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 2018

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 38.5% or RMB159.5 million to RMB573.9 million for the Reporting Period (six months ended 30 June 2017: RMB414.4 million), among which revenue from sales of Human Albumin Solution increased by approximately RMB100.6 million, and revenue from sales of antibiotics increased by approximately RMB60.9 million.

- Gross profit of the Group increased by RMB88.8 million to RMB114.9 million for the Reporting Period (six months ended 30 June 2017: RMB26.1 million), while gross profit margin increased from 6.3% to 20.0%. The increase was mainly generated by the selling price increase and purchase price deduction.

- During the Reporting Period, the Group recorded net loss of RMB48.7 million (six months ended 30 June 2017: RMB31.5 million), mainly because the increase in the Group's selling and distribution expenses was greater than the increase in gross profit, and finance cost also increased by approximately RMB11.8 million as compared with the corresponding period of 2017.

- During the Reporting Period, loss attributable to owners of the Company amounted to RMB48.7 million (six months ended 30 June 2017: RMB31.5 million), representing an increase in such loss by RMB17.2 million.

- Basic loss per share amounted to RMB0.029 for the Reporting Period (six months ended 30 June 2017: RMB0.020).

- The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2017: Nil).

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinco Pharmaceuticals Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2017 as follows:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**573,894**	414,368
Cost of sales		**(459,015)**	(388,252)
Gross profit		**114,879**	26,116
Other income and gains	*4*	**2,920**	3,025
Selling and distribution expenses		**(118,301)**	(11,114)
Administrative expenses		**(27,190)**	(29,120)
Other expenses		**(6,357)**	(13,508)
Finance costs	*5*	**(20,675)**	(8,859)
Fair value gains/(losses) on financial assets/(liabilities) at fair value through profit or loss classified as held for trading	*17*	**3,351**	(2,257)
LOSS BEFORE TAX	*6*	**(51,373)**	(35,717)
Income tax credit	*7*	**2,636**	4,196
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(48,737)**	(31,521)
Attributable to:			
Owners of the Company		**(48,736)**	(31,520)
Non-controlling interests		**(1)**	(1)
		(44,737)	(31,521)
Loss per share attributable to ordinary equity holders of the Company:			
–Basic and diluted (RMB)	*8*	**(0.029)**	(0.020)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**187,162**	191,767
Intangible assets	9	**168**	223
Payments in advance	10	**39,084**	40,736
Goodwill		**23,701**	23,701
Deposit	10	**3,000**	3,000
Deferred tax assets	11	**12,523**	9,159
Total non-current assets		**265,638**	268,586
CURRENT ASSETS			
Inventories	12	**170,410**	291,193
Trade and bills receivable	13	**84,230**	37,106
Prepayments, deposits and other receivables	10	**95,343**	146,683
Financial assets at fair value through profit or loss classified as held for trading	17	**3,351**	–
Pledged bank balances		**50,846**	52,941
Cash and cash equivalents		**28,910**	22,710
Total current assets		**433,090**	550,633
CURRENT LIABILITIES			
Trade and bills payable	14	**71,493**	22,522
Advance from customers		**–**	41,503
Contract liabilities	15	**9,619**	–
Other payables		**63,816**	70,029
Interest-bearing bank and other loans	16	**297,880**	275,815
Tax payable		**1,427**	2,546
Financial liabilities at fair value through profit or loss classified as held for trading	17	**–**	218
Bonds	18	**–**	133,856
Total current liabilities		**444,235**	546,489

	Note	**30 June 2018** **RMB'000** **(unaudited)**	31 December 2017 RMB'000
NET CURRENT ASSETS/(LIABILITIES)		**(11,145)**	4,144
Total assets less current liabilities		**254,493**	272,730
Net assets		**254,493**	272,730
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*19*	**136**	130
Reserves		**255,263**	273,505
		255,399	273,635
Non-controlling interests		**(906)**	(905)
Total equity		**254,493**	272,730

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2017.

Going concern basis

During the Reporting Period, the Group incurred a consolidated net loss of RMB48,737,000 (six months ended 30 June 2017: RMB31,521,000). As at 30 June 2018, the Group had net current liabilities of RMB11,145,000.

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

(a) As at 30 June 2018, the Group had unused bank facilities in aggregate of RMB153.5 million; and

(b) The Group has budgeted and laid out its business plan for the next twelve months, and seeks to attain profits and generate net cash inflows from the operating activities during the next twelve months with the efforts of actively developing new markets and a sophisticated marketing network to extend its sales channel to the end market.

The Directors of the Company have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the Reporting Period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the interim condensed financial information of the Group for the six months ended 30 June 2018 on a going concern basis.

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

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

Throughout the next twelve months, the audit committee of the Company (the "**Audit Committee**") and the Board will monitor and review the Group's next twelve months business plan and cash flow projection timely and update deemed necessary and appropriate.

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 2017, except for the adoption of the following new standards, interpretations and amendments to a number of International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board for the first time for the financial year beginning 1 January 2018.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

The adoption of these amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group except IFRS 15 and IFRS 9.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* using the modified retrospective method for adoption. For the adoption of IFRS 9, the Group has not restated comparative information and has not recognised any transition adjustments against the opening balance of equity at 1 January 2018. For the adoption of IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated interim statement of financial position that has been impacted by IFRS 15:

	As at 31 December 2017	**Impact on initial application of IFRS 15**	**As at 1 January 2018**
Advances from customers	41,503	(41,503)	–
Contract liabilities	–	41,503	41,503

IFRS 15 Revenue from Contracts with Customers

The Group has performed an assessment on the impact of the adoption of IFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised. However, as the presentation and disclosure requirements in IFRS 15 are more detailed than those under IAS 18, as required for the condensed interim financial statements, the Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 3 for the disclosure of disaggregated revenue. In addition, upon adoption of IFRS 15, the Group recognised revenue-related contract liabilities for the unsatisfied performance obligation which were previously recognised as "Advances from customers (current)", but no comparative information was restated.

IFRS 9 Financial Instruments

The Group has performed an assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

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			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Sales of goods:				
Human albumin solution	**318,194**	**55.4**	217,555	52.5
Antibiotics*	**207,339**	**36.1**	146,409	35.3
Others#	**48,361**	**8.5**	50,404	12.2
	573,894	**100.0**	414,368	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 major customers accounting for 10% or more of the total revenue is set out below:

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**90,161**	*
Customer B	**86,840**	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	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**428**	413
Government grants*	**–**	606
Foreign exchange gains, net	**2,461**	–
Interest income on an available-for-sale investment	**–**	1,890
Others	**31**	116
	2,920	3,025

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other loans	**13,539**	5,675
Interest on discounted bills receivable	**934**	3,098
Interest on bonds *(note 18)*	**6,202**	86
	20,675	8,859

6. LOSS BEFORE TAX

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

		For the six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Cost of inventories sold		**459,015**	388,252
Employee benefit expense (including Directors' remuneration):			
Wages and salaries		**4,749**	6,484
Welfare and other benefits		**212**	518
Equity-settled share option expenses	*20*	**268**	704
Pension scheme contributions			
– Defined contribution fund		**588**	704
Housing fund			
– Defined contribution fund		**236**	259
Total employee benefit expense		**6,053**	8,669

	Note	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Depreciation of items of property, plant and equipment		**5,264**	5,173
Amortisation of intangible assets		**55**	2,350
Write-down of inventories to net realisable value		**4,275**	–
Write-off of inventories to net realisable value		**971**	–
Research expenses		**677**	1,098
Operating lease rentals		**759**	1,119
Foreign exchange losses/(gains), net		**(2,461)**	11,118
Gain on disposal of items of property, plant and equipment		**–**	(101)
Fair value gains on financial assets at fair value through profit or loss	*17*	**(3,351)**	–
Auditors' remuneration		**750**	750

7. INCOME TAX

The major components of income tax credit are as follows:

	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax:		
Income tax in China for the Reporting Period	**728**	817
Deferred tax:		
Deferred tax in China for the Reporting Period *(note 11)*	**(3,364)**	(4,550)
Deferred tax in Hong Kong for the Reporting Period	**–**	(463)
Total tax credit for the Reporting Period	**(2,636)**	(4,196)

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 tax in respect of Sichuan Sinco Pharmaceuticals has been made as there were no taxable profits derived from or earned by Sichuan Sinco Pharmaceuticals during the Reporting Period.

Except for Sichuan Sinco Pharmaceuticals, the subsidiaries of the Group located in China were liable to the People's Republic of China corporate income tax at a rate of 25% on the assessable profits generated for the Reporting Period.

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the Reporting Period of RMB48,736,000 (for the six months ended 30 June 2017: RMB31,520,000), and the weighted average number of ordinary shares of 1,685,113,075 (for the six months ended 30 June 2017: 1,615,220,000) in issue during the Reporting Period.

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

The calculations of basic and diluted loss per share are based on:

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss:		
Loss attributable to ordinary equity holders of the Company used in the basic loss per share calculation	**(48,736)**	(31,520)

	For the six months ended 30 June	
	Number of shares	
	2018	2017
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares in issue during the Reporting Period used in the basic loss per share calculation	**1,685,113,075**	1,615,220,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,450,177**	–
	1,688,563,252	1,615,220,000

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

As of 30 June 2018, the Group's buildings with net carrying amounts of approximately RMB99,621,000 (31 December 2017: RMB100,506,000), 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 2018.

As of 30 June 2018, the Group's buildings with net carrying amounts of RMB83,590,000 (31 December 2017: RMB84,725,000) were pledged to secure its bank loans (note 16).

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

	Notes	**30 June 2018 *RMB'000* (Unaudited)**	31 December 2017 *RMB'000*
Current portion:			
Prepayments in respect of:			
– purchase of inventories		**766**	3,128
– financing consultation service fee		**2,768**	7,048
– marketing and promotion service fee	*(a)*	**53,354**	74,608
– consultation service fee		**189**	397
– others		**153**	61
Deposits		**7,009**	1,818
Other receivables in respect of:			
– value-added tax recoverable		**29,505**	57,763
– purchase rebate		**542**	1,048
– staff advances		**1,057**	214
– interest receivable for time deposits with original maturity of over three months		**–**	514
– others		**–**	84
		95,343	146,683
Non-current portion:			
Prepayments in advance in respect of:			
– prepaid long-term technique service fee		**8,275**	8,581
– prepaid financing long-term consultation service fee		**–**	1,346
– construction of a warehouse		**30,809**	30,809
		39,084	40,736
Deposit in respect of:			
– construction in progress	*(b)*	**3,000**	3,000
		137,427	190,419

Notes:

(a) The balance as at 30 June 2018 represents a prepayment of RMB53,354,000 in relation to promotion service provided by ten independent third-party distributors. The total service prepayment amounted to RMB85,485,000, including RMB42,742,000 covering the period from 1 September 2017 to 31 October 2018. During the Reporting Period, RMB21,254,000 has been released to profit or loss.

(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.

11. DEFERRED TAX ASSETS

The movements in deferred tax assets, net, during the Reporting Period are as follows:

	Changes in fair value of financial liabilities/(assets) at fair value through profit or loss classified as held for trading	**Losses available for offsetting against taxable profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	33	9,126	9,159
Deferred tax credited to profit or loss in China during the Reporting Period	(503)	3,900	3,397
Settlement of fair value of financial liabilities at fair value through profit or loss classified as held for trading during the Reporting Period	(33)	–	(33)
At 30 June 2018 (unaudited)	(503)	13,026	12,523

As at 30 June 2018, the Group also had accumulated tax losses arising in China of RMB79,264,000 (31 December 2017: RMB53,267,000) 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. INVENTORIES

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

At 30 June 2018, the Group's inventories with a carrying amount of RMB18,295,000 (31 December 2017: RMB125,739,000) were pledged to secure the Group's other loans (note 16).

13. TRADE AND BILLS RECEIVABLES

	Note	**30 June 2018**	31 December 2017
		RMB'000	*RMB'000*
		(Unaudited)	
Trade receivables	*(a)*	**84,230**	26,481
Bills receivable		**–**	10,625
		84,230	37,106

(a) The Group granted credit terms ranging from 45 days to one year to customers after the delivery of goods, except for certain customers who make payments in advance prior to delivery of goods. 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 2018 were aged within one year and were neither past due nor impaired.

14. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as of 30 June 2018 and 31 December 2017, based on the invoice date or issuance date, where appropriate, is as follows:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	
Within 3 months	**71,493**	22,522

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

As at 30 June 2018, the Group's bills payable were secured by the pledged deposits amounting to RMB25,000,000 (31 December 2017: Nil).

15. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2017 and 30 June 2018. The balances of contract liabilities are expected to be recovered/settled within one year.

Movement in the contract liabilities balances during the six months ended 30 June 2018 is as follows:

	RMB'000
Carrying amount at 31 December 2017	–
Reclassification from advances from customers	41,503
Carrying amount at 1 January 2018	41,503
Revenue recognised during the Period	(36,458)
Consideration received from customers, excluding amounts recognised as revenue during the Period	4,574
Carrying amount at 30 June 2018	9,619

16. INTEREST-BEARING BANK AND OTHER LOANS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Bank loans repayable within one year:		
Secured and guaranteed	**98,000**	88,000
Secured	**–**	58,500
Guaranteed	**–**	11,213
	98,000	157,713
Other loans repayable within one year:		
Secured	**199,880**	118,102
	297,880	275,815

As at 30 June 2018, all the bank and other loans were denominated in RMB.

As at 30 June 2018, except for bank loans of RMB15,000,000 bearing interest at 40% above the one-year RMB benchmark loan interest rates for financial institutions and other loans of RMB59,880,000 bearing interest at effective interest rates ranging from 8.1% to 26.0% per annum, all bank and other loans bear interest at fixed rates ranging from 6.08% to 13.2% per annum.

As at 30 June 2018, the bank and other loans were secured by the Group's buildings with net carrying amounts of RMB83,590,000, inventories with carrying amount of RMB18,295,000, 1,049,990,000 shares of the Company held by Risun, 100% equity interest in Xizang Linzhi Ziguang Pharmaceutical Co., Ltd., 40% equity interest in Sichuan Sinco Pharmaceuticals and 9.09% equity interest in Chengdu Sinco Pharmaceutical Technology Co., Ltd.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Currency option contract	**3,351**	–
Currency forward contract	**–**	(218)

Financial assets at fair value through profit or loss classified as held for trading represented fair value gains on currency option contracts at fair value as of 30 June 2018.

As of 30 June 2018, the outstanding currency option contracts of US$18,000,000 with maturity dates ranging from July 2018 to December 2018 were entered into by the Group and Standard Chartered Bank (China) Limited, and were designated by the Group as financial assets at fair value through profit or loss classified as held for trading upon initial recognition. The fair value of the currency option contract was estimated by an independent professional valuer by using the Black-Scholes option pricing model.

18. BONDS

	Notes	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000
June 2017 Bonds	*(a)*	–	100,152
December 2017 Bonds	*(b)*	–	33,704
Carrying amount of bonds		–	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) 1,049,990,000 shares of the Company held by Risun; and (ii) the entire issued share capital of Risun. Pursuant to the bond supplemental deeds, the nominal effective rate was finally amended to 15% per annum with the interest payable quarterly and the maturity date was finally extended to 30 April 2018. The June 2017 Bonds had been fully repaid by the Group in April 2018.

The interest expense of the June 2017 Bonds for the Reporting Period amounted to RMB1,319,000 (six months ended 30 June 2017: RMB86,000).

(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) 1,049,990,000 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 the interest payable quarterly. Management was of the view that the revised terms and conditions of the convertible bonds was 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**"). On 27 March 2018, the maturity date had been further extended to 30 April 2018. The Group had fully repaid the December 2017 Bonds in April 2018.

The related interest expense of the December 2017 Bonds for the Reporting Period amounted to RMB4,883,000 (six months ended 30 June 2017: Nil).

19. SHARE CAPITAL

Shares

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Authorised:		
10,000,000,000 (31 December 2017: 10,000,000,000) ordinary shares of HK$0.0001 each	**822**	822
Issued and fully paid:		
1,691,890,585 (31 December 2017: 1,615,220,000) ordinary shares of HK$0.0001 each	**136**	130

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

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** *RMB'000*
At 1 January 2018		**1,615,220,000**	130
Issuance of new shares	*(a)*	**76,670,585**	6
At 30 June 2018		**1,691,890,585**	136

(a) 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 conversion rights of the First Tranche had been fully exercised at a conversion price of HK$0.50869 per share by the Subscriber. As a result, 76,670,585 conversion shares were issued to the Subscriber.

20. 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 Reporting Period:

	Notes	**Weighted average exercise price** *HK$ per Share*	**Number of options** *'000*
As at 1 January 2018	*(i)*	0.568	17,850
Forfeited during the Reporting Period	*(ii)*	0.568	(1,000)
As at 30 June 2018		0.568	16,850

Notes:

(i) The share options outstanding as at 1 January 2018 represented 17,850,000 share options granted by the Company under the Share Option Scheme 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.

(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 2018 and 31 December 2017 are as follows:

30 June 2018

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

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		

The Company recognised a share option expense of RMB268,000 during the Reporting Period (for the six months ended 30 June 2017: RMB704,000).

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 30 June 2018, the Company had 16,850,000 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 16,850,000 additional ordinary shares of the Company and additional share capital of HK$1,685 and share premium of at least HK$9,569,115 (before issue expenses).

At the date of approval of these financial statements, the Company had 16,850,000 share options outstanding under the Share Option Scheme, which represented approximately 1.0% of the Company's shares in issue as of that date.

21. COMMITMENTS

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

	30 June 2018 ***RMB'000*** **(Unaudited)**	31 December 2017 *RMB'000*
Contracted, but not provided for:		
– Construction of a cold chain storage facility	**83,039**	84,691

22. RELATED PARTY TRANSACTIONS

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

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000*
Guaranteed by Mr. Huang Xiangbin:		
Interest-bearing other loans	**140,000**	–
Bonds	**–**	133,856
Secured by Risun's shares over the Company		
Interest-bearing other loans	**140,000**	–
Bonds	**–**	133,856

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

	For the six months ended 30 June	
	2018 *RMB'000* **(Unaudited)**	2017 *RMB'000* (Unaudited)
Salaries, allowances and benefits in kind	**731**	1,726
Pension scheme contributions	**64**	11
	795	1,737

23. DIVIDENDS

At a meeting of the Directors held on 30 August 2018, the Directors of the Company resolved not to declare or pay any interim dividends for the Reporting Period to shareholders (for the six months ended 30 June 2017: Nil).

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash deposits and interest-bearing bank and other loans approximated to their fair values during the Reporting Period based on the prevailing borrowing rates available for deposits and loans with similar terms and maturities.

The fair values of financial assets at fair value through profit or loss classified as held for trading are estimated based on valuation techniques. The model incorporate observable inputs of certain foreign exchange rates and risk-free interest rates. The carrying amounts of financial assets at fair value through profit or loss classified as held for trading are the same as their fair values. The fair value measurement hierarchy of the Group's financial assets at fair value through profit or loss classified as held for trading measured at fair value required observable inputs (Level 2) as of 30 June 2018 (31 December 2017: Level 2).

The carrying amounts of the Group's other financial instruments approximated to their fair values due to the short term to maturity at the end of the reporting Reporting Period.

25. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the Board on 30 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In recent years, with the implementation and execution of the spirit of the National Sanitation and Health Conference and the "13th Five-Year Plan" for healthcare system reform, China has gradually set up a systemic framework of basic medical and health system. Meanwhile, according to the State Council institutional restructuring plan approved in March 2018, a new regulatory framework has been formed, which aims to promote diversified development of the medical and healthcare industry, ensure more effective industry regulation, and further implement medical insurance cost control. In pharmaceutical distribution industry, with the nationwide implementation of "Two-Invoice System", the pharmaceutical sales channels are undergoing large scale adjustment and business integration.

Affected by the industry policy adjustment, the Group's business continues to face pressure and challenges. However, benefiting from the Group's actively response to policies such as "Two-Invoice System" to expand the sales channels and adjust marketing model, the Group recorded total revenue of RMB573.9 million during the Reporting Period (six months ended 30 June 2017: RMB414.4 million), representing an increase of 38.5%. Gross profit during the Reporting Period reached RMB114.9 million (six months ending 30 June 2017: RMB26.1 million), representing an increase of approximately RMB88.8 million. The rapid increase in gross profit is mainly due to the new sales model adopted by the Group under the "Two-Invoice System", which enables the sales price of antibiotic products to rise rapidly.

The Group regards industrial policies and business demands as its orientation, optimizes its product structure, adopts reasonable tendering strategies and fully explores product quality and brand advantages. Since 2017, the Group has sought to improve product sales by continuously strengthening its expenditure in marketing construction and development, enhance product promotion activities, and exploring new sales channels to promote the sales volume of the products, which has laid a solid foundation for the Group's mid-to-long-term development.

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) points out that the market demand for blood products is not yet saturated and predicts that the demand for blood products will continue to grow steadily in the future around the globe.

As the only kind of blood product allowed to be imported into Chinese market at the present, Human Albumin has dominated the sales of blood products in Chinese market for years. Meanwhile, the significant market demand also enables its lot release of both imported and domestic categories maintains steady growth. During the Reporting Period, along with the strengthening of regulation to pharmaceutical distribution industry and the implementation of the healthcare system reform policies, the growth rate of Human Albumin batch release has gradually stepped into a plateau, and imported Human Albumin still maintained a stable dominate position. During the Reporting Period, Human Albumin batch release amounted to approximately 28.15 million vials, among which the percentages of imported and domestic categories were 58% and 41% respectively. Manufactured by Octapharma AG ("**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 batch release of the Human Albumin Solution in the PRC during the Reporting Period, the marketing share of the Human Albumin Solution manufactured by Octapharma, the fourth largest manufacturer of blood products, was approximately 8% (the corresponding period of 2017: 7%).

Axetine (Cefuroxime Sodium for injection)

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

Medocef (Cefoperazone Sodium for injection)

Manufactured by Medochemie from Cyprus, the Medocef operated by the Group, is classified as the third generation of cephalosporin antibiotics. It 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 (Amoxicilin Sodium and Sulbactam Sodium for injection)

Manufactured by Laboratorios Bago S.A. from Argentina, the 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. With an extensive antibacterial range and 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 promoter 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. The Group sorted out its human resources in each division, established talent database, and optimized the marketing team structure. In addition, the Group further refined its performance management of the marketing team, optimized allocation of sales resources that are invested in each product, enhanced process supervision and control, and improved business operation efficiency of the marketing team. As at 30 June 2018, the Group had an internal marketing team of 55 members.

Along with fully implementation of "Two-Invoice System" in each province in 2018, the Group made adjustments to the existing structure of distributor network, established a distribution channel to manage the terminal flow of pharmaceuticals. Meanwhile, the Group further extended its sales channel to end markets through the continued cooperation on market development and marketing promotion between its internal sales team and local distributors. For market channel management, the Group's promoters were allocated by region originally, and now matched with each hospital of the region concerned with end markets-oriented management, which enables the Group's sales management and network channels to reach the end market. Besides, the coverage of the network has also been extended from major hospitals in large urban centers to hospitals in prefecture-level cities and tier 2 and tie 3 cities, to keep improving market penetration, thereby establishing a precise management system that each hospital will have its respective promoters. Besides, along with the reform of pharmaceutical sales in medical service organisations, the Group actively arranged for product coverage of pharmacies near major hospitals as well as chain pharmacies in different regions, carried out multi-level market development and market coverage, and formed diversified retail terminal channels.

In addition, the Group has further improved the direct participation of its internal marketing team in product marketing activities. In this regard, approaches include training third-party promoters on product knowledge, hosting or taking part in medical or pharmaceutical conferences, symposiums and product seminars as well as holding product branding forums for end markets, to directly partake in the academic promotion activities of products, develop and improve the academic information system, build and maintain the promotional platform and establish the expert network, which serve to ensure accurate and timely delivery of product information to doctors and patients. In addition to product promotion, the Group has taken the imitative to invite third party promoters from all over 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 686 promoters around China, 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 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 the product portfolio. Additionally, the Group 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, and aims to be the pharmaceutical cold chain logistics center in southwest China. Currently, the Group has applied to Shuangliu District Government for land transfer, with its procedures well under way.

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 in the second half year. During the Reporting Period, the Group incurred RMB0.7 million as the research and development expenses for developing Sinco I.

FUTURE AND OUTLOOK

In the second half of 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 accelerating industrial integrations, 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 model under the new policies for stabilizing its business. In respect of expanding its marketing network, the Group will strengthen the control over its sales team, improve its incentive mechanism, continuously promote presence in the downstream of marketing network channels, 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 business development, considering the special logistics and storage requirement for drug and food as compared with general logistics and storage, the Group intends to develop cold chain logistics of drug and food, and is committed to becoming the largest pharmaceutical cold chain logistics and storage centre in southwest China. The Group believes that cold chain logistics business would not only meet its own blood product demand but also fill the market vacancy. Such an expanding business segment will ensure the diversified development of the Group's business, strengthen the Group's core competitiveness and profit stability.

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

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB573.9 million for the Reporting Period, representing an increase of RMB159.5 million, or 38.5% as compared to RMB414.4 million in the corresponding period of 2017. The increase could be further analysed as follows:

		For the six months ended 30 June			
		2018		2017	
		RMB million	***% of revenue***	*RMB million*	*% of revenue*
Human Albumin Solution	*1)*	**318.2**	**55.4**	217.6	52.5
Antibiotics	*2)*	**207.3**	**36.1**	146.4	35.3
Other products	*3)*	**48.4**	**8.5**	50.4	12.2
Total		**573.9**	**100.0**	414.4	100.0

1) Benefited from the performance of the Group's marketing work, revenue from sales of Human Albumin Solution increased by RMB100.6 million, or approximately 46.2% for the Reporting Period as compared with the corresponding period in 2017, among which sales volume increased by approximately 61.2%. 2017 is the first year to implement the "Two-Invoice System" policy across the pharmaceutical circulation industry, and the Group had adjusted its market channels in responding to the policy, which led to a certain extent of decline in sales volume in 2017. After more than a year's improvement and promotion, the Group's market channels of Human Albumin Solution has been recovered effectively, so sales volume during the Reporting Period increased significantly as compared with the corresponding period of prior year. However, affected by the falling of the overall market price, the Group's average selling price of Human Albumin Solution decreased by approximately 9.3% as compared with the corresponding period of prior year, the main reason on one hand, was the growth in the overall supply of Human Albumin in the Chinese market since 2017; on the other hand, as Sweden-produced Human Albumin Solution has just entered the Chinese market, its selling price is relatively lower at the market exploration stage.

2) During the Reporting Period, revenue from sales of antibiotics increased by RMB60.9 million as compared with the corresponding period in 2017. The increase was mainly caused by the Group's active adjustment to its marketing model and sales channel in responding to the implementation of "Two-Invoice System" policy, which led to an increase in average selling price of antibiotics.

3) During the Reporting Period, the percentage of revenue from other products was relatively lower. As the Group has concentrated its resources on the business of core products such as Human Albumin Solution and antibiotics, revenue from sales of these products decreased by approximately RMB2.0 million during the Reporting Period as compared with the corresponding period in 2017.

Cost of sales

The Group recorded cost of sales of RMB459.0 million for the Reporting Period, representing an increase of RMB70.7 million, or 18.2% as compared with RMB388.3 million in the corresponding period in 2017, mainly affected by the increase in sales volume.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB114.9 million, representing an increase of RMB88.8 million as compared with RMB26.1 million in the corresponding period in 2017; while gross profit margin increased from 6.3% to 20.0% for the Reporting Period as compared with the corresponding period of 2017. The increase mainly reflected the Group's adjustment of sales model, which led to a rapid increase in selling price. Meanwhile, benefited from the deduction of purchase price and tariff, the Group's cost of product also declined during the Reporting Period.

Other income and gains

During the Reporting Period, other income and gains of the Group amounted to RMB2.9 million, representing a decrease of RMB0.1 million as compared with the corresponding period of 2017. Other income and gains for the Reporting Period mainly represented (i) foreign exchange gain of RMB2.5 million; and (ii) bank interest income of RMB0.4 million. The Group's bank interest income remained stable as compared with the corresponding period of 2017. Besides, the Group also recorded interest income on an available-for-sale investment and government grants aggregating to RMB2.5 million during the corresponding period of 2017.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB118.3 million, representing an increase of RMB107.2 million as compared with the corresponding period of 2017. The increase was mainly resulted from the increase in the Group's marketing and promotion expenses of approximately RMB83.5 million relating to sales of products, and increase in market exploration and product promotion expenditure of RMB21.3 million in key regions cooperating with distributors.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB27.2 million, representing a decrease of RMB1.9 million as compared with the corresponding period of 2017, mainly because the Group provided impairment of the exclusive distribution right at the end of 2017, which led to the decrease in amortisation of RMB2.3 million during the Reporting Period.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB6.4 million, representing a decrease of RMB7.2 million as compared with the corresponding period of 2017, mainly due to the decrease in foreign exchange losses. Other expenses incurred during the Reporting Period mainly represented impairment loss on non-core products of RMB4.3 million provided according to the market condition.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB20.7 million, representing an increase of RMB11.8 million as compared with the corresponding period of 2017, including (1) increase in the bond interest of RMB6.1 million; (2) increase in interest expenses on bank and other loans of RMB7.9 million; and (3) partially offset by the decrease in the interest on discounted bills receivable of RMB2.2 million.

Fair value gains on financial assets at fair value through profit or loss classified as held for trading

During the Reporting Period, the Group entered into a foreign currency option contract with a bank, and recognised fair value gain of RMB3.4 million according to the contract's fair value at the end of the Reporting Period.

Income tax credits

During the Reporting Period, the Group recorded income tax credit of RMB2.6 million as the operation result was in a loss position.

Loss for the Reporting Period

As a result of the foregoing, the Group recorded net loss of RMB48.7 million for the Reporting Period, representing an increase of RMB17.2 million as compared with the corresponding period of 2017.

Inventories

Inventory balances amounted to RMB170.4 million as of 30 June 2018 (31 December 2017: RMB291.2 million), representing a decrease of RMB120.8 million as compared with the year-end balance of 2017. Main reason for the decrease was because the Group has enhanced the marketing and promotion of the products during the Reporting Period, which led to a drop in the inventory balance of Human Albumin Solution of RMB116.3 million, and the decline in inventory balance of antibiotics and other products of RMB4.5 million.

Due to the recovery of the sales volume of Human Albumin Solution during the Reporting Period, the Group's average inventory turnover days deceased by 19 days from 110 days in 2017 to 91 days for the Reporting Period.

Trade and bills receivables

The balance of trade receivables amounted to RMB84.2 million as of 30 June 2018 (31 December 2017: RMB26.5 million). The main reason for the increase of RMB57.7 million as compared with the year-end balance of 2017 was because the Group has provided certain distributors and commercial pharmaceutical delivery companies credit terms ranging from 45 to 360 days based on the sales conditions on the market to improve the sales performance of the products, which led to an increase in trade receivables.

There was no outstanding bills receivable as of 30 June 2018 (31 December 2017: RMB10.6 million).

Prepayments, deposits and other receivables

As of 30 June 2018, the current portion of prepayments, deposits and other receivables amounted to RMB95.3 million (31 December 2017: RMB146.7 million), representing a decrease of RMB51.4 million as compared with the year-end balance of 2017, mainly because: (1) prepaid value-added tax decreased by RMB28.3 million, as the increase in revenue led to the increase in value-added tax output; (2) amortisation of prepaid marketing and promotion service fee of RMB21.3 million which has been charged to profit or loss during the Reporting Period; (3) prepaid professional consultation fee of RMB3.3 million relating to issuance of USD bonds at the end of 2017 were recorded as expense during the Reporting Period; and (4) decrease in prepayment in relation to purchase of inventories of RMB2.4 million. The decrease was partially offset by the increase in deposits in relation to purchase of inventories of RMB5.2 million.

Trade and bills payables

As of 30 June 2018, trade and bills payables amounted to RMB71.5 million (31 December 2017: RMB22.5 million), representing an increase of RMB49.0 million as compared with the year-end balance of 2017, among which payables for the purchase of Human Albumin Solution increased by RMB31.1 million, and payables for the purchase of antibiotics and other products increased by RMB17.9 million. The increase in trade payables was in line with the increase in business volume.

Other payables

As of 30 June 2018, other payables amounted to RMB63.8 million (31 December 2017: RMB70.0 million), representing a decrease of RMB6.2 million as compared with the year-end balance of 2017. On one hand, payables in relation to marketing, promotion and consulting service decreased by RMB5.1 million, and deposits received from distributors decreased by RMB2.9 million; on the other hand, interest payable on other loans increased by RMB3.7 million.

Borrowings

As of 30 June 2018, the Group has borrowings of RMB297.9 million and repayable within one year, with detail information set out as below:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Interest-bearing bank loans	**98,000**	157,713
Interest-bearing other loans	**199,880**	118,102
Bonds	**–**	133,856
Total	**297,880**	409,671

Other loans at the end of the Reporting Period included (1) other loan of RMB140.0 million borrowed from Mr. Gui Guoping, who is not a connected person of the Company in April 2018 with an interest rate of 13.2% per annum for the repayment of principal and interest of the company bonds due in the same month; and (2) other loans borrowed from two independent third parties with principal of RMB59.9 million in aggregate, secured by the Group's inventories with a carrying amount of RMB18.3 million and bore interest at effective interest rates ranging from 8.1% to 26.0% per annum.

Gearing ratio

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Interest-bearing bank and other loans	**297,880**	275,815
Trade and bills payables	**71,493**	22,522
Other payables	**63,816**	70,029
Tax payables	**1,427**	2,546
Bonds	**–**	133,856
Less: Cash and cash equivalents	**(28,910)**	(22,710)
Less: Pledged bank balances	**(50,846)**	(52,941)
Net debt [(a)]	**354,860**	429,117
Equity	**254,493**	272,730
Equity and net debt [(b)]	**609,353**	701,847
Gearing ratio [(a/b)]	**58.2%**	61.1%

Liquidity and capital resources

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

		For the six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Net cash from/(used in) operating activities	*1)*	**93,433**	(88,157)
Net cash used in investing activities	*2)*	**(670)**	(39,392)
Net cash from/(used in) financing activities	*3)*	**(88,285)**	107,190
Net increase/(decrease) in cash and cash equivalents		**4,478**	(20,359)
Effect of changes of foreign exchange rate		**(373)**	(729)
Cash and cash equivalents at beginning of the period	*4)*	**75,651**	154,079
Cash and cash equivalents at end of the period	*4)*	**79,756**	132,991

1) ***Net cash from/(used in) operating activities***

During the Reporting Period, the Group's net cash inflow from operating activities amounted to approximately RMB93.4 million (six months ended 30 June 2017: net cash outflow of RMB88.2 million), which was mainly due to the increase in cash from sales during the Reporting Period, and the decrease in cash used in payment for goods, import taxes and charges as compared with the corresponding period of prior year.

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

The Group did not incur significant capital expenditure during the Reporting Period, and net cash used in investing activities amounted to RMB0.7 million (six months ended 30 June 2017: RMB39.4 million).

3) ***Net cash from/(used in) financing activities***

During the Reporting Period, the Group's net cash outflow from financing activities amounted to approximately RMB88.3 million (six months ended 30 June 2017: net cash inflow of RMB107.2 million), including (i) repayment of bonds of RMB129.1 million; and (ii) payment of interests of RMB16.9 million. The cash outflow was partially offset by (i) net proceeds from bank and other loans of RMB21.4 million; and (ii) net proceeds from issuance of convertible bonds of RMB30.6 million.

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

	30 June 2018 ***RMB'000*** **(unaudited)**	31 December 2017 *RMB'000*
Denominated in RMB	**62,554**	70,897
Denominated in US$	**15,728**	3,303
Denominated in HK$	**1,467**	1,451
Denominated in Singapore dollars	**7**	–
	79,756	75,651

Foreign currency risk

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

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

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

Capital expenditure

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchase of property, plant and equipment	**670**	5,998
Prepayment for the acquisition of a subsidiary	**–**	3,520
	670	9,518

Contingent liabilities

The Group had no material contingent liabilities as of 30 June 2018.

Pledge of assets

As of 30 June 2018, the carrying amounts of the Group's pledged assets were set out as follows:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
For obtaining bank and other loans		
– Buildings	**83,590**	84,725
– Inventories	**18,295**	125,739
– Bank balances	**–**	30,000
For issuance of letters of credit and billings		
– Bank balances	**50,846**	22,941

Dividend

The Directors resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2017: Nil).

Additional Information

Reference is made to page 17 of this announcement in respect of the Amended and Restated Subscription Agreement. On 29 May 2018, the Company terminated the Amended and Restated Subscription Agreement by written notice to the Subscriber pursuant to the terms contained therein.

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2018, the Group had a total of 121 employees. For the Reporting Period, the total staff costs of the Group was RMB6.1 million as compared to RMB8.7 million for the six months ended 30 June 2017.

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 the quality of 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.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

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

PUBLICATION OF THE INTERIM RESULTS AND 2018 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 2018 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

Sichuan, PRC, 30 August 2018

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.