "**Kelun Pharmaceuticals**"), an independent third party at nil consideration; and (ii) a one-year bank loan of RMB10,000,000 granted by Bank of China to the Group bearing an interest rate of 2.01% above the one-year China Inter Bank Offered Rate ("**CIBOR**"), which is guaranteed by Kelun Pharmaceuticals.

(d) The balance as of 31 December 2016 represents six-months bank loans of RMB20,000,000 granted by Bank of China to the Group bearing interest rates of 1.58% above the one-year CIBOR.

Management has assessed that the fair values of the above interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

16. SHARE CAPITAL

Shares

	2016	2015
	RMB'000	*RMB'000*
Authorised:		
3,800,000,000 (31 December 2015: 3,800,000,000) ordinary shares of HK$0.0001 each	**304**	304
Issued and fully paid:		
1,615,220,000 (31 December 2015: 1,200,000,000) ordinary shares of HK$0.0001 each	**130**	95

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of ordinary shares**	**Nominal value of ordinary shares** *RMB'000*
At 1 January 2016		1,200,000,000	95
Issuance of new shares	*(a)*	400,000,000	34
Issuance of new shares	*(b)*	15,220,000	1
At 31 December 2016		1,615,220,000	130

Notes:

(a) In connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKSE**") on 10 March 2016 (the "**Listing**"), 400,000,000 ordinary shares of HK$0.0001 each were issued at a price of HK$0.8 per share for a total cash consideration, before listing expenses, of HK$320,000,000. The proceeds of HK$40,000, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$319,960,000 have been credited to the share premium account.

(b) On 7 April 2016, 15,220,000 ordinary shares of HK$0.0001 each were issued via the partial exercise of the over-allotment option at a price of HK$0.8 per share for a total consideration of HK$12,176,000. The proceeds of HK$2,000, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$12,174,000 have been credited to the share premium account.

17. SHARE OPTION SCHEME

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 and, unless otherwise cancelled or amended, will remain in force for 10 years from 1 February 2016.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 15 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the Share Option Scheme, if earlier.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the HKSE closing price of the Company's shares on the date of offer of the share options; and (ii) the average HKSE closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

The following share options were outstanding under the Share Option Scheme during the Reporting Period:

	Weighted average exercise price *HK$ per Share*	**Number of options** *'000*
As of 1 January 2016	–	–
Granted during the year*	0.568	30,000
As of 31 December 2016	0.568	30,000

* On 21 September 2016, 30,000,000 share options granted by the Company at the exercise price of HK$0.568 per share to certain of the eligible participants of the Company in respect of their contributions to the Group's development under the Share Option Scheme.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2016 are as follows:

Number of options *'000*	Exercise price per share *HK$*	Exercise period
12,000	0.568	21 September 2017 to 20 September 2022
9,000	0.568	21 September 2018 to 20 September 2022
9,000	0.568	21 September 2019 to 20 September 2022
30,000		

The fair value of the share options granted during the Reporting Period was HK$6,485,000 (equivalent to approximately RMB5,578,000) or HK$0.22 each (equivalent to approximately RMB0.19), of which the Group recognised a share option expense of HK$1,157,000 (equivalent to approximately RMB995,000) during the Reporting Period (2015: not applicable).

The fair value of equity-settled share options granted during the Reporting Period under the Share Option Scheme was estimated as of the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	Nil
Expected volatility (%)	48.75
Risk-free interest rate (%)	0.72

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the Reporting Period, the Company had 30,000,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 30,000,000 additional ordinary shares of the Company and additional share capital of HK$3,000 and share premium of at least HK$17,037,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 30,000,000 share options outstanding under the Share Option Scheme, which represented approximately 1.9% of the Company's shares in issue as of that date.

18. BUSINESS COMBINATION

On 22 December 2016, the Group acquired 100% equity interest in Qingdao Ruichi from two independent third party individuals, namely Ms. Dou Yiqing and Mr. Liu Zhenqiang. Qingdao Ruichi is primarily engaged in the sale of pharmaceutical products. The acquisition was made as part of the Group's strategy to enrich product portfolio and expand its pharmaceutical product portfolios in Mainland China. The total purchase consideration for the acquisition was RMB37,730,000, of which RMB35,630,000 was paid during the Reporting Period and the remaining RMB2,100,000 will be paid 180 days after the completion of such acquisition.

The fair values of the identifiable assets and liabilities of Qingdao Ruichi as of the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	336
Cash and cash equivalents	2,942
Trade receivables	11,751
Other receivables	5,362
Inventories	43,175
Trade payables	(40,125)
Advance from customers	(1,827)
Other payables	(6,408)
Tax payable	(582)
Total identifiable net assets at fair value	14,624
Goodwill on acquisition *(note 11)*	23,106
	37,730
Satisfied by:	
Cash	35,630
Other payables	2,100
	37,730

An analysis of the cash flow in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(35,630)
Cash and bank balances acquired	2,942
Net outflow of cash and cash equivalents	32,688

Since the acquisition Qingdao Ruichi contributed nil to the Group's revenue and the consolidated profit for the Reporting Period.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the Reporting Period would have been RMB988,984,000 and RMB19,661,000, respectively.

19. COMMITMENTS

The Group had the following capital commitments at the end of the Reporting Period:

	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for:		
– Construction of a cold chain storage facility	**2,265**	37,514
	2,265	37,514

20. RELATED PARTY TRANSACTIONS

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

	2016	2015
	RMB'000	*RMB'000*
Bank loans guaranteed by Mr. Huang Xiangbin	**–**	15,000
Purchases of exclusive distribution rights from Vast	**–**	45,392

(b) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,274**	937
Pension scheme contributions	**4**	109
Equity-settled share option expense	**166**	–
	2,444	1,046

21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 27 March 2017.

BUSINESS REVIEW

The Chinese pharmaceutical industry relies heavily on policies. Any minor adjustment of policies and regulations would invariably have a major impact upon relevant businesses in the industry. In recent years, the pharmaceutical industry has experienced the gradual tightening of its policies, with expenses control, anti-corruption and industrial standards emerging as the focuses of the pharmaceutical reform. As a critical year for pharmaceutical reform, 2016 saw new policies rolled out frequently, in relation to pharmaceutical manufacturing, circulation, delivery and administration, with stricter standards imposed on the management of pharmaceutical companies, pharmaceutical circulation and quality inspection. The new policies and stricter standards spurred positive industrial competition, and played a significant influence on the pharmaceutical industry. Given multiple changes in market environment and policies, pharmaceutical companies were confronted by unprecedented challenges in respect of production and operation, and the enormous pressure on sales and profit margins.

During the Reporting Period, the Group has been active in adjusting and reforming its sales model, to adapt to the changes to economic situations and policies from home and abroad which led to a temporary decline of sales volume. Meanwhile, the Group also suffered from the depreciation of RMB against USD, which led to increase in the purchase cost, and unstable product supply caused by the supplier's transformation and upgrade of production lines. As a result, the Group's overall operating results were affected significantly. During the Reporting Period, the Group recorded a revenue of RMB858.9 million (2015: RMB1,096.1 million), representing a year-on-year decrease of 21.6%. Net profit amounted to RMB18.3 million (2015: RMB69.4 million), representing a year-on-year decrease of 73.6%. Without the impact of one-off listing expenses and share option amortisation expenses, the adjusted net profit registered a year-on-year decline of 48.4% to RMB35.8 million, compared with last year.

Facing the pressure and challenge, during the Reporting Period, the Group sustained its stable partnership with Octapharma, which is a global leading manufacturer of blood products, with a firm grasp of the fast development of domestic blood product industry; the Group also continued to develop its marketing network with intensive and meticulous efforts, to improve the ability of providing marketing, promotion and channel management ("**MPCM**") services for small and medium-sized overseas pharmaceutical manufacturers. Meanwhile, we applied our international vision and accurate judgment of the Chinese pharmaceutical market to continue our exploration and introduction of quality products, in a bid to expand our product portfolio.

1. Enriching and Optimizing Our Product Portfolio

The Group's existing product portfolio encompasses many quality products by small and medium-sized overseas pharmaceutical manufacturers, covering multiple therapeutic areas such as anti-infectives, blood products, and products for digestive and cardiovascular systems. Included in such products are blood products (which are in short supply in the Chinese market) and prescription drugs which can meet the huge demand for high-quality drugs with excellent clinical results among medical institutions and patients.

Human Albumin Solution

Dating back to the early 1940s, blood products have undergone decades of fast development. Such products have grown from Human Albumin at the very beginning to the current 20-plus categories in three series, encompassing such sub-categories as Human Albumin, immune globulin and blood coagulation factors. Across the world, governments and members of the public have paid growing attention to the safety of blood products, with tightened government supervision of the blood product industry. Such attention and supervision, coupled with corporate mergers and acquisitions, has resulted in a decline of the number of foreign businesses of blood products from more than 100 to around 20 at present. 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 around the globe. As to the Chinese industry of blood products, production licensing and the establishment of plasma collection stations are subject to strict control by government regulators, which has resulted in the relatively slow improvement in the amount of plasma collection and production capacity, compared with the fast growth of demand. Since the second half of 2015, the removal of restrictions on blood product price has led Chinese provinces to successively include blood products in the catalogue of categories for price negotiation and launch online procurement programs for such products. Price renegotiations have led to the price increase of various blood products.

Manufactured by Octapharma, which is 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 treat the shock caused by hypovolemia, remove edema and poisonous substances, and treat neonatal hyper-bilirubinemia. As the exclusive service provider of Octapharma Human Albumin Solution for 24 Chinese provinces, municipalities and autonomous regions, the Group has ensured a reasonable price increase of Human Albumin Solution during the tendering process in each province, in a bid to lay a good market foundation for the sales of Human Albumin Solution. In the meantime, the Group raised the sales price of Human Albumin Solution over the Reporting Period. Based on its sound judgment of the trend in the blood product industry, the Group took the initiative to extend the sales of Human Albumin Solution to provinces which had yet to start price adjustment for the product, in addition to the supply of Human Albumin Solution in provinces where such price adjustment is completed. The extension aims to both boost the market share of the product and its market penetration continuously. However, the comprehensive transformation and upgrade of production lines by suppliers resulted in a temporary plunge of supply of Octapharma Human Albumin Solution during the Reporting Period; Though the supply has returned to normal during the fourth quarter, several batches of orders were still under importation procedures by the end of the Reporting Period. Meanwhile, the Group adjusted its sales strategy in an attempt to reduce reliance on its major suppliers which resulted in a decrease in sales volume by 27.5% as compared with last year, with revenue amounting to RMB514.3 million which represented a decline of 23.0% as compared with last year.

Axetine (Cefuroxime Sodium for injection)

In April 2011, the Ministry of Health, PRC, issued the 2011 National Rectification Plan for the Clinical Application of Antibacterial Agents (《2011年全國抗菌藥物臨床應用專項整治活動方案》). Since then, a slew of tightening policies had been rolled out across the country, to restrain the use of antibacterial agents. Such restriction remained one of the most influential policies in the pharmaceutical industry in 2016, with the antibacterial-agent market under the restrictions of both general hospitals and primary medical institutions. In addition, all the categories in the catalogue of antibacterial agents were subject to strict management in respect of the dynamic management of the supply catalogue of antibacterial agents, their procurement and doctor's prescriptions. As such, the market of antibacterial agents was confronted with serious, unprecedented challenges.

Manufactured by Medochemie Ltd. from Cyprus, the Axetine operated by the Group is among the second generation of cephalosporin antibiotics. Axetine is used to treat bacterial infections, 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 product of NRDL. Affected by multiple factors such as macro-economy, pharmaceutical environment and industrial policies, antibacterial agents are exposed to the acceleration of downside risks. Against the backdrop of the control of medical expenses and the "Order of Restraining the Use of Antibacterial Agents", the tendering prices have dropped in some provinces, with a certain impact upon the current sales of Axetine. Nonetheless, the product serves as a major anti-infection medicine domestically, owing to its high adherence and safety. Years of brand building and marketing network expansion have established Axetine as a product of good reputation and brand recognition in China. During the Reporting Period, the Group highlighted a differentiated approach on Axetine, with continuous efforts to increase its market penetration. As a result, the Group maintained steady sales of Axetine, and realized revenue of RMB244.9 million, representing a decrease of 5.0% as compared with last year.

Medocef (Cefoperazone Sodium for injection)

Also manufactured by Medochemie Ltd. and operated by the Group, Medocef is among the third generation of cephalosporin antibiotics. The product is used to treat 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. During the Reporting Period, due to tightened policies and the unstable supply caused by pharmaceutical plants, revenue from the sales of Medocef amounted to RMB26.3 million during the Reporting Period, representing a decrease of 55.0% as compared with last year.

Trifamox IBL (Amoxicillin Sodium and Sulbactam Sodium for injection)

The Trifamox IBL is a new product introduced by the end of 2016. Manufactured by Bago from Argentina, Trifamox IBL is a classic compound preparation of penicillin-amidase inhibitors, and an imported original product recommended by the relevant guideline for the empirical treatment of community acquired pneumonia (CAP) of children. Characteristic of an extensive antibacterial range, a great effect of enzyme inhibition, safety and reliability, Trifamox IBL is a top choice of empirical medication in the early-stage antibacterial treatment of community-acquired infection and nosocomial infection. The product is used to treat the respiratory infection, skin and soft tissue infections, pelvic infection, urinary system infection, oral cavity infection and severe systemic infection caused by ß–lactamase generating bacteria resistant to beta–lactam antibiotics and cephalosporin. During the Reporting Period, the Group was in the transfer process with its existing product market, and planned to further boost the sales of Trifamox IBL by leveraging the Group's mature sales network of antibiotics. However, during the Reporting Period, revenue from the sales of Trifamox IBL amounted to RMB0.9 million, due to its short time of introduction, its nature of "restricted medication", and tightened policies.

Taurolite (Tauroursodeoxycholic acid capsule)

Manufactured by Bruschettini S.r.l. from Italy, the Taurolite operated by the Group is used to dissolve cholelithiasis. Overseas clinical tests revealed that Taurolite yielded good clinical results in treating cholestasis liver disease and primary biliary cholangitis and could be used to treat cholelithiasis recurrence after surgery. As the 3rd generation cholic-acid drug with an exclusive brand market in China, Taurolite enjoys advantages such as higher water-binding capacity, greater safety and bioavailability, better solubility and quicker effect. The product serves as a stone-dissolving drug to replace ursodeoxycholic acid. During the Reporting Period, the Group, through constant communication and training, helped its agents to gain positive understanding of the Group's sales strategies and provide active cooperation on developing hospital clients and building the brand, all in line with the Company's product promotion strategies. The Group further promoted gallstone indications and hosted academic conferences to educate doctors, to further expand Taurolite's market coverage. Still, affected by a weak market foundation and the control of pharmaceutical expenses, revenue from the sales of Taurolite amounted to RMB63.1 million during the Reporting Period, representing a decrease of 28.4% as compared with last year.

Esafosfina (Fructose 1, 6-diphosphate for injection)

Manufactured by Biomedica Foscama Group S.p.A. from Italy, the Esafosfina operated by the Group is used to treat hypophosphatemia, chronic alcohol poisoning, long-term malnutrition, chronic respiratory failure and other chronic diseases. The product also serves as a supplementary therapeutic drug for angina, heart failure, heart attack and acute myocardial congestion. With its role in treating cardiovascular diseases, the product is included as a Category B product of NRDL. Fructose diphosphate is one of the top three cardiovascular medicines in China, while Esafosfina is the only imported diphosphate medicine in the Chinese market. During a new round of tendering

for medicine procurement, the Group ensured that the online price of Esafosfina was competitive against the domestic categories in the tendering process of each province, in a bid to lay a good market foundation for the sales of Esafosfina. Affected by centralized provincial tendering and procurement and the limited progress in developing hospital clients during the Reporting Period, the sales results of Esafosfina were not prominent after its price increase; revenue from the sales of Esafosfina amounted to RMB9.4 million, representing a decrease of 13.8% as compared with last year.

TAD (Reduced Glutathione for injection)

During the Reporting Period, the Group did not receive the renewed registration certificate for imported medicine of TAD, which prevented the Group from the effective sales and seriously affected the market share of the product. Hence, considering the product's small market, the uncertain timeframe of certificate renewal and the need to optimize its product portfolio, the Group agreed to cease the distribution agreement of TAD with Trendful Development Limited, an independent third party with a compensation of RMB1.7 million and hence caused a loss of RMB1.4 million.

2. Marketing Network Development

Apart from the continuous enrichment and optimization of its product portfolio, the Group is committed to sustaining its marketing network expansion, with continuous enhancement of distributor management as one key development strategy of the Group. The Group provides its marketing service through its internal teams and their cooperation with third-party promoters.

In the first half of 2016, the Group restructured its business and established product divisions, to further its effort to build a more professional internal team and conduct precision management of its third-party promoters. The Group boosted its marketing business structure through internal coordination and recruitment of external talents, with each division equipped with managers in charge of sales, commerce, finance, customer service and products. Each division formulates marketing strategies centered on its product line, provides overall management for the provinces and areas of each main region, and further segments the market of each provincial and area. The Group implemented a pilot marketing program, to promote its products among hospitals and carry out academic promotion activities within the pilot scope, help build model hospitals and boost the brand recognition of the Group's products, as well as provide marketing for evidence-based medical learning. In respect of building its sales team, the Group continuously enhanced relevant training and performance appraisal for its in-service staff, committing efforts to improve the team's capability of academic promotion and expand its scale, in order to build an outstanding team for more product promotion and market expansion plans in the future.

During the Reporting Period, the Group had an internal marketing team of more than 60 members.

In areas beyond the pilot marketing program, marketing is completed through the cooperation between the Group's internal teams and third-party promoters. Each division has overhauled the existing distributor network of products, with work to engage, train and supervise third-party promoters and eliminate distributors who fail to comply with national policies and requirements and adapt to the Company's development strategies and objectives. To ensure the quality of its marketing network, the Group has taken the initiative to optimize its sales channels by exploring excellent third-party promoters from respective areas to carry out marketing in non-pilot scheme areas. The move is to fully capitalize on such promoters' experience in different areas, continuously provide targeted product sales and promotion to more hospitals, and expand market coverage.

In addition, the Group had further improved the 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. Except for product promotion, the Group has taken the initiative to invite third-party promoters from across the country to discuss the major impact of relevant policies, to increase the added value and attraction of the Group's training. During the Reporting Period, the Group had 316 distributors in 31 provinces, municipalities and autonomous regions, covering 1,071 Class-III hospitals, 1,345 Class-II hospitals, 434 Class-I hospitals and over 700 pharmacies and other medical institutions.

3. Acquisition

On 4 November 2016, the Company has signed an equity transfer agreement with independent third parties Ms. Dou Yiqing and Mr. Liu Zhenqiang; and on 22 December 2016, the Group completed its acquisition of the entire equity interest in Qingdao Ruichi at a total consideration of RMB37.7 million.

Qingdao Ruichi is mainly engaged in pharmaceutical import, distribution and channel management, with close and stable business ties with multiple overseas pharmaceutical companies. The core products of Qingdao Ruichi include amoxicillin sodium and sulbactam sodium for injection (brand name: Trifamox IBL), triptorelin acetate (brand name: Diphereline) and ginkgo biloba (brand name: Tanakan), their sales covering the entire market of China. Qingdao Ruichi has qualifications on the pharmaceutical operation permit and the operation permits for some Categories II and III medical equipment. By acquiring Qingdao Ruichi, the Group has further enriched its existing product portfolio and established its marketing sub-center in East China and further consolidated and expanded the market in Northeast China. The Group integrates its MPCM services with Qingdao Ruichi's national channel management platform in order to quickly improve the Group's MPCM services provided for overseas suppliers and deepen the cooperation with them. At the same time, Qingdao Ruichi possesses qualification certificates such as Good Supply Practice ("**GSP**"), pharmaceutical supply permit and medical equipment business license, which create the condition for the Group to embark on the sales of medical equipment.

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. The Cold Chain Storage Facility

Considering its 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 facility and research and development base in Shuangliu District, Chengdu, Sichuan Province. In April 2016, the State Council promulgated a revised edition of the Regulation on the Administration of Vaccine Circulation and Injection (《疫苗流通和預防接種管理條例》); in June 2016, China Food and Drug Administration and the National Health and Family Planning Commission jointly issued a notice, stipulating that the whole delivery process of vaccines shall not be separated from cold chain control, regular monitoring and temperature recording, to ensure the quality of vaccines. The new policy has underlined the determination of regulating the Chinese pharmaceutical industry and implied that the medical cold chain industry in China has entered an era of rapid growth. The Group has almost completed the first phase of its cold chain facility (15,000 square meters), which can satisfy the Company's storage demand and provide better control for the quality and safety of the blood products in our product portfolio. Additionally, we will be able to provide third parties with medical cold-chain storage services of high quality, upon the completion of the second phase (which includes 25,000 square meters of cold chain storage and 47,000 square meters of research and development base).

5. Research and Development

The Group has entered into a collaboration agreement with the China Academy of Chinese Medical Sciences to develop "Sinco I", a 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. By the end of the Reporting Period, the Group has attained certain progress in the research and development of Sinco I, with current efforts to design and build a pilot plant for pilot experiments. Such experiments are expected to start in the first half of 2017. During the Reporting Period, the Group incurred RMB5.1 million as the research and development expenses for developing Sinco I.

OUTLOOK

Having experienced years of high-speed development, the Chinese healthcare industry is facing many challenges and undergoing reform in the short term. Notwithstanding the short-term operating pressure brought by stringent regulatory requirements promulgated by the PRC government, it is believed that the Chinese pharmaceutical industry will be further optimized, with the Chinese population aging at a faster pace, the indiscriminative implementation of the Second-Child Policy, a rising average income, and consistently expanding market scale. The reform of the Chinese medical system has entered a "deep-water zone" where the entire medical industry is in a process of adjustment and transformation. The prospects of Chinese healthcare industry remain bright as the entry threshold is raised, where businesses that adapt

to market reforms will gain more opportunities and maintain the strength. The Group will stick to its corporate development strategies of expanding the marketing network and optimizing the product portfolio, maintaining blood products as the core area of business development, taking the initiative to change in a harsh environment, and exploring new opportunities for corporate development, all in an attempt to grow bigger and stronger.

In respect of expanding its marketing network, the Group will continue its active search for opportunities to acquire quality regional firms of pharmaceutical circulation, and deliver the expansion of corporate capital, operational scale and market share. In addition, the Group will build its sales team at a faster pace and continuously work on extending its marketing network, in a bid to contribute a higher profit to the Group and accommodate more products.

As for optimizing its product portfolio, the Group will remain firm in developing blood products as its core business and continuing its close cooperation with Octapharma, with further efforts to increase the market share of Human Albumin Solution in China and actively seek broader opportunities for new production cooperation. Moreover, the Group will actively search for quality overseas products that meet the demand of the Chinese market and the Group's strategies and policies, coupled by active efforts to identify opportunities of acquiring quality rights of sale to enrich the product portfolio.

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 of the Company (the "**Shareholders**").

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB858.9 million for the Reporting Period, representing a decrease of RMB237.2 million, or 21.6% as compared to RMB1,096.1 million in 2015, mainly due to the decrease in sales volume of Human Albumin Solution by 27.5%, as the Group encountered a temporary plunge of supply, and adjusted the sales management strategy during the Reporting Period. Though the supply was returned to normal in the fourth quarter of 2016, sales volume was still not fully recovered by the end of the Reporting Period.

Besides the Human Albumin Solution impact, during the Reporting Period, in response to the issuance of new pharmaceutical policies and the change of the market environment, the Group was undertaking reformations on the business model to adapt to these changes. During the transition period, our sales performance and revenue were affected to a certain extent. For details, please refer to "Business Review" part under Management Discussion and Analysis Section.

Cost of sales

The Group recorded the cost of sales of RMB754.3 million for the Reporting Period, representing a decrease of RMB189.3 million or 20.1% as compared to RMB943.6 million in 2015, which was largely in line with the decrease in revenue.

Gross profit and gross profit margin

The Group's gross profit for the Reporting Period decreased by RMB47.9 million, or 31.4% as compared to 2015. Gross profit margin decreased from 13.9% in 2015 to 12.2% for the Reporting Period. The fluctuation could be further analysed as below:

(1) Gross profit margin for sales of Human Albumin Solution decreased by 0.9% from 12.1% in 2015 to 11.2% in 2016, which was mainly caused by the increased average unit cost of sales by 7.4% as a result of the depreciation of RMB against USD. The decline was partially offset by the increase in average selling price by 6.2% during the Reporting Period.

(2) Gross profit margin for sales of Taurolite, TAD and Esafosfina dropped by 15.3%, primarily due to (i) the decrease in selling price due to intensive market competition and (ii) the increase in average unit cost of sales. As the amortisation cost of approximately RMB5.0 million per annum in relation to the exclusive distribution right was a fixed cost, when sales volume decreased, the cost allocated to each unit increased.

Other income and gains

Other income and gains for the Reporting Period amounted to RMB8.5 million, representing an increase of RMB7.7 million as compared with 2015, primarily due to the increase in (i) foreign exchange gain arising from net foreign currency assets of RMB4.2 million; (ii) interest income on an available for sale investment of RMB1.8 million; (iii) government grants of RMB0.8 million; and (iv) other one-off income of RMB0.5 million.

Selling and distribution expenses

During the Reporting Period, the Group recorded selling and distribution expenses of RMB11.5 million, representing an increase of RMB5.8 million as compared with 2015. The Group's selling and distribution expenses primarily comprised marketing and promotion expenses, staff costs, transportation expenses and other daily operation expenses incurred by sales team. During the Reporting Period, especially in the second half of 2016, in order to further explore marketing network, the Group increased the expenditure to strengthen marketing development and brand promotion activities, which led to an increase in marketing and promotion expenses of RMB5.8 million.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB62.4 million, representing an increase of RMB21.9 million as compared with 2015, primarily due to increase in (i) professional consultation fee of RMB8.3 million; (ii) daily operation expenses of RMB4.0 million; (iii) listing expenses of RMB3.3 million; (iv) directors' remuneration and staff costs of RMB3.3 million; (v) research and development expenditure of RMB2.0 million; and (vi) share option amortisation expense of RMB1.0 million.

Other expense

The decrease in other expenses of RMB8.9 million from RMB13.4 million in 2015 to RMB4.5 million during the Reporting Period was primarily due to the decline in foreign exchange loss of RMB11.2 million, partially offset by the increase in (i) bank charges of RMB0.8 million and (ii) loss on disposal of exclusive distribution right of TAD of RMB1.4 million.

Finance costs

Finance cost increased by RMB2.1 million to RMB9.2 million as compared with RMB7.1 million in 2015, reflecting the increase in bank borrowings during the Reporting Period.

Income tax expenses

Income tax expense decreased by RMB10.0 million, or 58.1% to RMB7.2 million as compared with RMB17.2 million in 2015. The effective income tax rate increased from 19.8% in 2015 to 28.3% during the Reporting Period, primarily due to the increase in non-deductible listing expenses and capital expenditures on tax basis.

Profit for the Reporting Period

As a result of the foregoing, the Group's net profit decreased by RMB51.1 million, or 73.6% to RMB18.3 million as compared to RMB69.4 million in 2015. Net profit margin declined to 2.1% for the Reporting Period from 6.3% for year 2015.

Inventories

Inventory balances increased by RMB91.0 million to RMB137.6 million as of 31 December 2016 (31 December 2015: RMB46.6 million). The significant increase was mainly due to (i) the increase in Human Albumin Solution by RMB45.8 million, which just completed customs clearance procedures by the end of the Reporting Period; and (ii) the addition of inventory balance from the acquired subsidiary – Qingdao Ruichi of RMB43.2 million. To ensure timely delivery of pharmaceutical products, Qingdao Ruichi needs to keep the inventory balance equivalent to sales volume of two to three months. Due to the impact of sales volume decrease and inventory balance increase, the Group's average inventory turnover days increased from 28 days for the year ended 31 December 2015 to 45 days for the Reporting Period.

Bills and trade receivables

Bills receivable decreased by RMB69.1 million to RMB8.1 million as of 31 December 2016 (31 December 2015: RMB77.2 million), because most of the prepayments from our customers were made by cash deposits by the end of the Reporting Period.

Trade receivable balance of RMB11.8 million as of 31 December 2016 was all related to the business of Qingdao Ruichi, which provide a credit period ranging from 30 to 60 days to its customers. Average bills and trade receivable turnover days increased slightly from 19 days for the year ended 31 December 2015 to 21 days for the Reporting Period, mainly reflecting the impact of Qingdao Ruichi acquisition.

Based on the invoice date, all trade receivables of the Group as of 31 December 2016 were aged within 2 month and were neither past due or impaired.

Trade payables

Trade payables decreased by RMB17.0 million to RMB45.8 million as of 31 December 2016 (31 December 2015: RMB62.8 million), due to the settlement of letters of credit by the end of Reporting Period, partially offset by the addition of RMB40.1 million from Qingdao Ruichi. The acquisition of Qingdao Ruichi also led to an increase in trade payable turnover days from 16 days for the year ended 31 December 2015 to 26 days for the Reporting Period.

Payments in advance

Payments in advance increased by RMB30.5 million to RMB99.9 million as of 31 December 2016 (31 December 2015: RMB69.4 million), primarily due to the settlement of progress billings in relation to the construction of cold chain storage facility.

Goodwill

Goodwill increased by RMB23.1 million to RMB58.6 million as of 31 December 2016 (31 December 2015: RMB35.5 million), representing the goodwill acquired through business combination of Qingdao Ruichi. Details has been discussed in the section headed "Management Discussion and Analysis — Business Review — 3. Acquisition" in this announcement.

Available for sale investment

The balance as of 31 December 2016 represented a one-year fund of HK$120.0 million (equivalent to RMB103.5 million), namely William Merger and Acquisition Fund No. 9 (the "**Fund**") issued by Shenzhen City William Financial Holding Limited, an independent third party, on 13 July 2016. As of 31 December 2016, the Group's Fund with a carrying amount of HK$124.4 million (equivalent to RMB111.3 million) (2015: not applicable) was measured at fair value. Please refer to the Company's announcement dated 13 July 2016 for further details.

Bank borrowings and gearing ratio

As of 31 December 2016, the Group's interest-bearing bank loans amounted to RMB165 million (31 December 2015: RMB81.9 million), all of which were repayable within one year. The Group's gearing ratio is calculated as net debt divided by the sum of total equity and net debt, with net debt equal to interest-bearing bank loans minus cash equivalents. As of 31 December 2016, the Group's gearing ratio was 12.1% (31 December 2015: 18.4%).

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to fund working capital and other recurring expenses, payment for capital expenditure and to service indebtedness. During the Reporting Period, the Group funded its cash requirements principally from cash generated from operations and funds raised from global offerings and bank borrowings.

The following table is a condensed summary of the Group's consolidated statement of cash flows for the Reporting Period:

	2016	2015
	RMB'000	*RMB'000*
Net cash from/(used in) operating activities	**(29,903)**	46,196
Net cash used in investing activities	**(206,206)**	(53,664)
Net cash from/(used in) financing activities	**321,921**	(3,068)
Net increase/(decrease) in cash and cash equivalents	**85,812**	(10,536)
Effect of foreign exchange rate changes	**8,061**	526
Cash and cash equivalents at beginning of the year	**60,206**	70,216
Cash and cash equivalents at end of the year	**154,079**	60,206

Net cash from/(used in) operating activities

During the Reporting Period, the Group's net cash used in operating activities was RMB29.9 million as compared to net cash from operating activities of RMB46.2 million in 2015. This was mainly due to the decrease in sales volume and payment of share issue expenses in relation to existing shares of RMB35.4 million.

Net cash used in investing activities

During the Reporting Period, the Group's net cash used in investing activities was RMB206.2 million as compared to net cash used in investing activities of RMB53.7 million in 2015. This was mainly due to (i) the purchase of an available for sale investment of RMB105.5 million; (ii) payment for acquisition of Linzhi Ziguang Group of RMB27.0 million and (iii) net cash used in acquisition of Qingdao Ruichi of RMB32.7 million.

Net cash from/(used in) financing activities

During the Reporting Period, the Group's net cash from financing activities was RMB321.9 million as compared to net cash used in financing activities of RMB3.1 million in 2015. This was mainly due to (i) gross proceeds from issuance of shares of RMB277.8 million, and (ii) net proceeds from bank loans of RMB83.1 million; partially offset by the payment of (i) share issue expenses in relation to new shares of RMB25.2 million (ii) interest paid for bank loans of RMB9.2 million, and (iii) interim dividend of RMB4.6 million.

The Group's cash and bank balances at the end of the Reporting Period can be further analysed as follows:

	2016	2015
	RMB'000	*RMB'000*
Denominated in RMB	**100,945**	32,683
Denominated in US$	**36,467**	27,062
Denominated in HK$	**16,251**	113
Denominated in Euro	**416**	348
	154,079	60,206

Foreign currency risk

The Group's purchase of products from the overseas suppliers is denominated in US$ and Euro. Most of the Group's assets and liabilities are denominated in RMB, except for certain items of cash and cash equivalents, pledged bank balances, available-for-sale investments, prepayments and trade payables that are denominated in US$, Euro and HK$.

The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currencies. Management monitors the Group's foreign currency exposure and will consider hedging significant foreign currency exposure when the need arises.

Capital expenditure

The following table sets out the Group's capital expenditure for the Reporting Period:

	2016	2015
	RMB'000	*RMB'000*
Purchase of property, plant and equipment and intangible assets	**42,780**	31,664
Acquisition of subsidiaries	**59,688**	8,000
Acquisition of non-controlling interests of a subsidiary from then shareholders	**–**	14,000
	102,468	53,664

Indebtedness

The maturity profile of the Group's financial liabilities at the end of the Reporting Period, based on the contractual undiscounted payments, is as follows:

	2016			
	On demand *RMB'000*	**Less than 3 months** *RMB'000*	**3 to 12 months** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank loans	**–**	**10,092**	**158,623**	**168,715**
Trade payables	**–**	**45,832**	**–**	**45,832**
Other payables	**926**	**2,755**	**54,362**	**58,043**
	926	**58,679**	**212,985**	**272,590**

	2015			
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	17,773	67,153	84,926
Trade payables	–	62,793	–	62,793
Other payables	697	2,728	51,349	54,774
	697	83,294	118,502	202,493

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2016.

Pledge of assets

As of 31 December 2016, the Group's buildings with net carrying amount of RMB76.1 million (2015: RMB77.1 million) were pledged to secure certain bank borrowings, and the Group's bank balance of RMB52.0 million (2015: RMB22.1 million) were pledged for issuance of letters of credit for the purchase of pharmaceutical products.

Dividend

The Directors do not recommend the payment of a final dividend for the Reporting Period.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2016, the Group had a total of 141 employees. For the Reporting Period, the total staff costs of the Group was RMB12.8 million as compared to RMB9.3 million for the year ended 31 December 2015.

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. Annual bonuses of the Group's employees are determined based on 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. 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 (the "**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 the continuing operation and development of the Group.

RISK MANAGEMENT

The followings are summary of principal risks and uncertainties identified by the Company which may have material and adverse impact on our performance or operation. There may be other principal risks and uncertainties in addition to those shown below which are not known to the Company or which may not be material now but could turn out to be material in the future.

- Failure to maintain relationships with existing suppliers – The Group currently sources all the products in portfolio from limited suppliers, either directly or indirectly through their sales agents.

- Exchange rate fluctuation – The Group's purchase of products from the overseas suppliers is denominated in US$ and Euro, and certain items of bank balances and available-for-sale investments are denominated in US$, Euro and HK$.

- Decrease in gross profits due to increase in cost and competition.

- Experience prolonged delays or significant disruptions to the supply of the products.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure existing in the Group's business, and participates in formulating appropriate risk management and internal control measures, and to ensure its implementation in daily operational management.

RELATIONSHIP WITH KEY STAKEHOLDERS

Human resources is one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. The Group conducts an internal satisfaction survey every year and considers carefully employees' feedback on operating efficiency and harmony working environment. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance-based incentives.

The Group purchases pharmaceutical products from overseas suppliers, either directly or indirectly through their sales agents, and generates revenue by on-selling them to the distributors. The suppliers or their sales agents have granted the Group rights to market, promote and manage sales channels for their products in China. The Group maintains a stable and long-term relationship with suppliers by providing them access to the growing Chinese market with steady sales growth.

The Group sells pharmaceutical products to distributors, who on-sell the products to hospitals and pharmacies either directly or indirectly through their sub-distributors. The Group maintains stable and long-term relationship with the distributors by providing guidance, training and support to the distributors to carry out more targeted field marketing and promotion activities.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is primarily engaged in MPCM services for imported pharmaceutical products, a line of business that does not have material impact on the environment. The key environmental impacts from the Group's operation are related to electricity, water and paper consumption. The Group is fully aware of the importance of sustainable environmental development, and has implemented a number of measures to encourage environmental protection and energy conservation.

During the Reporting Period, we did not incur any material cost of compliance with applicable environmental laws and regulations.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Group is in compliance with the applicable laws and regulations which have significant impact on the Group in all material respects.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, 26 May 2017. A notice convening the AGM will be published and despatched to the Shareholders in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017, both days inclusive, during which no transfer of shares of the Company will be registered, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on Friday, 26 May 2017. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 22 May 2017.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately HK$260.0 million (equivalent to approximately RMB217.2 million). As of 31 December 2016, RMB123.6 million has been utilised in the manner consistent with the allocation set out in the Prospectus and the Company's announcement dated 30 December 2016 regarding the change in use of proceeds.

Uses	**Proposed use of proceeds** *RMB million*	**Utilised Proceeds as of 31 December 2016** *RMB million*	**Unutilised Proceeds as of 31 December 2016** *RMB million*
(i) Acquisition of – Sales and distribution rights of new products – businesses in the pharmaceutical industry with proprietary intellectual property or growth potential	**79.1**	**36.5**	**42.6**
(ii) Repaying a portion of the outstanding loans and bank trade credits due from the Group which were guaranteed by Mr. Huang	**60.7**	**60.7**	**–**
(iii) Developing cold chain facility and research and development base located in Sichuan Shuangliu Bonded Area	**–**	**–**	**–**
(iv) Deposits for obtaining letters of credit	**60.0**	**9.0**	**51.0**
(v) Working capital and other general corporate purposes	**17.4**	**17.4**	**–**
Total	**217.2**	**123.6**	**93.6**

CORPORATE GOVERNANCE

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 and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

From 10 March 2016 (the "**Listing Date**") to 31 December 2016, the Company has complied with all applicable code provisions of 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 Xiangbin ("**Mr. Huang**") is the Chairman of the Board and the chief executive officer. 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.

Following the appointment of Mr. Hao Jinghui ("**Mr. Hao**") as the co-chief executive officer of the Company with effect from 16 August 2016, Mr. Huang acts as the co-chief executive officer of the Company. Mr. Huang and Mr. Hao are together responsible for the Group's overall business development, operation and management.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of Directors. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period from the Listing Date to 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 31 December 2016.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") which comprises three independent non-executive Directors, namely Mr. Chow Siu Lui (Chairman), Mr. Wang Qing and Mr. Liu Wenfang. The primary duties of the Audit Committee include reviewing and supervising the Group's financial reporting process, internal control and risk management systems, preparing financial statements and internal control procedures. It also acts as an important link between the Board and the external auditors in matters within the scope of the group audit.

The Audit Committee, together with management and external auditor of the Company, has reviewed the annual results for the Reporting Period.

AUDITOR

The Company appointed Ernst & Young as the auditors of the Company for the Reporting Period. The Company will submit a resolution in the forthcoming AGM to re-appoint Ernst & Young as the auditors of the Company.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE HKSE AND THE COMPANY

This annual results announcement is published on the websites of the HKSE (http://www.hkexnews.hk) and the Company (http://www.sinco-pharm.com), and the 2016 Annual Report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the HKSE and the Company in due course.

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

Sichuan, the PRC, 27 March 2017

As of the date of this announcement, the executive Directors are Mr. Huang Xiangbin and Ms. Zhang Zhijie; and the independent non-executive Directors are Mr. Chow Siu Lui, Mr. Wang Qing and Mr. Liu Wenfang.