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 2017

FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 6.1% or RMB52.2 million to RMB806.7 million for the Reporting Period (2016: RMB858.9 million), primarily due to a decline in sales of Human Albumin Solution of RMB106.9 million during the Group's adjustment process of marketing network in response to the implementation of new policies across the pharmaceutical distribution industry in China.

- Gross profit of the Group decreased by 10.6% or RMB11.1 million to RMB93.5 million for the Reporting Period (2016: RMB104.6 million), due to a decrease in sales volume and an increase in 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 RMB185.9 million (2016: net profit of RMB18.3 million), primarily due to a decrease in gross profit as mentioned above, an increase in selling and distribution expenses of RMB84.4 million, an increase in finance costs of RMB24.5 million and impairment losses on inventory, intangible assets and goodwill of RMB91.7 million.

- During the Reporting Period, loss attributable to owners of the Company amounted to RMB185.9 million, representing a decrease of RMB205.3 million as compared to the net profit attributable to owners of the Company of RMB19.4 million in 2016.

- Basic loss per share amounted to RMB0.115 during the Reporting Period (2016: basic earnings per share of RMB0.013).

- The Board resolved not to declare any final dividend for the Reporting Period (2016: Nil).

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 2017 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
REVENUE	*3*	**806,723**	858,894
Cost of sales		**(713,190)**	(754,326)
Gross profit		**93,533**	104,568
Other income and gains	*4*	**4,211**	8,533
Selling and distribution expenses		**(95,919)**	(11,470)
Administrative expenses		**(57,256)**	(62,419)
Impairment loss on intangible assets	*11*	**(27,531)**	–
Impairment loss on goodwill	*13*	**(38,961)**	–
Other expenses		**(39,244)**	(4,459)
Finance costs	*5*	**(33,701)**	(9,187)
PROFIT/(LOSS) BEFORE TAX	*6*	**(194,868)**	25,566
Income tax credit/(expense)	*7*	**8,971**	(7,229)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(185,897)**	18,337
Attributable to:			
Owners of the parent		**(185,896)**	19,367
Non-controlling interests		**(1)**	(1,030)
		(185,897)	18,337
Earnings/(loss) per share attributable to ordinary equity holders of the parent:			
– Basic and diluted (RMB)	*9*	**(0.115)**	0.013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**191,767**	103,712
Intangible assets	*11*	**223**	32,454
Payments in advance	*12*	**40,736**	99,858
Goodwill	*13*	**23,701**	58,632
Deposit	*14*	**3,000**	3,000
Deferred tax assets	*15*	**9,159**	–
Total non-current assets		**268,586**	297,656
CURRENT ASSETS			
Inventories	*16*	**291,193**	137,602
Trade and bills receivables	*17*	**37,106**	19,868
Prepayments, deposits and other receivables	*14*	**146,683**	67,115
Financial assets at fair value through profit or loss classified as held for trading		**–**	146
Available-for-sale investment		**–**	111,261
Pledged bank balances		**52,941**	52,029
Cash and cash equivalents		**22,710**	102,050
Total current assets		**550,633**	490,071
CURRENT LIABILITIES			
Trade payables	*18*	**22,522**	45,832
Advances from customers		**41,503**	45,665
Other payables		**70,029**	61,734
Interest-bearing bank and other loans	*19*	**275,815**	165,000
Tax payable		**2,546**	12,221
Financial liabilities at fair value through profit or loss classified as held for trading		**218**	–
Bonds	*20*	**133,856**	–
Total current liabilities		**546,489**	330,452
NET CURRENT ASSETS		**4,144**	159,619
Total assets less current liabilities		**272,730**	457,275
Net assets		**272,730**	457,275
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*21*	**130**	130
Reserves		**273,505**	458,049
		273,635	458,179
Non-controlling interests		**(905)**	(904)
Total equity		**272,730**	457,275

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 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 year, 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 year.

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.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Starwell Group Holding Limited	26 November 2013 BVI	US$50,000	100	–	Investment holding
Bright Ritzy Limited	5 August 2016 BVI	US$1	100	–	Investment holding
Hong Kong Prosperous Group Holding Limited ("**Hong Kong Prosperous**")	20 December 2013 Hong Kong	HK$100	–	100	Sale of pharmaceutical products
Glorious Empire Limited	26 August 2016 Hong Kong	HK$1	–	100	Investment holding
Sichuan Sinco Pharmaceuticals Co., Ltd. ("**Sichuan Sinco Pharmaceuticals**") 四川興科蓉藥業有限責任公司[(i)]	1 April 2011 Mainland China	RMB50,000,000	–	100	Sale of pharmaceutical products
Sichuan Sinco Biological Technology Co., Ltd. 四川興科蓉生物科技有限公司[(ii)]	25 November 2013 Mainland China	RMB1,000,000	–	70	Research and development on pharmaceutical products

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Chengdu Sinco Pharmaceutical Technology Co., Ltd. ("**Chengdu Sinco Technology**" 成都興科蓉醫藥技術有限責任公司[ii]	26 February 2014 Mainland China	RMB22,000,000	–	100	Providing warehouse facilities for pharmaceutical products
Chengdu Hengsheng Ziguang Pharmaceutical Technology Co., Ltd. ("**Chengdu Hengsheng**") 成都恒盛紫光醫藥技術有限責任公司[ii]	4 March 2015 Mainland China	RMB100,000	–	100	Consultation on medical and biological technology
Xizang Linzhi Ziguang Pharmaceutical Co., Ltd. ("**Linzhi Ziguang**") 西藏林芝紫光藥業有限責任公司[ii]	17 November 2014 Mainland China	RMB10,000,000	–	100	Sale of pharmaceutical products
Sinco Shanghai Trading Co., Ltd. ("**Sinco Shanghai**") 興科蓉(上海)貿易有限公司[i]	25 August 2016 Mainland China	RMB5,000,000	–	100	Sale of pharmaceutical products
Qingdao Yusheng Hengying Trading Co., Ltd. ("**Qingdao Yusheng**") 青島煜盛恒盈貿易有限公司[i]	15 November 2016 Mainland China	RMB30,000,000	–	100	Investment holding
Qingdao Ruichi Pharmaceuticals Co., Ltd. ("**Qingdao Ruichi**") 青島瑞馳藥業有限公司[ii]	15 May 2007 Mainland China	RMB10,000,000	–	100	Sale of pharmaceutical products
Chengdu Sinco Pharmaceutical Co., Ltd. ("**Chengdu Sinco Pharmaceuticals**") 成都興科蓉醫藥有限公司[ii]	17 February 2011 Mainland China	RMB68,000,000	–	100	Sale of pharmaceutical products

(i) Sichuan Sinco Pharmaceuticals, Sinco Shanghai and Qingdao Yusheng are registered as wholly-foreign-owned enterprises under the PRC law.

(ii) These subsidiaries are registered as domestic enterprises under the PRC law.

During the year, the Group acquired Chengdu Sinco Pharmaceuticals from an independent third party. Further details of this acquisition are included in note 23 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise all 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 and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. 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 year ended 31 December 2017. 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 parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs* 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note to the consolidated statement of cash flows upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 year:

	2017		2016	
	RMB'000	***%***	*RMB'000*	*%*
Sales of goods:				
Human albumin solution	**407,321**	**50.5**	514,265	59.9
Antibiotics*	**326,070**	**40.4**	272,069	31.7
Others#	**73,332**	**9.1**	72,560	8.4
	806,723	**100.0**	858,894	100.0

* Axetine, Medocef and Trifamox IBL

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

Geographical information

All external revenue of the Group during each of the two years ended 31 December 2017 and 2016 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:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**91,626**	*
Customer B	*****	159,587

* Less than 10%

4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2017	2016
	RMB'000	*RMB'000*
Bank interest income	**1,155**	655
Government grants*	**883**	1,205
Foreign exchange gains, net	**–**	4,231
Interest income on an available-for-sale investment	**2,024**	1,810
Net gains on disposal of property, plant and equipment	**128**	–
Fair value gains on financial assets at fair value through profit or loss classified as held for trading	**–**	146
Others	**21**	486
	4,211	8,533

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**18,348**	8,627
Interest on discounted bills receivable *(note 17)*	**4,376**	560
Interest on bonds	**10,977**	–
	33,701	9,187

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**713,190**	754,326
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**11,641**	9,152
Welfare and other benefits		**310**	1,078
Equity-settled share option expense	*22*	**1,352**	995
Pension scheme contributions – Defined contribution fund		**1,300**	1,080
Housing fund – Defined contribution fund		**479**	466
Total employee benefit expense		**15,082**	12,771
Depreciation of items of property, plant and equipment	*10*	**10,660**	5,554
Amortisation of intangible assets	*11*	**4,700**	5,112
Depreciation and amortisation		**15,360**	10,666
Impairment losses recognised on:			
Intangible assets	*11*	**27,531**	–
Goodwill	*13*	**38,961**	–
Write-down of inventories to net realisable value		**25,213**	–
Research expenses		**1,996**	5,089
Operating lease rentals		**1,682**	1,418
Foreign exchanges losses/(gains), net		**2,068**	(4,231)
Loss on disposal of an exclusive distribution right		**–**	1,435
Gains on disposal of items of property, plant and equipment	*4*	**(128)**	–
Loss on settlement of derivative financial instruments		**8,055**	–
Fair value losses on financial liabilities at fair value through profit or loss		**218**	–
Auditors' remuneration		**2,700**	2,680

7. INCOME TAX/(CREDIT)

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 profits tax has been provided at the rate of 16.5% on the Group's assessable profits derived from Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

The provision for 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 were entitled to a preferential income tax rate, other PRC subsidiaries were subject to PRC CIT at a rate of 25% during the two years ended 31 December 2017 and 2016.

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

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
Income tax in Mainland for the year	**188**	5,961
Income tax in Hong Kong for the year	**–**	1,268
Deferred tax:		
Deferred tax in Mainland for the year *(note 15)*	**(8,023)**	–
Deferred tax in Hong Kong for the year *(note 15)*	**(1,136)**	–
Total tax charge/(credit) for the year	**(8,971)**	7,229

8. DIVIDENDS

At a meeting of the board of Directors held on 29 March 2018, the Directors resolved not to pay final dividends to shareholders for the year ended 31 December 2017 (2016 final dividend: Nil).

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

The calculation of basic loss (2016: earnings) per share for the year ended 31 December 2017 is based on the loss (2016: profit) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,615,220,000 (2016: 1,535,776,448) in issue during the year.

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.

10. PROPERTY, PLANT AND EQUIPMENT

As of 31 December 2017, the Group's buildings with a net carrying amount of approximately RMB100,506,000 (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 31 December 2017.

As of 31 December 2017, the Group's buildings with a net carrying amount of RMB84,725,000 (2016: RMB76,145,000) were pledged to two banks to secure the bank loans (note 19 (a)).

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

11. INTANGIBLE ASSETS

	Software *RMB'000*	Exclusive distribution rights *RMB'000*	Total *RMB'000*
Cost at 1 January 2017, net of accumulated amortisation	**334**	**32,120**	**32,454**
Amortisation provided during the year *(note 6)*	**(111)**	**(4,589)**	**(4,700)**
Impairment during the year	**–**	**(27,531)**	**(27,531)**
At 31 December 2017	**223**	**–**	**223**
At 31 December 2017:			
Cost	**403**	**41,298**	**41,701**
Accumulated amortisation	**(180)**	**(13,767)**	**(13,947)**
Impairment	**–**	**(27,531)**	**(27,531)**
Net carrying amount	**223**	**–**	**223**
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 *(note 6)*	(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

In order to adapt to the new pharmaceutical policy and market changes, having conducted prudent business assessment and thorough review of its product portfolio, the Group has taken steps to terminate or suspend the business of some non-major products, such as Taurolite and Esafosfina, during the year ended 31 December 2017, and concentrated resources on the marketing and promotion of the Group's core products such as human albumin solution and antibiotics. Such business restructuring resulted in a plunge in the sales revenue of Taurolite and Esafosfina and the full impairment of the distribution rights of RMB27,531,000 for the year ended 31 December 2017 (2016: Not applicable).

12. PAYMENTS IN ADVANCE

	2017 ***RMB'000***	2016 *RMB'000*
In respect of:		
Prepaid long-term technique service fee	**8,581**	–
Prepaid long-term consulting service fee	**1,346**	–
Construction of a warehouse	**30,809**	99,858
	40,736	99,858

13. GOODWILL

	RMB'000
Cost at 1 January 2016, net of accumulated impairment	35,526
Acquisition of a subsidiary	23,106
Cost and net carrying amount at 31 December 2016	58,632
At 31 December 2016:	
Cost	58,632
Accumulated impairment	–
Net carrying amount	58,632
Cost at 1 January 2017, net of accumulated impairment	58,632
Acquisition of a subsidiary *(note 23)*	4,030
Impairment during the year	(38,961)
Cost and net carrying amount at 31 December 2017	23,701
At 31 December 2017:	
Cost	62,662
Accumulated impairment	(38,961)
Net carrying amount	23,701

Goodwill is acquired through the business combination of Chengdu Hengsheng and its wholly-owned subsidiary, namely, Linzhi Ziguang on 31 March 2015 (Linzhi Ziguang Goodwill), the business combination of Qingdao Ruichi on 22 December 2016 (Qingdao Ruichi Goodwill) and the business combination of Chengdu Sinco Pharmaceuticals on 19 September 2017 (Chengdu Sinco Pharmaceuticals Goodwill).

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("**CGU**") for impairment testing:

- Sichuan Sinco Pharmaceuticals CGU (Linzhi Ziguang Goodwill and Chengdu Sinco Pharmaceuticals Goodwill); and

- Qingdao Ruichi CGU (Qingdao Ruichi Goodwill)

Sichuan Sinco Pharmaceuticals CGU

The recoverable amount of the Sichuan Sinco Pharmaceuticals CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 20.1% (2016: 20.1%), which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. Cash flows beyond the five-year period were assumed to be stable.

Qingdao Ruichi CGU

The recoverable amount of the Qingdao Ruichi CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 21.3% (2016: Not applicable), which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. Cash flows beyond the five-year period were assumed to be stable.

The carrying amount of goodwill allocated to each of the CGU is as follows:

	Sichuan Sinco Pharmaceuticals		**Qingdao Ruichi**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount of goodwill	**23,585**	58,632	**116**	–	**23,701**	58,632

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.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Current portion			
Prepayments in respect of:			
– purchase of inventories		**3,128**	21,123
– financing consultation service fee		**7,048**	–
– marketing and promotion service fee	*(a)*	**74,608**	–
– consultation service fee		**397**	5,443
– others		**61**	469
Deposits		**1,818**	1,748
Other receivables in respect of:			
– value-added tax recoverable		**57,763**	36,049
– purchase rebate		**1,048**	874
– staff advances		**214**	297
– interest receivable for time deposits with original maturity of over three months		**514**	–
– others		**84**	1,112
		146,683	67,115
Non-current portion			
Deposit in respect of:			
– Property, plant and equipment	*(b)*	**3,000**	3,000
		149,683	70,115

Notes:

(a) The balance as at 31 December 2017 represents a prepayment of RMB74,608,000 in relation to promotion service provided by ten independent third-party distributors. The total service prepayment amounted to RMB85,485,000 covering the period from 1 September 2017 to 31 October 2018, of which RMB10,877,000 has been released to profit or loss during the year ended 31 December 2017.

(b) The balance represents a deposit paid to an independent third party, which is controlled by State-owned Assets Supervision and Administration Office of Shuangliu District, in respect of the construction of the Group's warehouse.

None of the above assets is either past due or impaired. The financial assets included in the above relate to receivables for which there was no recent history of default.

15. DEFERRED TAX

As at 31 December 2017, the Group had accumulated tax losses arising in Hong Kong of RMB6,885,000 (31 December 2016: Not applicable) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

As at 31 December 2017, the Group also had accumulated tax losses arising in Mainland China of RMB53,267,000 (31 December 2016: Not applicable) that would expire in five years for offsetting against future taxable profits of the companies 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.

Deferred tax assets related to the subsidiary in Hong Kong have been provided at the enacted profits tax rate of 16.5%. Deferred tax assets related to the PRC subsidiaries have been provided at the enacted corporate income tax rate of 15%.

16. INVENTORIES

At the end of the Reporting Period, all inventories represented purchased pharmaceutical products.

At 31 December 2017, the Group's inventories with a carrying amount of RMB125,739,000 (2016: Nil) were pledged to secure the Group's other loans as further detailed in note 19(d) to the financial statements.

17. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**26,481**	11,751
Bills receivable	**10,625**	8,117
	37,106	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 45 days to 90 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 2017 were aged within three months and were neither past due nor impaired.

As at 31 December 2017, the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB200,920,000 (the "**Derecognised Bills**") (2016: RMB94,687,000). The Derecognised Bills had been accepted by reputable banks in the PRC like Industrial and Commercial Bank of China, China Merchants Bank, Bank of Dahua, Bank of China and Chengdu Rural Commercial Bank and had a maturity within three 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 year, the Group has recognised interest expenses of RMB4,376,000 (2016: RMB560,000) (note 5) on discounted bills receivable. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The discounting has been made evenly throughout the year.

18. TRADE PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Within three months	**22,522**	45,832

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

19. INTEREST-BEARING BANK AND OTHER LOANS

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Bank loans:			
Secured and guaranteed	*(a)*	**88,000**	–
Secured	*(b)*	**58,500**	35,000
Guaranteed	*(c)*	**11,213**	110,000
Unsecured		**–**	20,000
		157,713	165,000
Other loans:			
Secured	*(d)*	**118,102**	–
		275,815	165,000
Bank and other loans repayable:			
Within one year		**275,815**	165,000

Notes:

(a) The balance as at 31 December 2017 represents (i) a one-year bank loan of RMB50,000,000 bearing interest at the rate of 6.525% per annum granted by Mianyang City Commercial Bank Co., Ltd. with a maturity date on 24 July 2018, which is guaranteed by Sichuan Development Financing Guarantee Co., Ltd. ("**Sichuan Development**"). The guarantee provided by Sichuan Development is secured by the Group's equity interest in Chengdu Sinco Technology and Group's buildings located in Chengdu High-tech District and Chengdu High-tech Western District; (ii) two six-month bank loans totalling RMB20,000,000 granted by Bank of China bearing interest at the rate of 1.58% above the one-year China Inter Bank Offered Rate ("**CIBOR**") with respective maturity dates on 1 June 2018 and 5 June 2018, which are secured by the Group's certain building located in Chengdu Shuangliu District and jointly guaranteed by the Company, Sichuan Sinco Pharmaceuticals and Chengdu Hengsheng; and (iii) a six-month bank loan of RMB18,000,000 granted by Bank of China bearing interest at the rate of 2.01% above the one-year CIBOR with a maturity date on 28 February 2018, which is secured by the Group's certain building located in Chengdu Shuangliu District and jointly guaranteed by the Company, Sichuan Sinco Pharmaceuticals and Chengdu Sinco Technology.

(b) The balance as at 31 December 2017 represents (i) a one-year bank loan of RMB28,500,000 granted by Bank of Shanghai bearing interest at the rate of 4.3935% per annum with a maturity date on 13 February 2018, which is secured by a one-year fixed deposit of RMB30,000,000; and (ii) a one-year bank loan of RMB30,000,000 granted by Bank of Shanghai bearing an interest rate of 5.655% per annum with a maturity date on 22 January 2018, which is secured by the Group's 100% equity interests in Linzhi Ziguang and 40% equity interests in Sichuan Sinco Pharmaceuticals.

(c) The balance as at 31 December 2017 represents three-month banks loan of US$558,000 (equivalent to RMB3,648,000) and US$1,158,000 (equivalent to RMB7,565,000) granted by China Merchants Bank to the Group, both of which bear interest at the rate of 2.5% above three-month LIBOR with a maturity dates on 27 March 2018 and 26 March 2018 respectively. They are jointly guaranteed by Sichuan Kelun Pharmaceutical Trading Co., Ltd., an independent third party incorporated in Chengdu, coupled with the Company.

(d) The balance as at 31 December 2017 represents other loans borrowed from two independent third parties with principal of RMB118,102,000 in aggregate, which bear interest at effective interest rates ranging from 17.7% to 20.7% per annum with maturity dates in March 2018. Such loans are secured by the Group's inventories with a carrying amount of RMB125,739,000 (note 16).

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

20. BONDS

	Notes	2017 *RMB'000*	2016 *RMB'000*
June 2017 Bonds	*(a)*	**100,152**	–
December 2017 Bonds	*(b)*	**33,704**	–
Carrying amount of bonds at 31 December 2017		**133,856**	–

Notes:

(a) 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 "**June 2017 Bonds**"). The Company's obligations under the bonds are unconditionally guaranteed by Mr. Huang Xiangbin, the Chairman, executive Director and Co-chief executive officer of the Company, and secured by (i) 1,049,990 shares of the Company held by Risun; and (ii) the entire issued share capital of Risun. The maturity date of the bonds falls 24 months after the date of issue. The nominal effective interest rate is 10% per annum and the interest should be payable quarterly. Pursuant to the bond supplemental deed executed by the Company in respect of amendments of certain terms and conditions of the June 2017 Bonds which took effective on 12 October 2017, the nominal effective rate was amended to 15% per annum with interest payable quarterly and the maturity date was amended to 27 March 2018.

The related interest expense of the June 2017 Bonds for the year ended 31 December 2017 amounted to RMB8,117,000 (2016: Not applicable).

(b) On 30 June 2017, the Company issued 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 and secured by (i) 1,049,990 shares of the Company held by Risun; and (ii) the entire issued share capital of Risun. Pursuant to the Convertible Bond Supplemental Deed which took effective on 18 December 2017, all rights and obligations of the holder of the convertible bonds and the Company in relation to the conversion rights were deleted. Meanwhile, the maturity date was amended to 30 March 2018 and the interest rate was amended to 15% per annum with interest payable quarterly. Management was of the view that the revised terms and conditions of the convertible bonds were substantially different and the modification was automatically required to be treated as an extinguishment. Hence, the Group derecognised the existing liability and recognised a new bond (the "**December 2017 Bonds**").

The related interest expense of the December 2017 Bonds for the year ended 31 December 2017 amounted to RMB2,860,000 (2016: Not applicable).

21. SHARE CAPITAL

Shares

	2017 *RMB'000*	2016 *RMB'000*
Authorised:		
10,000,000,000 (31 December 2016: 3,800,000,000) ordinary shares of HK$0.0001 each	**822**	304
Issued and fully paid:		
1,615,220,000 (31 December 2016: 1,615,220,000) ordinary shares of HK$0.0001 each	**130**	130

During the year, the authorised share capital was increased from HK$380,000 divided into 3,800,000,000 shares of HK$0.0001 each to HK$1,000,000 divided into 10,000,000,000 shares of HK$0.0001 each by the creation of 6,200,000,000 additional unissued shares of HK$0.0001 each. The increase in authorised share capital was approved by the shareholders at the Extraordinary General Meeting (the EGM) on 29 December 2017. As at 31 December 2017, the Company had 1,615,220,000 shares in issue and 8,384,780,000 unissued shares.

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

	Number of ordinary shares	Nominal value of ordinary shares *RMB'000*
At 1 January 2017	1,615,220,000	130
At 31 December 2017	1,615,220,000	130

22. 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 of the Company 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 year:

	Notes	Weighted average exercise price *HK$ per Share*	Number of options *'000*
As of 1 January 2017	*(i)*	0.568	30,000
Forfeited during the year	*(ii)*	0.568	(12,150)
As of 31 December 2017		0.568	(17,850)

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 year.

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

31 December 2017

Number of options *'000*	**Exercise price per share** *HK$*	**Exercise period**
7,140	**0.568**	From 21 September 2017 to 20 September 2022
5,355	**0.568**	From 21 September 2018 to 20 September 2022
5,355	**0.568**	From 21 September 2019 to 20 September 2022
17,850		

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 RMB1,352,000 during the year (2016: RMB995,000).

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 31 December 2017, the Company had 17,850,000 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 17,850,000 additional ordinary shares of the Company and additional share capital of HK$1,785 and share premium of at least HK$10,137,015 (before issue expenses).

At the date of approval of these financial statements, the Company had 17,850,000 share options outstanding under the Share Option Scheme, which represented approximately 1.1% of the Company's shares in issue as of that date.

23. BUSINESS COMBINATION

On 19 September 2017, the Group acquired a 100% equity interest in Chengdu Sinco Pharmaceuticals from an independent third party, namely Chengdu Jisi Feili Pharmaceutical Technology Co., Ltd. Chengdu Sinco Pharmaceuticals is primarily engaged in the trading of pharmaceutical products. The acquisition was made for the application for the land use right certificate of land where the Group's warehouse was located. The total purchase consideration for the acquisition was RMB4,520,000 which was paid during the year ended 31 December 2017.

The fair values of the identifiable assets and liabilities of Chengdu Sinco Pharmaceuticals as of the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	194
Cash and cash equivalents	4
Other receivables	562
Other payables	(270)
Total identifiable net assets at fair value	490
Goodwill on acquisition *(note 13)*	4,030
	4,520
Satisfied by:	
Cash	4,520

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

	RMB'000
Cash consideration	(4,520)
Cash and bank balances acquired	4
Net outflow of cash and cash equivalents	(4,516)

Since the acquisition, Chengdu Sinco Pharmaceuticals contributed RMB607,000 to the Group's revenue and RMB25,706,000 to the consolidated loss for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year ended 31 December 2017 would have been RMB806,723,000 and RMB186,778,000, respectively.

24. COMMITMENTS

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

	2017 ***RMB'000***	2016 *RMB'000*
Contracted, but not provided for:		
– Construction of a warehouse	**84,691**	2,265

25. RELATED PARTY TRANSACTIONS

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

	2017	2016
	RMB'000	*RMB'000*
Bonds guaranteed by Mr. Huang Xiangbin	**133,856**	–
Bonds secured by Risun's shares over the Company	**133,856**	–

(b) Compensation of key management personnel of the Group

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,543**	2,274
Pension scheme contributions	**23**	4
Equity-settled share option expense	**(166)**	166
	2,400	2,444

26. EVENTS AFTER THE REPORTING PERIOD

(a) Issue of the first tranche of the first part CB and conversion of the first tranche of the first part CB

On 12 October 2017, the Company and Crede GG III Ltd. (the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**"). On 6 December 2017, the Company and the Subscriber entered into an amended and restated subscription agreement (the "**Amended and Restated Subscription Agreement**") to amend, restate, supersede and replace in its entirety the Subscription Agreement. Pursuant to the Amended and Restated Subscription Agreement, the Subscriber shall subscribe for, and the Company shall issue, the convertible bonds (the "**Convertible Bonds**") with an aggregate principal amount of up to US$150,000,000 (equivalent to approximately HK$1,170,000,000) to be issued in up to 30 tranches, comprising the first part of the Convertible Bonds in the principal amount of up to US$50,000,000 (equivalent to approximately HK$390,000,000) (the "**First Part CB**") and the second part of the Convertible Bonds in the principal amount of up to US$100,000,000 (equivalent to approximately HK$780,000,000). The maturity date of the Convertible Bonds is falling 36 months after the issue date of such tranche of the Convertible Bonds or, if that is not a business day, the first business day thereafter. The nominal interest rate is 4% per annum and the interest should be paid semi-annually.

On 17 January 2018, the first tranche of the First Part CB (the "**First Tranche**") in the principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000) has been issued to the Subscriber. The initial conversion price in respect of the First Tranche is HK$0.50869, being 70% of the volume weighted average price of the shares of the Company in the 20 trading days prior to 17 January 2018.

On 17 January 2018, the Subscriber exercised its conversion rights attached to the First Tranche in full. As a result, 76,670,585 conversion shares were issued to the Subscriber, representing approximately 4.7% of the issued share capital of the Company before the issue of the conversion shares and approximately 4.5% of the issued share capital of the Company as enlarged by the issue of such conversion shares.

(b) Further amendments to June 2017 Bonds and December 2017 Bonds

On 27 March 2018, the Company executed the June 2017 Bonds further supplemental deed (the "**June 2017 Bonds Further Supplemental Deed**") and the December 2017 Bonds further supplemental deed (the "**December 2017 Bonds Further Supplemental Deed**") by way of deed poll pursuant to which maturity dates of the June 2017 Bonds and the December 2017 Bonds have been both amended to 30 April 2018. Furthermore, the transferability of the June 2017 Bonds and the December 2017 Bonds have been changed. As of 27 March 2018, all the conditions in respect of the amendments above have been fulfilled. Therefore, the June 2017 Bonds amendments and December 2017 Bonds amendments took effective from 27 March 2018.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018.

BUSINESS REVIEW

With extensive experience in the distribution of pharmaceutical imports, the Group provides comprehensive market, promotion and channel management ("**MPCM**") services for small and medium sized overseas pharmaceutical manufacturers. Meanwhile, the Group is the only MPCM service provider for imported blood products in the PRC, leveraging our quality product portfolio that centers on blood products and nationwide marketing and promotion network. The Group's existing product portfolio encompasses many quality products produced 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.

1. Core products

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. 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. In these two years, as many new plasma collection stations have been put into service, the amount of plasma collection increases every year and production capacity of domestic manufacturers also increased rapidly. As the largest sales category in the market of blood products in the PRC, Human Albumin is the only kind of blood product allowed to be imported at the present, and its lot release of imported and domestic categories maintains a rapid growth every year. In 2017, the annual lot release[1] amounted to 41.22 million bottles (2016: 39.22 million bottles), among which the percentages of imported and domestic categories were 57.2% and 42.8% respectively. Manufactured by Octapharma, a global leading manufacturer of blood products, and included as a Category B product in the National Reimbursement Drug List (NRDL), the Human Albumin Solution operated by the Group is used to remedy the shock caused by hypovolemia, remove edema and poisonous substances, and treat neonatal hyper-bilirubinemia. Based on the lot release of the Human Albumin Solution[1] in the PRC in 2017, the market share of the Human Albumin Solution manufactured by Octapharma was approximately 6.98%.

[1] The data is derived from the data published by various drug inspection institutes, with the specification of each Human Albumin Solution calculated at 10g(20%50ml)/bottle.

Axetine (Cefuroxime Sodium for injection)

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

Medocef (Cefoperazone Sodium for injection)

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

Trifamox IBL (Amoxicillin Sodium and Sulbactam Sodium for injection)

Manufactured by Laboratorios Bago S.A. 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 remedy 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 ß – lactam antibiotics and cephalosporin.

2. Marketing Network Development

The Group provides its marketing service through its internal teams and their cooperation with third-party promoters. Hence, one of the Group's key development strategies is to continuously expand the marketing network and enhance distributor and promotor management. During the Reporting Period, the Group took "Flexible, Professional and Efficient" as its objective, and strove to develop its marketing team in respect of the ability of quickly responding to market 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 optimised allocation of sales resources that are invested in each product and higher efficiency of business operation. As at 31 December 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 existing structure of distributor network was comprehensively sorted out. Based on sufficient communication with its distributors, the Group has further extended its sales channels to end markets through the collaboration between its internal sales team and local distributors. Originally, promoters were allocated by region. Now, the promoters are matched with each hospital of the region concerned, which enables the Company's sales network to reach the end market. Besides, the coverage of the network has also been extended from large top Class-III hospitals to provincial, municipal and county hospitals, to keep improving market penetration, thereby establishing a precision management system that each hospital will have its respective promoters.

In addition, the Group has further 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. In addition to 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 over 500 distributors and promoters in 31 provinces, municipalities and autonomous regions in China, covering approximately 1,200 Class-III hospitals, 1,500 Class-II hospitals, and over 1,200 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 completed the first phase of its cold chain storage facility (15,000 square meters), which can satisfy the Group's storage demand and provide better control for the quality and safety of the blood products in our product portfolio. Additionally, we will be able to provide third parties with high quality pharmaceutical cold-chain storage services upon completing the second-phase construction (which includes 25,000 square meters of cold chain storage and 47,000 square meters of research and development base), which will be a new business unit of the Group.

Currently, the Group has applied to Shuangliu District Government for land transfer, with its procedures well under way. On 13 June 2017, the Group has entered into an equity transfer agreement with an independent third party to acquire a company with qualifications for pharmaceutical operation in Shuangliu District at a consideration of RMB4.52 million. The acquisition was completed on 19 September 2017.

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

4. Research and Development

The Group has entered into a collaboration agreement with the China Academy of Chinese Medical Sciences to develop "Sinco I", a new realgar-based chemical medicine for treating acute promyelocytic leukemia. The collaboration aims for the upstream extension of the Group's business and the future provision of a new medicine for patients in the therapeutic area. The Group is currently making efforts in designing and building a pilot plant for pilot experiments. During the Reporting Period, the Group incurred RMB2.0 million as the research and development expenses for developing Sinco I.

OUTLOOK

In 2018, the domestic and global macro-economic environment still remains 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 rigid 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 rigid demand. The Group will continue with its corporate development strategies of optimizing the marketing network and the product portfolio, and maintain the business of blood products and antibiotics as a core therapeutic area. By concentrating its advantageous resources, the Group spares no effort in reaching a speedy completion of the adjustment on sales pattern under the new policies for stabilising its business. In respect of expanding its marketing network, the Group will build its sales team at a faster pace, continuously localise the channels in its marketing network, and extend it to the end market by establishing multi-mode cooperation with hospitals, all in a bid to contribute higher profit to the Group, develop core marketing capabilities and build a terminal network to accommodate more products. In terms of the direction of business development, the Group will proactively expand its business to the downstream hospital industry. The Group believes that the hospital industry business and the current pharmaceutical sales business will be integrated seamlessly and create synergy effect, strengthening the Group's core competitiveness and profit stability.

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

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB806.7 million for the Reporting Period, representing a decrease of RMB52.2 million as compared with RMB858.9 million in 2016, with a decrease rate of 6.1%, mainly due to the following factors:

(i) Human Albumin Solution

Affected by the Group's adjustments to its marketing network and restructure of the blood products market, the Group's sales volume of Human Albumin Solution during the Reporting Period decreased by approximately 16.9% as compared with 2016. Moreover, in response to market competition, the Group also lowered the average selling price for approximately 4.6%. As a result, revenue contributed by Human Albumin Solution decreased by RMB106.9 million as compared with that in 2016.

(ii) Antibiotics

Medocef only contributed RMB5.6 million to our revenue for the Reporting Period as its supply has not yet been restored, representing a decrease of RMB20.7 million as compared with 2016. Introduced in late 2016, sales revenue of Trifamox IBL was RMB28.5 million for the Reporting Period, representing an increase of RMB27.7 million as compared with 2016, offsetting the effects from the decrease in sales volume of Medocef.

During the Reporting Period, sales revenue of Axetine was RMB292.0 million, representing an increase of RMB47.1 million as compared with 2016, mainly due to the changes in the Group's marketing model under the impact of the "Two-Invoice System", which led to the simultaneous increase of both sales revenue and sales expenses. Without taking into account the "Two-Invoice System" factor, during the Reporting Period, the sales revenue of antibiotics remained stable as compared with that in 2016.

(iii) Other products

On one hand, in order to concentrate its resources on the business of its core products, such as the products of Human Albumin Solution and antibiotics, the Group conducted thorough review and prudent business assessment of its existing product portfolio, and has taken steps to terminate or suspend the business of some non-major products, such as the products of Taurolite and Esafosfina, resulting in a plunge of approximately RMB64.0 million in the sales revenue of such non-major products during the Reporting Period as compared with that in 2016; on the other hand, Qingdao Ruichi was acquired by the Group by the end of 2016, and it generated revenue of approximately RMB64.7 million mainly from the sales of Diphereline, Tanakan and Etiasa during the Reporting Period. Affected by both factors, the Group recorded revenue of RMB73.3 million for other products during the Reporting Period, which basically remained stable as in 2016.

Cost of sales

The Group recorded the cost of sales of RMB713.2 million for the Reporting Period, representing a decrease of RMB41.1 million as compared with RMB754.3 million in 2016, with a decrease rate of 5.4%, which was mainly due to the decrease in sales volume.

Gross profit and gross profit margin

The Group's gross profit for the Reporting Period was approximately RMB93.5 million, representing a decrease of RMB11.1 million or 10.6% as compared with 2016. Gross profit margin decreased from 12.2% in 2016 to 11.6% for the Reporting Period. Such decrease could be further analysed as below:

(i) the average selling price of Human Albumin Solution was reduced by approximately 4.6%, as well as the increase in unit cost of sales of approximately 4.3% under the impact of depreciation of RMB against USD, which led to a drop of 8.2% in gross profit margin of Human Albumin Solution;

(ii) resulting from the depreciation of RMB against USD and the adjustment of purchase price, the purchase costs of Axetine and Medocef increased, causing the average unit cost of sales to increase by approximately 10.5% during the Reporting Period as compared with that in 2016. However, meanwhile, the selling price increased under the model of "Two-Invoice System", which led to the increase in average selling price of antibiotics during the Reporting Period. The combined effects of the above two factors resulted in an increase of 10.4% in the gross profit margin of antibiotics;

(iii) due to the gradual termination or suspension in the sales of part of our products, and the lower gross profit margin of the products sold by Qingdao Ruichi, gross profit margin of other products therefore decreased by approximately 10.1% as compared with that in 2016.

Other income and gains

Other income and gains for the Reporting Period amounted to RMB4.2 million, representing a decrease of RMB4.3 million as compared with 2016, primarily because the Group recorded foreign exchange gains of RMB4.2 million in 2016, while in 2017 the Group recorded foreign exchange loss in the other expense account.

Selling and distribution expenses

During the Reporting Period, the Group recorded selling and distribution expenses of RMB95.9 million, representing an increase of RMB84.4 million as compared with 2016, primarily because in responding to the gradual implementation of "Two-Invoice System", the Group has undertaken marketing and promotion expenses, and has also streamlined its distributor network in order to involve more internal sales team to cooperate with regional third-party promoters. As a result, the Group's marketing and promotion expenses increased by RMB80.7 million, while staff costs and travelling expenses and entertainment fee incurred by internal sales team also increased by RMB2.1 million during the Reporting Period.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB57.3 million, representing a decrease of RMB5.1 million as compared with 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) depreciation of RMB5.0 million in relation to additions of property, plant and equipment;

(ii) amortisation expenses of the distribution rights of RMB4.6 million were reclassified from cost of sales to administrative expenses; and

(iii) professional consultation fee of RMB3.2 million.

Impairment loss on intangible assets

During the Reporting Period, based on prudent business assessment and thorough review of the product portfolio, the Group had taken steps to terminate or suspend the business of Taurolite and Esafosfina, and concentrated resources on the marketing and promotion of the Group's core products. Such business restructuring resulted in a plunge in the sales revenue of Taurolite and Esafosfina during the Reporting Period and impairment loss of RMB27.5 million in relation to the distribution rights of these two products.

Impairment loss on goodwill

During the Reporting Period, affected by the implementation of "Two-Invoice System" across the pharmaceutical circulation industry, the heightened competition within Human Albumin market, the fluctuations in the exchange rate of RMB against USD, the Group has suffered a decrease in gross profit and an increase in selling and distribution expenses. Due to the above factors, the Group's profitability has declined, which in turn led to an impairment of goodwill of RMB39.0 million during the Reporting Period.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB39.2 million, representing an increase of RMB34.7 million as compared with 2016, primarily due to (i) inventory provision of RMB25.2 million resulting from the termination or suspension in the sales of certain products; (ii) foreign exchange losses of RMB2.1 million; and (iii) loss on settlement of forward foreign currency transactions of RMB8.1 million.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB33.7 million, representing an increase of RMB24.5 million as compared with 2016, primarily due to the extension of the import cycle and sales cycle of Human Albumin Solution, as well as the increase in use of capital during the process of adjustments in the sales pattern, which led to the increase of the Group's finance costs. The increase in the finance costs includes (i) increase in the bond interest expense of RMB11.0 million; (ii) increase in the interest expenses on bank and other loans of RMB9.7 million; and (iii) increase in the interest on discounted bills receivable of RMB3.8 million.

Income tax credits/(expense)

During the Reporting Period, the Group recorded income tax credit of RMB9.0 million as the operation result was in a loss position.

(Loss)/profit for the Reporting Period

As a result of the foregoing, the Group recorded net loss of RMB185.9 million, representing a decrease of RMB204.2 million as compared with the net profit of RMB18.3 million in 2016.

Inventories

Inventory balances increased by RMB153.6 million to RMB291.2 million as of 31 December 2017 (31 December 2016: RMB137.6 million). The increase was mainly due to the increase of year-end inventories in Human Albumin Solution by RMB199.7 million as a result of the decline in sales volume affected by the market adjustment of blood products. The increase was partially offset by the decrease in inventories of antibiotics of RMB13.5 million and the decrease in inventories of other products of RMB32.6 million.

The Group's average inventory turnover days increased from 45 days for the year ended 31 December 2016 to 110 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 receivables increased by RMB14.7 million to RMB26.5 million as of 31 December 2017 (31 December 2016: RMB11.8 million). Bills receivables increased by RMB2.5 million to RMB10.6 million as of 31 December 2017 (31 December 2016: RMB8.1 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 in bills receivable accepted by a bank, except for certain customers which are granted credit terms ranging from 45 days to 90 days. Average bills and trade receivable turnover days decreased from 21 days for the year ended 31 December 2016 to 13 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 2017 were aged within three months and were neither past due nor impaired.

Prepayment, deposits and other receivables

Prepayment, deposits and other receivables increased by RMB79.6 million to RMB146.7 million as of 31 December 2017 (31 December 2016: RMB67.1 million), mainly due to the increase in prepaid marketing and promotion service fee of RMB74.6 million made to ten independent third-party distributors. During the Reporting Period, the Group entered service agreements with these distributors with aggregate amount of approximately RMB85.5 million to perform marketing and promotion activities within the areas where the distributors are located. The service agreements cover period from 1 September 2017 to 31 October 2018, among which RMB10.9 million has been recorded as marketing and promotion service expense during the Reporting Period.

Payments in advance

Payments in advance decreased by RMB59.2 million to RMB40.7 million as of 31 December 2017 (31 December 2016: RMB99.9 million), primarily due to (i) the transfer of RMB94.0 million for the first-phase construction of cold chain storage facility to property, plant and equipment during the Reporting Period; (ii) payment of RMB30.8 million in relation to the second-phase construction of cold chain storage facility; and (iii) prepayment of RMB8.6 million in relation to the research and development expenses for Sinco I.

Trade payables

Trade payables decreased by RMB23.3 million to RMB22.5 million as of 31 December 2017 (31 December 2016: RMB45.8 million), primarily due to the settlement of payments for Diphereline and Tanakan of RMB32.2 million, and increase in payables for the purchase of antibiotics of RMB8.9 million. Average trade payable turnover days decreased from 26 days for the year ended 31 December 2016 to 17 days for the Reporting Period.

Borrowings and gearing ratio

As of 31 December 2017, the Group has (i) interest-bearing bank loans of RMB157.7 million (31 December 2016: RMB165.0 million), all of which were repayable within one year; (ii) interest-bearing other loans of RMB118.1 million (31 December 2016: Nil) repayable within one year; and (iii) bonds of RMB133.9 million (31 December 2016: Nil) repayable within one year.

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

	2017	2016
	RMB'000	*RMB'000*
Interest-bearing bank and other loans	**275,815**	165,000
Trade payables	**22,522**	45,832
Other payables	**70,029**	61,734
Tax payable	**2,546**	12,221
Bonds	**133,856**	–
Less: Cash and cash equivalents	**(22,710)**	(102,050)
Less: Pledged bank balances	**(52,941)**	(52,029)
Net debt	**429,117**	130,708
Equity	**272,730**	457,275
Equity and net debt	**701,847**	587,983
Gearing ratio	**61.1%**	22.2%

Liquidity and capital resources

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

	2017	2016
	RMB'000	*RMB'000*
Net cash used in operating activities	**(358,654)**	(29,903)
Net cash from/(used in) investing activities	**71,985**	(206,206)
Net cash from financing activities	**209,498**	321,921
Net increase/(decrease) in cash and cash equivalents	**(77,171)**	85,812
Effect of foreign exchange rate changes	**(1,257)**	8,061
Cash and cash equivalents at beginning of the year	**154,079**	60,206
Cash and cash equivalents at end of the year	**75,651**	154,079

Net cash used in operating activities

During the Reporting Period, the Group's net cash used in operating activities was RMB358.7 million (2016: RMB29.9 million). This was mainly due to the cash used in purchase of products and the payment of selling and distribution expenses were greater than the cash received from sales of these products.

Net cash from/(used in) investing activities

During the Reporting Period, the Group's net cash from investing activities was RMB72.0 million (2016: cash outflow of RMB206.2 million), including (i) redemption of an available-for sale investment of RMB108.1 million; and (ii) payment in relation to capital expenditure of RMB36.4 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 RMB209.5 million (2016: RMB321.9 million), which mainly included (i) proceeds from bank and other loans of RMB632.5 million; and (ii) proceeds from the issue of bonds of RMB139.9 million. Cash inflow was partially offset by (i) repayment of bank and other loans of RMB520.9 million; (ii) payment of interest of RMB33.6 million; and (iii) payment of service fee in relation to financing activities of RMB8.4 million.

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

	2017	2016
	RMB'000	*RMB'000*
Denominated in RMB	**70,897**	100,945
Denominated in US$	**3,303**	36,467
Denominated in HK$	**1,451**	16,251
Denominated in Euro	**–**	416
	75,651	154,079

Foreign currency risk

The Group's purchase of products from the overseas suppliers is denominated in US$. Most of the Group's assets and liabilities are denominated in RMB, except for certain items of cash and cash equivalents, pledged bank balances, other receivables, prepayments and trade payables, bank loans and bonds that are denominated in US$ 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:

	2017	2016
	RMB'000	*RMB'000*
Purchase of property, plant and equipment and intangible assets	**29,802**	42,780
Acquisition of subsidiaries	**6,616**	59,688
	36,418	102,468

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:

	2017			
	On demand	**Less than 3 months**	**3 to 12 months**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Interest-bearing bank and other loans	**–**	**209,696**	**71,512**	**281,208**
Trade payables	**–**	**22,522**	**–**	**22,522**
Other payables	**1,262**	**32,395**	**34,931**	**68,588**
Bonds	**–**	**138,569**	**–**	**138,569**
	1,262	**403,182**	**106,443**	**510,887**

	2016			
	On demand	Less than 3 months	3 to 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2017.

Pledge of assets

As of 31 December 2017, the Group's buildings with net carrying amount of RMB84.7 million (31 December 2016: RMB76.1 million), bank balances of RMB30.0 million (31 December 2016: Nil) and inventories of RMB125.7 million (31 December 2016: Nil) were pledged to secure certain bank and other loans, and the Group's bank balances of RMB22.9 million (31 December 2016: RMB52.0 million) were pledged for issuance of letters of credit.

Dividend

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

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2017, the Group had a total of 112 employees. For the Reporting Period, the total staff costs of the Group were RMB15.1 million (2016: RMB12.8 million).

The Group's employee remuneration policy is determined by factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, the inflation level, corporate operating efficiency and employee performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary reviews and promotional assessments. The Group'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 quality. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute during the Reporting Period.

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

RISK MANAGEMENT

The principal risks and uncertainties identified by the Company which may have material and adverse impact on our performance or operation are summarised below. There may be other principal risks and uncertainties in addition to those set out 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$, and certain items of bank balances, bank borrowings and bonds are denominated in US$ 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 such measures are properly implemented 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. 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 imported pharmaceutical products from overseas suppliers, either directly or indirectly through their sales agents, and generate revenue by on-selling them to hospitals and pharmacies through distributors and deliverers. Our suppliers or their sales agents have granted us the rights to market, promote and manage sales channels for their products in China. The Group maintains a stable and long-term relationship with its 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 its distributors by providing them guidance, training and support to carry out more targeted field marketing and promotion activities.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

- Promoting paperless office
- Encouraging low-carbon commuting
- Ensuring reasonable energy consumption

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business and operations are subject to related laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC. During the Reporting Period, we have complied with all related laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC, which would have significant impact on the Group.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, 25 May 2018. 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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**HKSE**") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on Friday, 25 May 2018. 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 Friday, 18 May 2018.

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 2017, RMB217.2 million had been utilised in the manner consistent with the allocation set out in the Prospectus 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** *RMB million*	**Utilised Proceeds as of 31 December 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	48.3
(vi) Repaying bank loans	8.0	8.0
(vii) Working capital and other general corporate purposes	17.4	17.4
Total	217.2	217.2

CORPORATE GOVERNANCE

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 Listing Rules 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 (appointed with effect from 5 May 2017 in replace of Mr. Hao Jinghui) 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 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 Reporting Period.

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 Reporting Period.

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 2017 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 2017 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, 29 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Huang Xiangbin and Ms. Zhang Zhijie; and the independent non-executive directors of the Company are Mr. Chow Siu Lui, Mr. Wang Qing, Mr. Liu Wenfang, Mr. Chen David Yu and Mr. Philip Wong Yee Teng.