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 2017

FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 27.2% to RMB414.4 million for the Reporting Period (six months ended 30 June 2016: RMB569.4 million), primarily because sales volume of the Group's major products declined during the adjustment process in response to the implementation of "Two-Invoice System" across the pharmaceutical distribution industry in China.

- Gross profit of the Group decreased by 68.6% to RMB26.1 million for the Reporting Period (six months ended 30 June 2016: RMB83.1 million), due to a decrease in sales volume and an increase in the average unit cost of sales as a result of the depreciation of RMB against USD.

- During the Reporting Period, the Group recorded net loss of RMB31.5 million (six months ended 30 June 2016: net profit of RMB30.5 million), representing a decrease of RMB62.0 million.

- During the Reporting Period, loss attributable to owners of the Company amounted to RMB31.5 million, representing a decrease of RMB62.6 million as compared to the net profit attributable to owners of the Company of RMB31.1 million for the six months ended 30 June 2016.

- Basic loss per share amounted to RMB0.020 during the Reporting Period (six months ended 30 June 2016: basic earnings per share of RMB0.021).

- The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2016: HK$0.0033 per share, equivalent to RMB0.0028 per share).

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 2017 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2016 as follows:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
REVENUE	*3*	**414,368**	569,373
Cost of sales		**(388,252)**	(486,319)
Gross profit		**26,116**	83,054
Other income and gains	*4*	**3,025**	206
Selling and distribution expenses		**(11,114)**	(2,060)
Administrative expenses		**(29,120)**	(35,176)
Other expenses		**(13,508)**	(1,867)
Finance costs	*5*	**(8,859)**	(3,741)
Fair value losses on financial liabilities at fair value through profit or loss classified as held for trading	*16*	**(2,257)**	–
PROFIT/(LOSS) BEFORE TAX	*6*	**(35,717)**	40,416
Income tax credit/(expense)	*7*	**4,196**	(9,870)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(31,521)**	30,546
Attributable to:			
Owners of the Company		**(31,520)**	31,062
Non-controlling interests		**(1)**	(516)
		(31,521)	30,546
Earnings/(loss) per share attributable to ordinary equity holders of the Company:			
– Basic and diluted (RMB)	*8*	**(0.020)**	0.021

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	**30 June 2017 RMB'000 (unaudited)**	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**195,919**	103,712
Intangible assets	*9*	**30,104**	32,454
Payments in advance	*10*	**12,095**	99,858
Goodwill		**58,632**	58,632
Deposit	*10*	**3,000**	3,000
Deferred tax assets	*11*	**5,013**	–
Total non-current assets		**304,763**	297,656
CURRENT ASSETS			
Inventories		**192,782**	137,602
Trade and bills receivables	*12*	**49,330**	19,868
Prepayments, deposits and other receivables	*10*	**114,544**	67,115
Financial assets at fair value through profit or loss classified as held for trading	*16*	**–**	146
Available-for-sale investment	*13*	**109,835**	111,261
Pledged bank balances		**79,022**	52,029
Cash and cash equivalents		**83,969**	102,050
Total current assets		**629,482**	490,071
CURRENT LIABILITIES			
Trade payables	*14*	**30,551**	45,832
Advances from customers		**108,765**	45,665
Other payables		**84,019**	61,734
Interest-bearing bank loans	*15*	**141,245**	165,000
Tax payable		**2,714**	12,221
Financial liabilities at fair value through profit or loss classified as held for trading	*16*	**2,111**	–
Total current liabilities		**369,405**	330,452
NET CURRENT ASSETS		**260,077**	159,619
Total assets less current liabilities		**564,840**	457,275

	Note	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000
Non-current liabilities			
Bonds	*17*	**103,795**	–
Convertible bonds	*18*	**34,587**	–
Total non-current liabilities		**138,382**	–
Net assets		**426,458**	457,275
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**130**	130
Reserves		**427,233**	458,049
		427,363	458,179
Non-controlling interests		**(905)**	(904)
Total equity		**426,458**	457,275

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATE 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 P.O. 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 were 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 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

The unaudited interim condensed financial information for the Reporting Period has been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting".

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the following amendments to a number of International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board for the first time for the financial year beginning 1 January 2017.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 12 *Clarification of the Scope of the Standard*

The adoption of these amendments to IFRS has had no significant financial effect on the financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold.

The Group's revenue and contribution to profit are mainly derived from its sale 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 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 the purposes of resource allocation and performance assessment. In addition, the principal non-current assets employed by the Group are located in 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:

	For the six months ended 30 June			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Sales of goods:				
Human albumin solution	**217,555**	**52.5**	319,257	56.1
Antibiotics*	**146,409**	**35.3**	174,673	30.7
Others#	**50,404**	**12.2**	75,443	13.2
	414,368	**100.0**	569,373	100.0

* Axetine, Medocef and Trifamox IBL

\# Taurolite, Esafosfina, Diphereline, Etiasa, Tanakan and Smecta

Geographical information

All external revenue of the Group during the Reporting Period was attributable to customers located in China, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in China.

Information about major customers

Revenue derived from a major customers accounting for 10% or more of the total revenue is set out below:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**85,117**	*

* Less than 10% of the total revenue

4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**413**	202
Government grants*	**606**	–
Interest income on an available-for-sale investment *(note 13)*	**1,890**	–
Others	**116**	4
	3,025	206

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**5,675**	3,384
Interest on discounted bills receivable *(note 12)*	**3,098**	357
Interest on bonds *(note 17)*	**86**	–
	8,859	3,741

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**388,252**	486,319
Employee benefit expense (including Directors' remuneration):		
Wages and salaries	**6,484**	3,220
Welfare and other benefits	**518**	463
Equity-settled share option expenses *(note 19)*	**704**	–
Pension scheme contributions		
– Defined contribution fund	**704**	490
Housing fund		
– Defined contribution fund	**259**	224
Total employee benefit expense	**8,669**	4,397

	Note	For the six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Depreciation of items of property, plant and equipment	*9*	**5,173**	2,686
Amortisation of intangible assets	*9*	**2,350**	2,544
Research expenses		**1,098**	2,343
Operating lease rentals		**1,119**	613
Foreign exchange losses, net		**11,118**	347
Gain on disposal of items of property, plant and equipment		**(101)**	–
Auditors' remuneration		**750**	750

7. INCOME TAX

The major components of income tax expense/(credit) were as follows:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Income tax in China for the period	**817**	6,370
Income tax in Hong Kong for the period	**–**	3,500
Deferred tax in China for the period *(note 11)*	**(4,550)**	–
Deferred tax in Hong Kong for the period *(note 11)*	**(463)**	–
Total tax charge/(credit) for the period	**(4,196)**	9,870

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) No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Reporting Period.

(c) Sichuan Sinco Pharmaceuticals Co., Ltd. ("**Sichuan Sinco Pharmaceuticals**") is entitled to a preferential tax rate of 15% according to the "Western Development Policy" until 31 December 2020. No provision for Sichuan Sinco Pharmaceuticals tax has been made as there is no taxable profits derived from or earned by Sichuan Sinco Pharmaceuticals during the Reporting Period.

From 2015 to 2017, the income tax rate of the Tibet Autonomous Region was changed from 15% to 9%. Accordingly, Xizang Linzhi Ziguang Pharmaceutical Co., Ltd. ("**Linzhi Ziguang**") is entitled to the 9% preferential tax rate for the Reporting Period.

Except for Sichuan Sinco Pharmaceuticals and Linzhi Ziguang, the other subsidiaries of the Group located in China were liable to PRC CIT at a rate of 25% on the assessable profits generated for the Reporting Period.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss attributable to owners of the Company for the Reporting Period of RMB31,520,000 (profits attributable to owners of the Company for the six months ended 30 June 2016: RMB31,062,000), and the weighted average number of ordinary shares of 1,615,220,000 (for the six months ended 30 June 2016: 1,455,459,890) in issue during the Reporting Period.

No adjustment has been made to the basic loss per share for the Reporting Period in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the Reporting Period. No adjustment has been made to the basic earnings per share for the prior period as no diluting events occurred during the prior period.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property, plant and equipment and intangible assets during the Reporting Period are as follows:

	Property, plant and equipment *RMB'000* (Unaudited)	**Intangible assets** *RMB'000* (Unaudited)
Carrying amount at 1 January 2017	103,712	32,454
Additions	97,405	–
Disposal	(25)	–
Depreciation/amortisation charged for the Reporting Period *(note 6)*	(5,173)	(2,350)
Carrying amount at 30 June 2017	195,919	30,104

Note:

As of 30 June 2017, the Group's buildings with net carrying amounts of approximately RMB96,678,000 (31 December 2016: RMB14,090,000) 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 2017.

As of 30 June 2017, the Group's buildings with net carrying amounts of RMB85,860,000 (31 December 2016: RMB76,145,000) were pledged to banks to secure the bank loans (note 15).

10. PAYMENTS IN ADVANCE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**30 June 2017** **RMB'000** **(Unaudited)**	31 December 2016 *RMB'000*
Current portion:			
Prepayments in respect of:			
– purchase of inventories		**52,318**	21,123
– professional service fee	*(a)*	**1,012**	5,443
– others		**187**	469
Deposits		**1,522**	1,748
Other receivables in respect of:			
– value-added tax recoverable		**57,345**	36,049
– purchase rebate		**1,180**	874
– staff advances		**241**	297
– interest receivable for time deposits with original maturity of over three months		**220**	–
– others		**519**	1,112
		114,544	67,115
Non-current portion:			
Prepayments in advance in respect of:			
– acquisition of a subsidiary		**3,520**	–
– property, plant and equipment		**8,575**	99,858
		12,095	99,858
Deposit in respect of:			
– property, plant and equipment	*(b)*	**3,000**	3,000
		15,095	102,858
		129,639	169,973

Notes:

(a) The balance as of 30 June 2017 primarily represented prepayments of professional service fees made to independent third parties in relation to their respective professional services for the period from 1 July 2017 to 31 March 2018.

(b) The balance represented a deposit made to an independent third party in respect of the construction of the Group's cold chain storage facility.

11. DEFERRED TAX ASSETS

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Loss available for offsetting against taxable profit (a)	**4,696**	–
Changes on fair value of financial liabilities at fair value through profit or loss classified as held for trading	**317**	–
	5,013	–

Note:

(a) As at 30 June 2017, the Group had accumulated tax losses arising in Hong Kong of RMB2,804,000 (31 December 2016: not applicable) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. The Group also had accumulated tax losses arising in China of RMB28,220,000 (31 December 2016: not applicable) that would expire in five years for offsetting against future taxable profits of the company in which the losses arose.

Deferred tax assets have not been recognised in respect of the tax losses arisen in subsidiaries that have been loss making as it was not considered probable that tax profits would be available against which the tax losses can be utilised.

12. TRADE AND BILLS RECEIVABLES

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Trade receivables	**49,330**	11,751
Bills receivable	**–**	8,117
	49,330	19,868

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 30 June 2017 were aged within two months and were neither past due nor impaired.

During the Reporting Period, the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB146,456,000 (for the six months ended 30 June 2016: RMB55,252,000) (the "**Derecognised Bills**"). The Derecognised Bills have been accepted by reputable banks in the PRC, i.e. Industrial and Commercial Bank of China, China Merchants Bank, Bank of China and Chengdu Rural Commercial Bank, and have a maturity within three months after the end of the Reporting Period. In accordance with the Law of Negotiable Instruments in the PRC, 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 RMB3,098,000 (for the six months ended 30 June 2016: RMB357,000) (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.

13. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents a one-year fund of HK$120,000,000 (equivalent to RMB103,500,000), 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. The fixed return rate of the Fund is 3.6% per annum based on the stable income from investment portfolio including bonds, reverse repurchase bonds, bank deposits, negotiable certificates of deposit, exchange market funds, other financial products which is having low risk profile with high liquidity. The Fund is redeemable by the Group at any time after the subscription upon giving a written notice of not less than five days in advance of the redemption. Therefore, the above investment is designated as an available-for-sale debt instrument. Pursuant to the underlying contract, the Fund is principally guaranteed upon redemption or maturity. As of 30 June 2017, the Group's Fund with a carrying amount of HK$126,566,000 (equivalent to RMB109,835,000) (31 December 2016: HK$124,423,000, equivalent to RMB111,261,000) was measured at fair value.

During the Reporting Period, the accrued interest income on the Group's available-for-sale investment recognised as "other income" in profit or loss amounted to HK$2,142,000 (equivalent to RMB1,890,000) (for the six months ended in 30 June 2016: not applicable).

14. TRADE PAYABLES

An aged analysis of the trade payables as of 30 June 2017 and 31 December 2016, based on the invoice date, is as follows:

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Within 3 months	**30,551**	45,832

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

15. INTEREST-BEARING BANK LOANS

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Bank loans repayable within one year:		
Secured	**141,245**	35,000
Guaranteed	**–**	110,000
Unsecured	**–**	20,000
	141,245	165,000

As of 30 June 2017, except for a bank loan of RMB7,745,000 denominated in US$, all other bank loans were denominated in RMB.

As of 30 June 2017, except for bank loans of RMB40,000,000 bear interest at floating rates of 1.58% to 2.01% above the one-year China Inter Bank Offered Rate ("**CIBOR**"), all other bank loans bear interest at fixed rates of ranging from 3.09328% to 5.655% per annum.

As of 30 June 2017, the bank loans were secured by the Group's buildings with net carrying amounts of RMB85,860,000, the Group's time deposits of RMB43,019,000, 100% equity interest in Linzhi Ziguang and 40% equity interest in Sichuan Sinco Pharmaceuticals.

16. FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS CLASSFIED AS HELD FOR TRADING

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Currency forward contract	**(2,111)**	146

Financial liabilities at fair value through profit or loss classified as held for trading represented fair value losses on currency forward contracts at fair value as of 30 June 2017.

As of 30 June 2017, the outstanding currency forward contracts of US$5,870,000 and US$2,553,000 with maturity dates in July 2017 and August 2017 respectively were entered into by the Group and HSBC Bank (China) Limited ("**HSBC China**") and were designated by the Group as financial liabilities at fair value through profit or loss classified as held for trading upon initial recognition. The fair value of the currency forward contract was estimated by an independent professional valuer by using the Black Scholes Model.

17. BONDS

On 27 June 2017, the Company issued unlisted bonds in the aggregate principal amount of HK$120,000,000 (equivalent to RMB104,150,000). The Company's obligations under the bonds are unconditionally guaranteed by Mr. Huang Xiangbin, the Chairman, an executive director and the Co-Chief Executive Officer of the Company. The maturity date of the bonds is falling 24 months after the date of issue. The nominal effective interest rate is 10% per annum which should be payable quarterly.

The related interest expense of the bonds for the Reporting Period amounted to RMB86,000 (six months ended 30 June 2016: not applicable).

18. CONVERTIBLE BONDS

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Convertible bonds, liability component	**30,436**	–
Fair value of embedded derivatives	**4,151**	–
	34,587	–

On 30 June 2017, the Company (the "**Issuer**") had convertible bonds in the aggregate principal amount of HK$40,000,000 (equivalent to RMB34,717,000). The Company's obligations under the convertible bonds are unconditionally guaranteed by Mr. Huang Xiangbin. There was no movement in the number of these convertible bonds during the Reporting Period. Detailed terms and conditions of the convertible bonds were set out in the announcement of the Company dated 25 June 2017.

The convertible bonds issued during the Reporting Period have been split into the liability component and embedded derivatives as follows:

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Nominal value of the convertible bonds	**34,717**	–
Fair value of conversion rights as at 30 June 2017	**(4,151)**	–
Direct transaction costs attributable to the liability component	**(130)**	–
Liability component as at 30 June 2017	**30,436**	–

19. 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. Please refer to the 2016 annual report of the Company for details.

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

	Note	Weighted average exercise price HK$ per Share	Number of options '000
As at 1 January 2017	*(i)*	0.568	30,000
Forfeited during the Reporting Period	*(ii)*	0.568	(11,450)
As at 30 June 2017		0.568	18,550

Notes:

(i) The share options outstanding as at 1 January 2017 represented 30,000,000 share options granted by the Company on 21 September 2016 at an exercise price of HK$0.568 per share to certain eligible participants of the Company 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 Reporting Period.

The exercise prices and exercise periods of the share options outstanding as of 30 June 2017 and 31 December 2016 are as follows:

30 June 2017

Number of options *'000*	**Exercise price per share** *HK$*	Exercise period
7,420	**0.568**	From 21 September 2017 to 20 September 2022
5,565	**0.568**	From 21 September 2018 to 20 September 2022
5,565	**0.568**	From 21 September 2019 to 20 September 2022
18,550		

31 December 2016

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

The Company recognised a share option expense of RMB704,000 during the Reporting Period (for the six months ended 30 June 2016: not applicable).

The fair value of equity-settled share options granted 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.

As at 30 June 2017, the Company had 18,550,000 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 18,550,000 additional ordinary shares of the Company and additional share capital of HK$1,855 and share premium of at least HK$10,534,545 (before issue expenses).

At the date of this announcement, the Company had 18,550,000 share options outstanding under the Share Option Scheme, which represented approximately 1.1% of the Company's shares in issue as of that date.

20. COMMITMENTS

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

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Contracted, but not provided for:		
– Construction of a cold chain storage facility	**32,386**	2,265

21. RELATED PARTY TRANSACTIONS

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

	Note	**For the six months ended 30 June 2017** *RMB'000* **(Unaudited)**	2016 *RMB'000* (Unaudited)
Convertible bonds and bonds guaranteed by Mr. Huang Xiangbin	*(i)*	**138,382**	–
Convertible bonds and bonds secured by Risun's shares over the Company	*(ii)*	**138,382**	–

(i) The Company's obligations under the convertible bonds and the bonds are guaranteed by Mr. Huang Xiangbin for nil consideration (notes 17 & 18).

(ii) The Company's obligations under the convertible bonds and the bonds are secured by Risun's shares over the Company for nil consideration (notes 17 & 18).

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	**1,726**	667
Pension scheme contributions	**11**	49
	1,737	716

22. DIVIDENDS

The Directors resolved not to declare or pay any interim dividends for the Reporting Period to the shareholders of the Company (for the six months ended 30 June 2016: HK$0.0033 per share, equivalent to RMB0.0028 per share).

23. EVENTS AFTER THE REPORTING PERIOD

By the end of July 2017, the principal and accrued interest income of the Fund mentioned in note 13 have been fully recovered.

24. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the Board on 25 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2017 is an important year for comprehensively delivering the spirit of the National Hygiene and Health Conference (全國衛生與健康大會) and the "13th Five-Year Plan" for pharmaceutical reform. It is also a crucial year to establish a systematic framework of basic healthcare and meet the stage target of the medical reform. Given the acceleration of industrial restructuring, the People's Republic of China ("**China**" or "**the PRC**") is striving to develop the systems for hierarchical diagnosis and treatment, modern hospital management, national medical insurance, protection of pharmaceutical supply, and integrated regulation. On the one hand, the whole pharmaceutical industry faces the dilemma caused by tightened medical insurance budgets, the price limits and rising costs of pharmaceutical products. On the other hand, the pharmaceutical industry has the potential of attracting more capital injection, owing to the deepening reform of public hospitals and the emerging healthcare industry.

During the Reporting Period, pharmaceutical distribution businesses are confronted by a more complicated macro-environment affected by policies such as price reduction through public tendering, tightened medical insurance budgets, "Two-Invoice System", "Value-added Tax in place of Business Tax", public hospitals cancelling pharmaceutical price hikes. Under such policies, the Group continues to face pressure and challenges in its business, with the overall operating results significantly compromised. During the Reporting Period, the Group recorded a total revenue of RMB414.4 million (for the six months ended 30 June 2016: RMB569.4 million), representing a year-on-year decrease of 27.2%, primarily because sales volume of the Group's major products declined during the adjustment process in response to the implementation of "Two-Invoice System" across the pharmaceutical distribution industry in China. The gross profit of the Group amounted to RMB26.1 million (for the six months ended 30 June 2016: RMB83.1 million), representing a year-on-year decrease of 68.6%, due to a decrease in sales volume and an increase in the average unit cost of sales as a result of the depreciation of RMB against USD. To cope with the current dilemma, the Group has regarded industrial development trends and business demands as its orientation, optimized its product structure, adopted reasonable tendering strategies and fully tapped into product quality and brand advantages. On top of that, the Group has sought to improve product sales by continuously strengthening its marketing campaign and exploring new sales channels, so as to bring the Group's operating results back on track.

1. Product Operation

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.

Human Albumin Solution

The capacity of blood products displays a growing momentum in the Chinese end market, as China witnesses improving medical services, greater health awareness and ability to pay among residents, and the faster growth of an aging population. In China, the production of blood products is restricted by the limited number of plasma collection stations and amount of plasma collection, leaving a huge gap in market 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 price negotiation categories and launch online procurement programs for such products. This has boosted the price of blood products in varying degrees.

Manufactured by Octapharma AG ("**Octapharma**"), which is a global leading manufacturer of blood products, 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 provinces, municipalities and autonomous regions in China, the enlarged scope of human albumin indications in the Catalogue of Pharmaceutical Product for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 Edition) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2017年版)》), "**2017 National Insurance Catalogue**") has laid a good market foundation for the Group to sell our Human Albumin Solution.

However, given the faster approval of plasma collection stations in China, there has been a substantial growth in the Human Albumin Solution supply from domestic manufacturers, and a continuous increase in the supply of imported Human Albumin Solution, the overall supply of Human Albumin Solution has risen during the Reporting Period. Furthermore, the reform of the domestic pharmaceutical distribution industry led to increasing competition in the original sales channels of the Group's Human Albumin Solution, while the construction of new sales channels and networks was still in its early stage. Hence, during the Reporting Period, the sales revenue of Human Albumin Solution reached RMB217.6 million, representing a year-on-year decrease of 31.9%. Faced by the competition in original sales channels, the Group has quickly adjusted its sales strategy according to market changes. Meanwhile, to achieve stable and bigger sales, the Group has been actively developing new markets and a sophisticated marketing network with extension to end markets.

Axetine (Cefuroxime Sodium for injection)

Manufactured by Medochemie Ltd. ("**Medochemie**") from Cyprus, Axetine 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 2017 National Insurance Catalogue. The product serves as a major anti-infection medicine domestically, owing to its high adherence and safety as revealed during its long-term clinical application. Nonetheless, antibiotics faces mounting pressure of price reduction, against the backdrop of tightened medical insurance budgets and public tendering for price reduction, coupled with demand-based procurement, consortium procurement, "Double-Envelope" tendering and secondary bargaining. In the meantime, the advantages of pharmaceutical imports have been compromised by relevant policies that tend to protect domestic first-time generic drugs that meet international standards. Additionally, 2017 is the first year for the pilot "Two-Invoice System". Its new regulations would lead to the adjustment of sales channels in various provinces, municipalities and autonomous regions. The sales of Axetine were also affected. During the Reporting Period, the sales revenue of Axetine amounted to RMB123.2 million, representing a decrease of 17.0% as compared with the corresponding period of last year. With the gradual implementation of the "Two-Invoice System", the Group will complete its adjustment of sales model and network. It is believed that the sales of the product will gradually recover.

Medocef (Cefoperazone Sodium for injection)

Manufactured by Cyprus-based Medochemie, 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. Due to abnormal supply caused by the manufacturer's insufficient production, sales of Medocef amounted to RMB5.5 million during the Reporting Period, representing a decrease of 79.0% as compared with the corresponding period of last year. The manufacturer expects the product supply to gradually return to a normal level by the end of 2017.

Trifamox IBL (Amoxicillin Sodium and Sulbactam Sodium for injection)

Trifamox IBL is a new product introduced by the Group at the end of 2016. Manufactured by Laboratorios Bago S.A. from Argentina, Trifamox IBL is a classic compound preparation of penicillin-amidase inhibitors and an imported original product. 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, due to tightened pharmaceutical policies and the product nature of "restricted medication", the sales revenue of Trifamox IBL amounted to RMB17.7 million.

Other products

Apart from the products above, the Group's product portfolio also encompasses products below, which contributed revenue of approximately RMB50.4 million aggregately during the Reporting Period.

Name	Common Name	Indication	Revenue (RMB million)
Diphereline	Triptorelin acetate for injection	Metastatic prostate cancer, precocious puberty, female infertility, and pre-operational uterine fibroids	19.9
Etiasa	Mesalazine Sustained Release Granules	Ulcerative colitis, ulcerative proctitis, and Crohns Disease	14.9
Tanakan	Ginkgo biloba	Symptoms of chronic neurologic sensation and cognitive pathologic defects in elderly patients	8.6
Taurolite	Tauroursodeoxycholic acid capsule	Applicable to dissolving cholelithiasis	6.6
Esafosfina	Fructose 1, 6-diphosphate for injection	Hypophosphatemia, chronic alcohol poisoning, long-term malnutrition, chronic respiratory failure and other chronic diseases	0.3
Smecta	Montmorillonite powder	Acute and chronic diarrhea, esophagitis and the pains relating to stomach, duodenum and colon diseases	0.1
Total			50.4

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 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 environment 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 resources that are invested in each product and higher efficiency of business operation. As at 30 June 2017, the Group had an internal marketing team of approximately 50 members.

At the same time, the implementation of "Two-Invoice System" took place at a faster pace in each province. To positively respond to such implementation, the Group had required each product division to comprehensively sort out the existing structure of product distributer network. Based on sufficient communication with its distributers, the Group has further extended its sales channels to end markets through the collaboration between its internal marketing team and local distributers. Originally, service promoters were allocated by region. Now, the promoters are matched with each hospital of the region concerned, which enables the 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 hospitals, to keep improving market penetration.

In addition, the Group has 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 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 530 distributors and promoters in 31 Chinese provinces, municipalities and autonomous regions, covering approximately 1,200 Class-III hospitals, 1,500 Class-II hospitals, and over 1,000 Class-I hospitals, pharmacies and other medical institutions.

3. The 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 applied to Shuangliu District Government for land transfer, with its procedures well under way. The Group has completed the first phase of its cold chain storage 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 pharmaceutical cold-chain storage services of high quality, 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).

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 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 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. During the Reporting Period, the Group incurred RMB1.1 million as the research and development investment for developing Sinco I.

FUTURE AND OUTLOOK

In the first half of 2017, the domestic and global macro-economic environment still remain in uncertainty. 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 demand to support 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 huge demand.

The Group will continue with its corporate development strategies of expanding the marketing network and optimizing the product portfolio, and maintain the business of blood products as a core therapeutic area. With such positive efforts in corporate development, the Group seeks to grow bigger and stronger on a continuous basis. In respect of expanding its marketing network, the Group will build its sales team at a faster pace, continuously localize 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.

As for optimizing its product portfolio, the Group will stick to blood products as a core therapeutic area in its product development, continue its close cooperation with Octapharma, actively seek cooperation opportunities on new products, and further enhance the ability to provide marketing, promotion and channel management service for its Human Albumin Solution. Moreover, the Group will actively search for quality overseas products that meet the Chinese market demand and are in line with the Group's strategies and policies, coupled by active efforts to identify opportunities of acquiring quality rights of sale to enrich the existing and future product portfolios.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB414.4 million for the Reporting Period, representing a decrease of RMB155.0 million, or 27.2% as compared to RMB569.4 million in the corresponding period of 2016, mainly due to the following factors:

(i) in response to the different implementation schedules of "Two-Invoice System" across the pharmaceutical circulation industry in each province, municipality and autonomous region in China, the Group was undertaking ongoing adjustment to its business model and sales network, which led to a decrease in sales volume of products during such ongoing adjustment period. Among which sales volume of Axetine and Medocef decreased by approximately 30.5%, and revenue decreased by RMB45.9 million as compared to the corresponding period of 2016; while for relatively new products with weak market foundation, i.e. Taurolite and Esafosfina, sales volume decreased by approximately 90%, and revenue decreased by RMB68.5 million as compared to the corresponding period of 2016;

(ii) affected by the market adjustment of blood products, sales volume of Human Albumin Solution decreased by approximately 30.4% as compared with the corresponding period of 2016 and in response to the market competition, the Group also reduced the average selling price slightly by 2.1%. As a result, revenue contributed by Human Albumin Solution decreased by RMB101.7 million as compared to the corresponding period of 2016; and

(iii) Qingdao Ruichi Pharmaceuticals Co., Ltd. ("**Qingdao Ruichi**") was acquired by the end of 2016, and contributed revenue of approximately RMB61.0 million during the Reporting Period, mainly generated from the sales of Diphereline, Tanakan, Etiasa and Trifamox IBL.

For detailed discussion of operation performance by products, please refer to the section headed "Management Discussion and Analysis — Business Review".

Cost of sales

The Group recorded the cost of sales of RMB388.3 million for the Reporting Period, representing a decrease of RMB98.0 million or 20.2% as compared to RMB486.3 million in the corresponding period of 2016, which was in line with the decrease in sales volume.

Gross profit and gross profit margin

The Group's gross profit for the Reporting Period decreased by RMB57.0 million, or 68.6% as compared to the corresponding period of 2016. Gross profit margin decreased from 14.6% in the first half year of 2016 to 6.3% for the Reporting Period. The decrease could be further analyzed as below:

(i) affected by the depreciation of RMB against USD, the Group's purchase cost of products increased, which led to an increase in average unit cost of sales by approximately 5% to 6% during the Reporting Period as compared with the first half year of 2016; and

(ii) the reduction of average selling price of Human Albumin Solution by 2.1% as mentioned above.

Other income and gains

Other income and gains for the Reporting Period amounted to RMB3.0 million, representing an increase of RMB2.8 million as compared with the corresponding period of 2016, primarily due to the increase in (i) interest income on an available-for-sale investment of RMB1.9 million; and (ii) government grants of RMB0.6 million.

Selling and distribution expenses

During the Reporting Period, the Group recorded selling and distribution expenses of RMB11.1 million, representing an increase of RMB9.0 million as compared with the corresponding period of 2016, primarily because in responding to the gradual implementation of "Two-Invoice System", the Group has streamlined its distributor network, and involved more internal sales team to cooperate with regional third-party promoters. As a result, the Group's marketing and promotion expenses increased by RMB5.8 million, while staff costs and travelling expenses incurred by internal sales team also increased by RMB2.6 million during the Reporting Period.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB29.1 million, representing a decrease of RMB6.1 million as compared with the corresponding period of 2016, primarily due to the decrease in listing expenses of RMB17.5 million. The decrease was partially offset by the increase in the following aspects:

(i) directors' remuneration and staff costs (including share option amortization expense) of RMB2.8 million;

(ii) depreciation of RMB2.5 million in relation to the increase in property, plant and equipment since the second half year of 2016;

(iii) the amortisation expenses of the exclusive distribution right of RMB2.3 million were reclassified from cost of sales to administrative expenses;

(iv) daily operation expenses of RMB1.9 million; and

(v) professional consultation fee of RMB2.0 million.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB13.5 million, representing an increase of RMB11.6 million as compared with the corresponding period of 2016, mainly due to the incurrence of foreign exchange losses of RMB11.1 million.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB8.9 million, representing an increase of RMB5.2 million as compared with the corresponding period of 2016, among which (i) interest on bank borrowings increased by RMB2.3 million, as the Group has obtained more bank borrowings since the second half year of 2016 to facilitate the increasing purchase of Human Albumin Solution; and (ii) interest on discounted bills receivable increased by RMB2.7 million for efficient capital management purpose.

Income tax credit/(expense)

During the Reporting Period, the Group recorded income tax credit of RMB4.2 million as the operation result was in a loss position.

Profit/(loss) for the Reporting Period

As a result of the foregoing, the Group recorded net loss of RMB31.5 million, representing a decrease of RMB62.0 million as compared to the net profit of RMB30.5 million in the corresponding period of 2016.

Inventories

Inventory balances increased by RMB55.2 million to RMB192.8 million as of 30 June 2017 (31 December 2016: RMB137.6 million). The increase was mainly due to the increase in Human Albumin Solution by RMB97.7 million as a result of the decline in sales volume affected by market adjustment of blood products. The increase was partially offset by the decrease in Axetine and Medocef of RMB5.8 million, the decrease in Taurolite and Esafosfina of RMB6.6 million and the decrease in inventory balance of Qingdao Ruichi of RMB30.1 million.

The Group's average inventory turnover days increased from 45 days for the year ended 31 December 2016 to 77 days for the Reporting Period, primarily due to the sales volume decrease and inventory balance increase of Human Albumin Solution.

Trade and bills receivables

Trade receivable increased by RMB37.5 million to RMB49.3 million as of 30 June 2017 (31 December 2016: RMB11.8 million). During the Reporting Period, the Group's trading terms with its customers are mainly on full payment in advance of delivery either in cash or bills receivable accepted by a bank except for certain customers which are granted credit terms ranging from 30 days to 60 days. Average bills and trade receivable turnover days decreased from 21 days for the year ended 31 December 2016 to 15 days for the Reporting Period, mainly reflecting the impact of the acquisition of Qingdao Ruichi.

Based on the invoice date, all trade receivables of the Group as of 30 June 2017 were aged within 2 months and were neither past due or impaired.

Trade payables

Trade payables decreased by RMB15.2 million to RMB30.6 million as of 30 June 2017 (31 December 2016: RMB45.8 million), primarily due to the settlement of payables of RMB22.9 million from Qingdao Ruichi, as a result the average trade payable turnover days decreased from 26 days for the year ended 31 December 2016 to 18 days for the Reporting Period.

Payments in advance

Payments in advance decreased by RMB87.8 million to RMB12.1 million as of 30 June 2017 (31 December 2016: RMB99.9 million), primarily because (i) the cold chain storage facility of approximately RMB93.6 million were transferred to property, plant and equipment during the Reporting Period; and (ii) the payment in relation to acquisition of a pharmaceutical company of RMB3.5 million.

Available-for-sale investment

The balance as of 30 June 2017 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 30 June 2017, the Group's Fund with a carrying amount of HK$126.6 million (equivalent to RMB109.8 million) (31 December 2016: HK$124.4 million, equivalent to RMB111.3 million) was measured at fair value. Please refer to the Company's announcement dated 13 July 2016 for further details.

Borrowings and gearing ratio

As of 30 June 2017, the Group's interest-bearing bank loans amounted to RMB141.2 million (31 December 2016: RMB165.0 million), all of which were repayable within one year.

Apart from bank borrowings, in June 2017, the Group has issued bonds (the "**Bonds**") of HK$120.0 million and convertible bonds (the "**CB**") of HK$40.0 million. The Bonds bear interest at 10% per annum and the CB bear interest at 8% per annum and convertible into the shares of the Company, details of which have been set out in the announcements of the Company dated 25 June 2017, 27 June 2017 and 30 June 2017. As of 30 June 2017, the Bonds and CB amounted to RMB138.4 million (31 December 2016: nil).

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, Bonds and liability component of CB minus cash equivalents. As of 30 June 2017, the Group's gearing ratio was 31.0% (31 December 2016: 12.1%).

Liquidity and capital resources

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash from/(used in) operating activities	**(88,157)**	8,666
Net cash used in investing activities	**(39,392)**	(35,254)
Net cash from financing activities	**107,190**	327,014
Net increase/(decrease) in cash and cash equivalents	**(20,359)**	300,426
Effect of foreign exchange rate changes	**(729)**	3,611
Cash and cash equivalents at beginning of the period	**154,079**	60,206
Cash and cash equivalents at end of the period	**132,991**	364,243

Analysis of balances of cash and cash equivalents:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash and cash equivalents as stated in the statement of financial position	**83,969**	284,661
Time deposits with original maturity of less than three months when acquired, pledged as security for issuance of letters of credit	**49,022**	79,582
Cash and cash equivalents as stated in the statement of cash flows	**132,991**	364,243

Net cash from/(used in) operating activities

During the Reporting Period, the Group's net cash used in operating activities was RMB88.2 million. This was mainly due to the cash used in purchase of Human Albumin Solution and importation tax and charges were greater than the cash received from sale of the products.

Net cash used in investing activities

During the Reporting Period, the Group's net cash used in investing activities was RMB39.4 million, including (i) placement of pledged deposits of RMB30.0 million; and (ii) payment in relation to capital expenditure of RMB9.5 million with details set out in the capital expenditure analysis below.

Net cash from financing activities

During the Reporting Period, the Group's net cash from financing activities was RMB107.2 million, mainly representing (i) proceeds of bank borrowings of RMB142.7 million; and (ii) proceeds from Bonds and the CB of RMB139.7 million. The cash inflow was partially offset by (i) repayment of bank borrowings of RMB166.4 million; (ii) payment of bank borrowing interests of RMB5.7 million; and (iii) payment of interest on discounted bills receivable of RMB3.1 million.

The following table sets out the Group's cash and cash equivalents at the end of the Reporting Period:

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000*
Denominated in RMB	**79,823**	100,945
Denominated in US$	**1,725**	36,467
Denominated in HK$	**51,002**	16,251
Denominated in Euro	**441**	416
	132,991	154,079

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, other receivables, available-for-sale investments, prepayments and trade payables, bank loans, Bonds and CB 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 periods indicated:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Purchases of property, plant and equipment	**5,998**	25,754
Acquisition of a subsidiary	**–**	9,500
Prepayment for the acquisition of a subsidiary	**3,520**	–
	9,518	35,254

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2017, the Group had a total of 130 employees. For the Reporting Period, the total staff costs of the Group was RMB8.7 million as compared to RMB4.4 million for the six months ended 30 June 2016.

The Group's employee remuneration policy is determined by taking into account 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's employees are considered for 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. 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 recognize 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.

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 30 June 2017, RMB200.1 million had been utilised in the manner consistent with the allocation set out in the prospectus of the Company dated 29 February 2016 and the Company's announcements dated 30 December 2016 and 16 June 2017 regarding the changes in use of proceeds.

Uses	**Proposed use of proceeds**[1] *RMB million*	**Utilised Proceeds as of 30 June 2017** *RMB million*	**Unutilised Proceeds as of 30 June 2017** *RMB million*
(i) Acquisition of – Sales and distribution rights of new products – Businesses in the pharmaceutical industry with proprietary intellectual property or growth potential	39.5	39.5	–
(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	43.3	43.3	–
(v) Repaying letters of credit at maturity	48.3	31.2	17.1
(vi) Repaying bank loans	8.0	8.0	–
(vii) Working capital and other general corporate purposes	17.4	17.4	–
Total	217.2	200.1	17.1

Note:

(1) The proposed use of proceeds had been amended by the Company on 30 December 2016 and 16 June 2017. Please refer to the announcements of the Company dated 30 December 2016 and 16 June 2017 for further details.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (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 Xiangbin ("**Mr. Huang**") is the Chairman of the Board. Further, Mr. Huang and Mr. Wu Qingjiang jointly serve as the co-chief executive officers of the Company, sharing the responsibility of the Group's overall business development, operation, and management work. With Mr. Huang's extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and co-chief executive officer in Mr. Huang 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.

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 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2016: HK$0.0033 per share, equivalent to RMB0.0028 per share).

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.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company ("**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.

PUBLICATION OF THE INTERIM RESULTS AND 2017 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 2017 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

Shanghai, PRC, 25 August 2017

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. Chow Siu Lui, Mr. Wang Qing and Mr. Liu Wenfang.