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 2018

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 18.1% or RMB146.3 million to RMB953.0 million for the Reporting Period (2017: RMB806.7 million), among which revenue from sales of Human Albumin Solution increased by approximately RMB141.1 million, mainly benefited from the increase in sales volume.

- Gross profit of the Group increased by RMB127.5 million to RMB221.0 million for the Reporting Period (2017: RMB93.5 million), while gross profit margin increased from 11.6% in 2017 to 23.2% for the Reporting Period. The increase was mainly generated by the increase in selling price of antibiotics.

- During the Reporting Period, the Group recorded net loss of RMB280.6 million (2017: RMB185.9 million), mainly because the increase in the Group's selling and distribution expenses was greater than the increase in gross profit, and the loss on disposal of inventories of approximately RMB117.9 million.

- During the Reporting Period, loss attributable to owners of the Company amounted to RMB280.6 million (2017: RMB185.9 million), representing an increase in such loss by RMB94.7 million.

- Basic and diluted loss per share amounted to RMB0.166 for the Reporting Period (2017: RMB0.115).

- The Board resolved not to declare any final dividend for the Reporting Period (2017: Nil).

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinco Pharmaceuticals Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**", "**we**" or "**our**") for the year ended 31 December 2018 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*3*	**952,957**	806,723
Cost of sales		**(731,932)**	(713,190)
Gross profit		**221,025**	93,533
Other income and gains	*4*	**12,115**	4,211
Selling and distribution expenses		**(268,576)**	(95,919)
Administrative expenses		**(55,497)**	(57,256)
Impairment loss on intangible assets	*6*	**–**	(27,531)
Impairment loss on goodwill	*6*	**(23,701)**	(38,961)
Impairment losses on trade receivables	*6*	**(951)**	–
Impairment losses on financial assets included in prepayments, other receivables and other assets	*6*	**(526)**	–
Other expenses		**(121,086)**	(39,244)
Finance costs	*5*	**(34,818)**	(33,701)
LOSS BEFORE TAX	*6*	**(272,015)**	(194,868)
Income tax credit/(expense)	*7*	**(8,600)**	8,971
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(280,615)**	(185,897)
Attributable to:			
Owners of the parent		**(280,614)**	(185,896)
Non-controlling interests		**(1)**	(1)
		(280,615)	(185,897)
Loss per share attributable to ordinary equity holders of the parent:			
Basic			
– For loss for the year (RMB)	*9*	**(0.166)**	(0.115)
Diluted			
– For loss for the year (RMB)	*9*	**(0.166)**	(0.115)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**181,809**	191,767
Intangible assets		**113**	223
Payments in advance	11	**39,455**	40,736
Goodwill	12	**–**	23,701
Deposit	13	**3,000**	3,000
Deferred tax assets	14	**1,300**	9,159
Total non-current assets		**225,677**	268,586
CURRENT ASSETS			
Inventories	15	**214,806**	291,193
Trade and bills receivables	16	**26,177**	37,106
Prepayments, other receivables and other assets	13	**64,759**	146,683
Pledged bank balances	17	**13**	52,941
Cash and cash equivalents	17	**80,330**	22,710
Total current assets		**386,085**	550,633
CURRENT LIABILITIES			
Trade payables	18	**106,901**	22,522
Advances from customers		**–**	41,503
Contract liabilities	19	**129,670**	–
Other payables and accruals	20	**205,525**	70,029
Interest-bearing bank and other borrowings	21	**145,000**	275,815
Tax payable		**1,943**	2,546
Financial liability at fair value through profit or loss classified as held for trading		**–**	218
Bonds		**–**	133,856
Total current liabilities		**589,039**	546,489
NET CURRENT ASSETS/(LIABILITIES)		**(202,954)**	4,144
Total assets less current liabilities		**22,723**	272,730
Net assets		**22,723**	272,730
EQUITY			
Equity attributable to owners of the parent			
Issued capital	22	**136**	130
Reserves		**23,493**	273,505
		23,629	273,635
Non-controlling interests		**(906)**	(905)
Total equity		**22,723**	272,730

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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 3105, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong with effect from 29 January 2019.

During the Reporting Period, the Group was principally engaged in marketing, promotion and channel management ("**MPCM**") services for improved human plasma-based pharmaceuticals, antibiotics and other pharmaceuticals focused on therapeutic areas and complementary to human plasma-based products and other fast-growing categories in Mainland China. There were no significant changes in the nature of the Group's principal activities during the 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.

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 Direct	Indirect	Principal activities
			%	%	
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	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 PRC/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 PRC/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 Direct %	Indirect %	Principal activities
Chengdu Sinco Pharmaceutical Technology Co., Ltd. 成都興科蓉醫藥技術有限責任公司(ii)	26 February 2014 PRC/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 PRC/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 PRC/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 PRC/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 PRC/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 PRC/Mainland China	RMB10,000,000	–	100	Sale of pharmaceutical products
Chengdu Sinco Pharmaceuticals Co., Ltd. ("**Chengdu Sinco Pharmaceuticals**") 成都興科蓉醫藥有限公司(ii)	17 February 2011 PRC/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 laws of the People's Republic of China ("**PRC**").

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

2.1 BASIS OF PREPARATION

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

Going concern basis

During the Reporting Period, the Group incurred a consolidated loss of RMB280,615,000 (2017: RMB185,897,000). As at 31 December 2018, the Group had net current liabilities of RMB202,954,000 (2017: net current assets of RMB4,144,000).

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

(a) As at 31 December 2018, the Group had unused bank facilities in aggregate of RMB55.0 million;

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

(c) On 27 March 2019 (after trading hours), the Company, Mr Gui Guoping ("**Mr. Gui**"), an independent individual, Risun, Mr. Huang Xiangbin ("**Mr. Huang**"), Guangsha Overseas Holding Limited ("**Guangsha Overseas**"), an independent third party, and Mr. Ye Songshao ("**Mr. Ye**"), an independent individual, entered into the supplemental agreement (the "**Supplemental Agreement**") to extend the repayment date of the other borrowings of RMB140.0 million mentioned in note 21 to the financial statements for an additional year from 30 April 2019 to 30 April 2020. In addition, pursuant to the Supplemental Agreement, Risun shall transfer certain shares of the Company (the "**Transfers**") for partial settlement of the other borrowings in aggregate principal amount of RMB78,955,849.10 and the related accrued interests pursuant to the share charge under the loan agreement entered into among with Mr. Gui Guoping as the lender, Risun as the chargor and Mr. Huang Xiangbin as the guarantor, on 23 April 2018. Details of the Supplemental Agreement were set out in the announcement of the Company dated on 27 March 2019 and note 26 to the financial statements.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the 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 consolidated financial statements of the Group for the Reporting Period on a going concern basis.

Should the going concern assumption for whatever reason or as a result of changing circumstances, becomes inappropriate, necessary accounting adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to accrue or make provisions for additional liabilities, including contingent liabilities that may arise under such circumstances, and accordingly, may reclassify non-current assets as current assets at realisable values, as the case may be.

The Audit Committee of the Board has confirmed that it has objectively and critically reviewed the measures mentioned above. The Audit Committee of the Board and the Board have confidence in the Group's management and concurred with management's view that the Group's business plan for the next twelve months is feasible and achievable.

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.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the 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 interests, 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 investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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*

Other than as explained below regarding the impact of IFRS 9, IFRS 15 and the amendments to IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

Further information about IFRS 9 and IFRS 15 applied by the Group is described below:

(a) IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in of equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS39 measurement				IFRS9 measurement	
	Note	Category	Amount	Re-classification	ECL	Amount	Category
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets							
Trade receivables	*(i)*	L&R[1]	26,481	–	(164)	26,317	AC[2]
Bills receivables	*(ii)*	L&R	10,625	–	–	10,625	FVOCI[4]
Financial assets included in prepayments, other receivables and other assets	*(i)*	L&R	3,679	–	–	3,679	AC
Deposit	*(i)*	L&R	3,000	–	–	3,000	AC
Pledged bank balances		L&R	52,941	–	–	52,941	AC
Cash and cash equivalents		L&R	22,710	–	–	22,710	AC
			119,436	–	(164)	119,272	
Other assets							
Deferred tax assets			9,159	–	–	9,159	
Total assets			128,595	–	(164)	128,431	
Financial liabilities							
Trade payables		AC	22,522	–	–	22,522	AC
Financial liabilities included in other payables and accruals		AC	68,588	–	–	68,588	AC
Interest-bearing bank and other borrowings		AC	275,815	–	–	275,815	AC
Financial liability at fair value through profit or loss classified as held for trading		FVPL[3]	218	–	–	218	FVPL
Bonds		AC	133,856	–	–	133,856	AC
Total liabilities			500,999	–	–	500,999	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

3 FVPL: Financial assets at fair value through profit or loss

4 FVOCI: Financial assets at fair value through other comprehensive income

Note:

(i) The Group has remeasured the carrying amount of the trade receivables, financial assets included in prepayments, other receivables and other assets and deposits based on the ECL allowance.

(ii) The Group has reclassified its bills receivable as at 1 January 2018 from category of loans and receivables to financial assets at fair value through other comprehensive income. Other than the reclassification, the adoption of IFRS 9 has had no significant impact on the Group's profit or loss and other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in note 16 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	164	164

Impact on reserves and retained profits
The impact of transition to IFRS 9 on reserves is as follows:

Accumulated reserves attributable to owners of the Company	
Balance as at 31 December 2017 under IAS 39	273,505
Recognition of ECL for trade receivables under IFRS 9	(164)
Balance as at 1 January 2018 under IFRS 9	273,341

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 3 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

Before the adoption of IFRS 15, the Group recognised consideration received from customers as advances from customers. Under IFRS 15, the amount is classified as contract liabilities. Therefore, upon the adoption of IFRS 15, the Group reclassified RMB41,503,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advances. As at 31 December 2018, under IFRS 15, RMB129,670,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of goods.

Other than the reclassification explained above, the adoption IFRS 15 has had no impact on the Group's profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows.

3. REVENUE AND OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to consolidated results are mainly derived from its sales of human albumin solution, antibiotics and other pharmaceutical products focused on therapeutic areas and complementary to human plasma-based products and other fast-growing categories in Mainland China, which is regarded as a single 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.

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of goods	**952,957**	806,723

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	RMB'000
Type of goods	
Human albumin solution	**548,423**
Antibiotics	**396,413**
Others	**8,121**
Total revenue from contracts with customers	**952,957**

Geographical markets

All revenue from contracts with customers of the Group during each of the two years ended 31 December 2018 and 2017 was attributable to customers located in Mainland China, the place of domicile of the Group's principal operating entities. The Group's non-current assets are all located in Mainland China.

Timing of revenue recognition

All revenue from contracts with customers of the Group during each of the two years ended 31 December 2018 and 2017 was recognised when goods transferred at a point in time.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods *(note 19)*	**37,902**

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:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**120,370**	91,626
Customer B	**116,763**	*

* Less than 10%

(ii) Performance obligations

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

Sale of goods

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

4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**627**	1,155
Government grants*	**1,611**	883
Foreign exchange gains, net	**9,821**	–
Interest income on an available-for-sale investment	**–**	2,024
Net gains on disposal of property, plant and equipment	**–**	128
Others	**56**	21
	12,115	4,211

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**27,583**	18,348
Interest on discounted bills receivable *(note 16)*	**1,033**	4,376
Interest on bonds	**6,202**	10,977
	34,818	33,701

6. LOSS BEFORE TAX

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

	Notes	2018	2017
		RMB'000	*RMB'000*
Cost of inventories sold		**731,932**	713,190
Depreciation of items of property, plant and equipment		**10,363**	10,660
Amortisation of intangible assets		**110**	4,700
Amortisation of decoration cost		**169**	–
Research expenses		**2,074**	1,996
Impairment losses recognised on:			
Intangible assets		**–**	27,531
Goodwill	*12*	**23,701**	38,961
Trade receivables	*16*	**951**	–
Financial assets included in prepayments, other receivables and other assets	*13*	**526**	–
Minimum lease payments under operating leases		**1,464**	1,682
Auditors' remuneration		**2,700**	2,700
Employee benefit expense			
Wages and salaries		**10,640**	11,641
Welfare and other benefits		**307**	310
Equity-settled share option expense		**540**	1,352
Pension scheme contributions			
– Defined contribution fund		**1,256**	1,300
Housing fund			
– Defined contribution fund		**480**	479
Total employee benefit expense		**13,223**	15,082
Foreign exchanges losses/(gains), net		**(3,414)**	2,068
Write-down of inventories to net realisable value		**–**	25,213
Write-off of inventories		**117,875**	–
Gains on disposal of items of property, plant and equipment		**–**	(128)
Losses/(gains) on settlement of derivative financial instruments		**(6,407)**	8,055
Fair value losses on financial liability at fair value through profit or loss		**–**	218

7. INCOME TAX

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 BVI.

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 2018 and 2017.

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

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Income tax in Mainland for the year	**741**	188
Deferred tax *(note 14)*	**7,859**	(9,159)
Total tax charge/(credit) for the year	**8,600**	(8,971)

8. DIVIDENDS

At a meeting of the Board held on 29 March 2019, the Directors resolved not to pay final dividends to shareholders of the Company (the "**Shareholders**") for the Reporting Period (2017 final dividend: Nil).

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

The calculation of basic loss per share for the year ended 31 December 2018 is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,688,529,683 (2017: 1,615,220,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year 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 year, 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.

10. PROPERTY, PLANT AND EQUIPMENT

As of 31 December 2018, the Group's buildings with a net carrying amount of approximately RMB98,528,000 (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 31 December 2018.

As of 31 December 2018, the Group's buildings with a net carrying amount of nil (2017: RMB84,725,000) were pledged to two banks to secure the bank loans (note 21(a)).

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

11. PAYMENTS IN ADVANCE

	2018	2017
	RMB'000	*RMB'000*
Prepayments made in relation to:		
Prepaid long-term technique service fee	**7,819**	8,581
Prepaid long-term consulting service fee	**–**	1,346
Prepaid office decoration	**827**	–
Construction of a warehouse	**30,809**	30,809
	39,455	40,736

12. GOODWILL

	RMB'000
Cost at 1 January 2017, net of accumulated impairment	58,632
Acquisition of a subsidiary	4,030
Impairment during the year	(38,961)
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
Cost at 1 January 2018, net of accumulated impairment	23,701
Impairment during the year	(23,701)
Net carrying amount at 31 December 2018	–
At 31 December 2018:	
Cost	62,662
Accumulated impairment	(62,662)
Net carrying amount	–

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

- Qingdao Ruichi CGU (Qingdao Ruichi Goodwill)

Sichuan Sinco CGU

The recoverable amount of the Sichuan Sinco 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 20.5% (2017: 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% (2017: 21.3%), 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.

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

	Sichuan Sinco		**Qingdao Ruichi**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount of goodwill	**–**	23,585	**–**	116	**–**	23,701

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 rates – The discount rates used is pre-tax and reflects specific risks relating to the relevant units.

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

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2018 RMB'000	2017 RMB'000
Current portion			
Prepayments in respect of:			
– purchase of inventories		**32,441**	3,128
– import input value-added tax		**10,399**	–
– marketing and promotion service fee		**–**	74,608
– consultation service fee		**2,129**	7,445
– others		**72**	61
Deposits		**16,154**	1,818
Other receivables in respect of:			
– value-added tax recoverable		**3,751**	57,763
– purchase rebate		**57**	1,048
– staff advances		**282**	214
– interest receivable for time deposits with original maturity of over three months		**–**	514
– others		**–**	84
		65,285	146,683
Impairment allowance	*(a)*	**(526)**	–
		64,759	146,683
Non-current portion			
Deposit	*(b)*	**3,000**	3,000
		67,759	149,683

Notes:

(a) The movements in the loss allowance for impairment of financial assets included in prepayments, other receivables and other assets are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**–**	–
Impairment losses recognised *(note 6)*	**526**	–
At end of year	**526**	–

(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.

Where applicable, impairment analysis is performed at each reporting date by considering expected credit losses, which are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for as at 31 December 2018 was 0.0% to 100.0%.

14. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

	Changes in fair value of financial liability at fair value through profit or loss classified as held for trading *RMB'000*	Losses available for offsetting against taxable profits *RMB'000*	Provision for impairment *RMB'000*	Total *RMB'000*
At 1 January 2017	–	–	–	–
Deferred tax credited to profit or loss during the year *(note 7)*	33	9,126	–	9,159
Deferred tax assets at 31 December 2017 and 1 January 2018	33	9,126	–	9,159
Deferred tax credited/(charged) to profit or loss during the year *(note 7)*	(33)	(8,039)	213	(7,859)
At 31 December 2018	–	1,087	213	1,300

Notes:

(a) As at 31 December 2018, the Group had accumulated tax losses arising in Mainland China of RMB7,248,000 (31 December 2017: RMB53,267,000) that would expire in four 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.

(b) Deferred tax assets related to the PRC subsidiaries have been provided at the enacted corporate income tax rate of 15%.

(c) Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement has been effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The withholding tax rate for the Group is 10%.

As of 31 December 2018, no deferred tax liability has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future after their assessment based on factors which included the dividend policy, the level of working capital required for the Group's operations and the expansion of the Group's operations in Mainland China. The aggregate amount of temporary differences as associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB6,809,000 (2017: RMB140,067,000).

15 INVENTORIES

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

As at 31 December 2018, the Group's inventories with a carrying amount of RMB147,516,000 (2017: RMB125,739,000) were pledged to secure the Group's other payables as further detailed in note 20(b).

16. TRADE AND BILLS RECEIVABLES

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
Trade receivables	*(a)*	**23,921**	26,481
Impairment	*(a)*	**(1,115)**	–
Trade receivables, net of impairment		**22,806**	26,481
Bills receivable	*(b)*	**3,371**	10,625
		26,177	37,106

Notes:

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

An ageing analysis of the trade receivables as at the end of the reporting periods, based on the invoice dates and net of loss allowance, is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within 3 months	**20,684**	26,481
3 to 12 months	**2,755**	–
Over one year	**482**	–
	23,921	26,481

The movement in the loss allowance for impairment of trade receivables are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
At beginning of year	**–**	–
Effect of adoption of IFRS 9	**164**	–
At beginning of year (restated)	**164**	–
Impairment losses *(note 6)*	**951**	–
At end of year	**1,115**	–

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one month and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Current	**Past due**	**Total**
Expected credit loss rate	2.7%	100%	
Gross carrying amount *(RMB'000)*	23,439	482	23,921
Expected credit losses *(RMB'000)*	633	482	1,115

Impairment under IAS 39 for the year ended 31 December 2017

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.

The Directors were of the opinion that no further provision for impairment under IAS 39 was necessary in respect of above balances as there has not been a significant change in credit quality and the balances are still considered fully or partially recoverable.

(b) As at 31 December 2018, the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB96,465,000 (the "**Derecognised Bills**") (2017: RMB200,920,000). All of the Derecognised Bills had been accepted by China Merchants Bank which is a reputable bank in the PRC and had a maturity of one to seven 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 RMB1,033,000 (2017: RMB4,376,000) (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.

17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	2018	2017
	RMB'000	*RMB'000*
Cash and bank balances	**80,343**	75,651
Less: Pledged bank balances*	**(13)**	(52,941)
Cash and cash equivalents	**80,330**	22,710

* The balances as at 31 December 2017 represented time deposits of RMB22,941,000 with original maturity of less than three months pledged for issuance of letters of credit for the purchase of pharmaceutical products and a one-year fixed deposit of RMB30,000,000 with a maturity date in February 2018 pledged at Bank of Shanghai by the Group for the bank loans of RMB28,500,000.

18. TRADE PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
Within three months	**106,241**	22,522
Over three months	**660**	–
	106,901	22,522

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

19. CONTRACT LIABILITIES

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

Movement in the contract liabilities balances during the Reporting Period is as follows:

	RMB'000
Carrying amount at 31 December 2017	–
Reclassification from advance from customers	41,503
Carrying amount at 1 January 2018	41,503
Revenue recognised during the year	(37,902)
Consideration received from customers, excluding amounts recognised as revenue during the year	126,069
Carrying amount at 31 December 2018	129,670

20. OTHER PAYABLES AND ACCRUALS

	Notes	**2018** **RMB'000**	2017 RMB'000
Payables related to:			
Payroll and welfare payable		**1,129**	1,108
Property, plant and equipment		**1,312**	1,323
Deposits received	*(a)*	**18,596**	34,931
Consulting and professional fees		**17,562**	30,978
Tax other than income tax		**6,717**	333
Interest payable		**14,891**	94
Other payables	*(b)*	**145,318**	1,262
		205,525	70,029

Notes:

(a) The balances represented refundable deposits received from the Group's distributors according to the sales contracts in order to guarantee their performance under the distribution agreement.

(b) The balance as at 31 December 2018 mainly represented the payables to an independent third party, which is principally engaged in import agent services, for its settlement of part of purchase of human albumin solution on behalf of the Group. Such payables were interest-bearing and secured by inventories with carrying amount of RMB147,516,000.

Other than the other payables mentioned above, all other payables of the Group are non-interest-bearing and unsecured.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current:						
Bank loans						
– Secured and guaranteed	**6.1**	**2019**	**5,000**	5.8–6.6	2018	88,000
– Secured			**–**	4.3–5.7	2018	58,500
– Guaranteed			**–**	4.0	2018	11,213
			5,000			157,713
Other borrowings						
– Secured and guaranteed	**13.2**	**2019**	**140,000**			–
– Secured			**–**	17.7–20.7	2018	118,102
			145,000			275,815
Bank and other borrowings repayable:						
Within one year			**145,000**			275,815

Notes:

(a) Certain of the Group's bank loans and other borrowings are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the Reporting Period of nil (2017: RMB84,752,000);

(ii) floating charges over certain of the Group's inventories of nil (2017: RMB125,739,000); and

(iii) the pledges of equity interests in the following subsidiaries of the Group:

- 100% equity interests in Linzhi Ziguang;
- 40% equity interests in Sichuan Sinco Pharmaceuticals; and
- 1,049,990,000 shares of the Company held by Risun

In addition, the Company, Sichuan Sinco Pharmaceuticals, Chengdu Sinco Pharmaceutical Technology Co., Ltd., Sichuan Sinco Biological Technology Co., Ltd., Chengdu Hengsheng and Linzhi Ziguang had jointly guaranteed certain of the Group's bank loans and other borrowings up to RMB145,000,000 (2017: RMB157,713,000) as at the end of the Reporting Period.

The other borrowings from Mr. Gui, an independent individual, up to RMB140,000,000 (2017: nil) was guaranteed by Mr. Huang Xiangbin, the Chairman, executive Director and chief executive officer of the Company, as at the end of the Reporting Period.

(b) All of the Group's bank loans and other borrowings as at the end of the Reporting Period are denominated in RMB.

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

22. SHARE CAPITAL

Shares

	2018	2017
	RMB'000	*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 31 December 2018		1,691,890,585	136

Note:

(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.

23. COMMITMENTS

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

	2018 *RMB'000*	2017 *RMB'000*
Contracted, but not provided for:		
– Construction of a warehouse	**83,719**	84,691

24. CONTINGENT LIABILITIES

At the end of the Reporting Period, the Group has no significant contingent liabilities.

25. RELATED PARTY TRANSACTIONS

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

	2018 *RMB'000*	2017 *RMB'000*
Guaranteed by Mr. Huang Xiangbin		
Interest-bearing other borrowings	**140,000**	–
Bonds	**–**	133,856
Secured by Risun's shares over the Company		
Interest-bearing other borrowings	**140,000**	–
Bonds	**–**	133,856

(b) Compensation of key management personnel of the Group

	2018 *RMB'000*	2017 *RMB'000*
Salaries, allowances and benefits in kind	**2,157**	2,543
Pension scheme contributions	**37**	23
Equity-settled share option expense	**–**	(166)
	2,194	2,400

26. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2019 (after trading hours), the Company, Mr. Gui, Risun, Mr. Huang, Guangsha Overseas, and Mr. Ye entered into the Supplemental Agreement as mentioned in note 2.1(c) to the financial statements.

Upon completion of the possible Transfers, the shareholding of Risun in the Company will reduce from 62.06% to 27.06% and each of Risun and Mr. Huang will cease to be a controlling shareholder of the Company. In addition, Guangsha Overseas and Mr. Ye will hold 29.00% and 6.00% of the total issued share capital of the Company respectively. Both Risun and Mr. Huang (a) have irrevocably agreed and confirmed that the settlement of partial other borrowings by shares of the Company does not represent any loan or financial assistance provided to the Company; and (b) have unconditionally waived all rights to claim against the Company for the settlement by shares of the Company. If the Transfers fail to be executed, Mr. Gui, Guangsha Overseas and Mr. Ye agree to exempt the conditions in relation to the Transfers respectively.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 29 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With extensive experience in the distribution of pharmaceutical imports, the Group provides comprehensive MPCM services for small and medium-sized overseas pharmaceutical manufacturers. Meanwhile, the Group is the only MPCM services provider for imported blood products in the PRC, leveraging our quality product portfolio that focuses 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-infective drugs, 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 high 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 of 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 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 the lot release of its imported and domestic categories maintains a rapid growth every year. In 2018, the annual lot release amounted to 48.15 million vials (2017: 41.22 million vials), among which the percentages of imported and domestic categories were 59.9% and 40.1% respectively. Manufactured by Octapharma, a global leading manufacturer of blood products, and included as a Category B product in the National Reimbursement Drug List ("NRDL"), the Human Albumin Solution operated by the Group is used to remedy the shock caused by hypovolemia, remove edema and poisonous substances, and treat neonatal hyper-bilirubinemia. Based on the lot release of the Human Albumin Solution in the PRC in 2018, the market share of the Human Albumin Solution manufactured by Octapharma was approximately 8.7%.

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.

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 objectives, and strove to develop its marketing team in respect of the ability to quickly responding to market environment changes and to execute 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 2018, the Group had an internal marketing team of 55 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 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 regions concerned, which enables the Company's sales network to reach the end market. Besides, the coverage of the network has also been extended from larger top Class-III hospitals to provincial, municipal and county-level 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 impacts 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 the PRC, 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 a 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 is working on the application to Shuangliu District Government for land transfer.

Except as mentioned above, the Group does not hold any significant investments and did not have any major acquisitions or disposal by subsidiaries, affiliates and joint venture companies 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 RMB2.1 million as the research and development expenses in 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 into 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 a greater disparity in corporate and product landscape, together with faster industrial integration, presenting both opportunities and challenges. Factors, such as aging population, greater health awareness, changes to disease spectrum and application of new technologies, will generate long-term strong demand to support the development of the Chinese pharmaceutical industry. As an important sector in the PRC relating to people's livelihood, the pharmaceutical and healthcare industry still enjoy a strong growth momentum and huge demand.

After the pile-up of channel inventory in 2017 and the gradual inventory reduction in 2018, we expect the year of 2019 will witness a turning point for the blood products industry, with Human Albumin as the leading product to usher in a year of recovery. It is mainly because the demand after the Two-Invoice System's implementation has not disappeared while the channel access has changed, with sales channels becoming more flat, manufacturers and end customers cooperating more closely, and more investment being made in academic marketing and brand promotion. Manufacturers' business concept is gradually shifting from price-oriented to brand-oriented. The Group will continue with its corporate development strategies in optimizing the marketing network and the product portfolio, and maintaining 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 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 and pharmacies, all in a bid to contribute higher profit to the Group, develop core marketing capabilities and build a quality terminal promotion network to accommodate more products.

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 a greater value for the Shareholders.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB953.0 million for the Reporting Period, representing an increase of RMB146.3 million, or 18.1% as compared to RMB806.7 million in 2017, which could be further analysed as follows:

		2018		2017	
		RMB million	***% of revenue***	*RMB million*	*% of revenue*
Human Albumin Solution	*1)*	**548.4**	**57.5**	407.3	50.5
Antibiotics	*2)*	**396.4**	**41.6**	326.1	40.4
Other products	*3)*	**8.2**	**0.9**	73.3	9.1
Total		**953.0**	**100.0**	806.7	100.0

1) Benefited from the performance of the Group's marketing work, revenue from sales of Human Albumin Solution increased by RMB141.1 million, or by approximately 34.6% for the Reporting Period as compared with 2017, among which sales volume increased by approximately 44.8%. 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 prior year. However, due to the growth in the overall supply of Human Albumin in the Chinese market since 2017, its market price falls, and the Group's average selling price of Human Albumin Solution decreased by approximately 6.9% as compared with prior year.

2) During the Reporting Period, revenue from sales of antibiotics increased by RMB70.3 million as compared with 2017, representing an increase of approximately 21.6%. The increase was mainly caused by the Group's active adjustment to its marketing model and sales channels in responding to the implementation of "Two-Invoice System" policy, which led to an increase in average selling price of antibiotics.

3) As the Group has concentrated its resources on the business of its core products such as Human Albumin Solution and antibiotics, revenue from sales of other products decreased by approximately RMB65.1 million during the Reporting Period as compared with 2017.

Cost of sales

The Group recorded cost of sales of RMB731.9 million for the Reporting Period, representing an increase of RMB18.7 million, or 2.6% as compared with RMB713.2 million in 2017, among which (1) cost of sales of Human Albumin Solution increased by RMB142.2 million, or 36.0% as compared with 2017; and (2) cost of sales of antibiotics and other products decreased by RMB65.6 million and RMB57.9 million, or 26.6% and 81.3% respectively. The fluctuation of cost of sales was mainly affected by sales volume.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB221.0 million, representing an increase of RMB127.5 million as compared with RMB93.5 million in 2017; while gross profit margin increased from 11.6% to 23.2% for the Reporting Period as compared with 2017. The increase mainly reflected the Group's adjustment of its sales model, which led to a rapid increase in selling price of antibiotics. Meanwhile, benefiting from the deduction of purchase price and tariff, unit the cost of sales of the Group's products also declined.

Other income and gains

During the Reporting Period, the Group recorded other income and gains of RMB12.1 million, representing an increase of RMB7.9 million as compared with 2017, mainly attributed to the gain from a foreign currency option contract of approximately RMB6.4 million; and foreign exchange gain of RMB3.4 million.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB268.6 million, representing an increase of RMB172.7 million as compared with 2017, which was mainly caused by the significant increase in marketing and promotion expenses during the Reporting Period, as the Group expanded the marketing network and strengthened the cooperation with third-party promotors. Selling and distribution expenses incurred during the Reporting Period included: (1) marketing and promotion expenditure related to sales of products of approximately RMB186.0 million, representing an increase of RMB110.1 million as compared with 2017; (2) market exploration and product promotion expenditure of approximately RMB74.6 million in key regions cooperating with distributors, representing an increase of RMB63.7 million as compared with 2017; (3) the total of staff costs and other expenditure incurred by sales team of approximately RMB6.2 million, representing a decrease of RMB0.6 million as compared with 2017; and (4) freight of RMB1.7 million, representing a decrease of RMB0.5 million as compared with 2017.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB55.5 million, which remained stable as compared with RMB57.3 million recorded in 2017.

Impairment losses on trade receivables and financial assets included in prepayments, other receivables and other assets

During the Reporting Period, the Group estimated the expected credit losses with reference to the historical records, current conditions and forecast of future economic conditions, and recorded impairment loss on trade receivables and financial assets included in prepayments, other receivables and other assets of RMB1.0 million and RMB0.5 million respectively.

Impairment loss on goodwill

During the Reporting Period, the Group provided an impairment loss of goodwill of RMB23.7 million (2017: RMB39.0 million), as a result of the decline in the Group's profitability led by the increase in selling and distribution expenditure.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB121.1 million, representing an increase of RMB81.8 million as compared with 2017, mainly affected by the following factors:

(1) The Group has taken steps to terminate or suspend the business of some non-major products, such as Taurolite, since 2017, and concentrated resources on the marketing and promotion of the Group's core products. During the Reporting Period, the Group incurred loss on disposal of non-major inventories of approximately RMB117.9 million (2017: inventory impairment provision of RMB25.2 million); and

(2) In 2017, the Group recorded losses in relation to foreign currency exchange of RMB10.1 million in aggregate, while during the Reporting Period, no such losses incurred.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB34.8 million, representing an increase of RMB1.1 million as compared with 2017, including (1) interest expenses on bank and other loans of RMB27.6 million, representing an increase of RMB9.3 million as compared with 2017; (2) bond interest expenses of RMB6.2 million, representing a decrease of RMB4.8 million as compared with 2017; and (3) interest expenses on discounted bills receivable of RMB1.0 million, a drop of RMB3.4 million as compared with 2017.

Income tax expense

During the Reporting Period, the Group recorded income tax expense of RMB8.6 million, mainly because certain marketing and promotion expenditure, interest expenses on other borrowings and loss on disposal of inventories that are not deductible for tax, and tax losses of certain subsidiaries were not recognised.

Loss for the Reporting Period

As a result of the foregoing, the Group recorded net loss of RMB280.6 million, representing a further loss of RMB94.7 million as compared with 2017.

Inventories

Inventory balances amounted to RMB214.8 million as of 31 December 2018 (31 December 2017: RMB291.2 million), representing a decrease of RMB76.4 million as compared with the year-end balance of 2017. The 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 RMB61.7 million. Besides, inventory balance of antibiotics declined by RMB7.8 million, and inventory balance of other products declined by RMB6.9 million.

The Group made a one-off import of Human Albumin Solution of approximately 720,000 vials in the fourth quarter of 2018, accounting for approximately 1/3 of the Group's annual sales volume, which led to a decline in inventory turnover. During the Reporting Period, the Group's average inventory turnover days was 126 days, increased by 16 days from 110 days in 2017.

Trade and bills receivables

The balance of trade receivables amounted to RMB22.8 million as of 31 December 2018 (31 December 2017: RMB26.5 million), mainly in relation to the sales of antibiotics. During the Reporting Period, the Group has provided certain distributors and commercial pharmaceutical delivery companies credit terms ranging from 45 days to one year based on the sales conditions of the market.

The balance of bills receivable amounted to RMB3.4 million as of 31 December 2018 (31 December 2017: RMB10.6 million), mainly in relation to the sales of Human Albumin Solution.

Prepayments, other receivables and other assets

As of 31 December 2018, prepayments, other receivables and other assets including in current assets were RMB64.8 million (31 December 2017: RMB146.7 million), representing a decrease of RMB81.9 million as compared with the year-end balance of 2017, mainly due to: (1) prepaid value-added tax decreased by RMB54.0 million, as the increase in revenue led to the increase in value-added tax output; (2) amortisation of prepaid marketing and promotion service fees of RMB74.6 million which has been charged to profit or loss during the Reporting Period; (3) increase in prepayment in relation to purchase of inventories and import value-added tax of RMB39.7 million; and (4) increase in purchasing deposit of RMB14.3 million.

Trade payables

As of 31 December 2018, trade payables amounted to RMB106.9 million (31 December 2017: RMB22.5 million), representing an increase of RMB84.4 million as compared with the year-end balance of 2017, among which payables for the purchase of Human Albumin Solution increased by approximately RMB53.6 million, payables for the purchase of other products increased by approximately RMB51.7 million, and payables for purchase of antibiotics decreased by approximately RMB21.0 million. Average trade payable turnover days increased from 17 days in 2017 to 32 days for the Reporting Period.

Other payables and accruals

As of 31 December 2018, other payables and accruals amounted to RMB205.5 million (31 December 2017: RMB70.0 million), representing an increase of RMB135.5 million as compared with the year-end balance of 2017. On the one hand, payables in relation to marketing, promotion and consulting services decreased by RMB13.4 million, and deposits received from distributors decreased by RMB16.3 million; on the other hand, interest payable on other borrowings increased by RMB14.8 million; and as of 31 December 2018, the Group has interest-bearing payables to an independent third party of RMB144.2 million, which settled the payments to the supplier of Human Albumin Solution on behalf of the Group.

Borrowings

As of 31 December 2018, the Group has an aggregate borrowing of RMB145.0 million and repayable within one year, with detailed information as set out below:

	2018	2017
	RMB'000	*RMB'000*
Interest-bearing bank loans	**5,000**	157,713
Interest-bearing other borrowings	**140,000**	118,102
Bonds	**–**	133,856
Total	**145,000**	409,671

Other borrowings of RMB140 million at the end of the Reporting Period were borrowed from an independent third party, Mr. Gui, 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.

Gearing ratio

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

	2018	2017
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**145,000**	275,815
Trade payables	**106,901**	22,522
Other payables and accruals	**205,525**	70,029
Tax payables	**1,943**	2,546
Bonds	**–**	133,856
Less: Cash and cash equivalents	**(80,330)**	(22,710)
Less: Pledged bank balances	**(13)**	(52,941)
Net debt[(a)]	**379,026**	429,117
Equity	**22,723**	272,730
Equity and net debt[(b)]	**401,749**	701,847
Gearing ratio[(a/b)]	**94.3%**	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:

		2018	2017
		RMB'000	*RMB'000*
Net cash from/(used in) operating activities	1)	**105,795**	(358,654)
Net cash from/(used in) investing activities	2)	**(1,630)**	71,985
Net cash from/(used in) financing activities	3)	**(99,502)**	209,498
Net increase/(decrease) in cash and cash equivalents		**4,663**	(77,171)
Effect of foreign exchange rate changes, net		**29**	(1,257)
Cash and cash equivalents at beginning of the year	4)	**75,651**	154,079
Cash and cash equivalents at end of the year	4)	**80,343**	75,651

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

During the Reporting Period, the Group's net cash inflow from operating activities amounted to approximately RMB105.8 million (2017: net cash outflow of RMB358.7 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 prior year.

2) Net cash from/(used in) investing activities

The Group did not incur significant capital expenditure during the Reporting Period, and net cash outflow from investing activities amounted to RMB1.6 million (2017: net cash inflow of RMB72.0 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 RMB99.5 million (2017: net cash inflow of RMB209.5 million), including (i) repayment of bonds of RMB129.1 million; and (ii) payment of interests of RMB20.0 million. The cash outflow was partially offset by (i) net proceeds from bank and other borrowings and other payables and accruals of RMB13.2 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:

	2018	2017
	RMB'000	*RMB'000*
Denominated in RMB	**25,849**	79,897
Denominated in US$	**53,490**	3,303
Denominated in HK$	**937**	1,451
Denominated in Singapore dollars	**67**	–
	80,343	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:

	2018	2017
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	**1,412**	29,802
Acquisition of a subsidiary	**–**	6,616
	1,412	36,418

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:

	31 December 2018			
	On demand	**Less than 3 months**	**3 to 12 months**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Interest-bearing bank and other borrowings	**–**	**9,583**	**141,519**	**151,102**
Trade and bills payables	**–**	**52,377**	**54,524**	**106,901**
Other payables	**1,396**	**177,688**	**18,596**	**197,680**
	1,396	**239,648**	**214,639**	**455,683**

	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

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2018.

Pledge of assets

As of 31 December 2018, the net carrying amounts of the Group's pledged assets were set out as follows:

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
For obtaining bank and other borrowings		
– Buildings	**–**	84,725
– Inventories	**147,516**	125,739
– Bank balances	**–**	30,000
For issuance of letters of credit and billings		
– Bank balances	**13**	22,941

Dividend

The Directors resolved not to declare any final dividend for the Reporting Period (2017: Nil).

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2018, the Group had a total of 129 employees. For the Reporting Period, the total staff costs of the Group were RMB13.2 million (2017: RMB15.1 million).

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service 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 (the "**Scheme**") to recognize 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. As at 31 December 2018, there were 16,850,000 outstanding options granted under the Scheme.

RISK MANAGEMENT

The principal risks and uncertainties identified by the Company which may have material and adverse impact on our performance or operation are summarized 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$, and certain items of bank balances, other receivables, bank borrowings and bonds are denominated in US$ and HK$.

- Increase in cost and competition as well as decrease in sales price caused a decrease in gross profits.

- 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 generates revenue by on-selling them to hospitals and pharmacies through distributors and deliverers. Our suppliers or their sales agents have granted us the exclusive operation rights to market, promote and manage sales channels for their products in the PRC. The Group maintains a stable and long-term relationship with its suppliers by providing them access to the growing PRC market with steady sales growth.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is primarily engaged in MPCM 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 in all material respects complied with applicable laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC, which would have a significant impact on the Group.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Friday, 24 May 2019. 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 "**Stock Exchange**") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, 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, 24 May 2019. To be eligible for attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 20 May 2019.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") 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 and the chief executive officer of the Company ("**CEO**"). With Mr. Huang's extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and CEO in the same person is beneficial to the business prospects and management of the Group. The check and balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high calibre individuals. Accordingly, the Board believes that this arrangement will not impact on the balance of power and authorizations between the Board and the management of the Company.

Mr. Wu Qing Jiang ("**Mr. Wu**"), who was appointed as the co-chief executive officer of the Company ("**Co-CEO**") on 5 May 2017, resigned as the Co-CEO on 8 November 2018 due to his personal career planning and has been appointed as the Company's Research and Development Administration Supervisor on the same date. Following the resignation of Mr. Wu, Mr. Huang, being the CEO, is responsible for the Group's overall business development, operation and management.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

POST REPORTING PERIOD EVENTS

Termination of the Placing Agreement

On 4 February 2019, the Company entered into the placing agreement with South China Securities Limited (the "**Placing Agent**") in relation to the conditional placing (the "**Placing**") of (i) up to 338,378,117 placing shares to not less than six placees at the placing price of not less than HK$0.443 per placing share; and (ii) the convertible bonds of up to an aggregate principal amount of HK$170.0 million to not less than six places (the "**Placing Agreement**"). Details of the Placing Agreement were set out in the Company's announcement dated 4 February 2019.

On 13 March 2019 (after trading hours), the Company and the Placing Agent entered into a termination agreement to terminate the Placing Agreement. Each of the Company and the Placing Agent confirmed that it does not have any claim against the other party for any liability under the Placing Agreement and further agreed to waive all the rights that it may have against the other party of whatever nature in relation to the Placing Agreement. Details of the termination agreement were set out in the Company's announcement dated 13 March 2019.

The Board intended to use the proceeds from the Placing for (i) refinancing the existing indebtedness of the Company; (ii) settling (whether fully and partly) the consideration for the proposed acquisition of a company wholly-owned by PIEL Capital Company Limited (the "**Proposed Acquisition**"); and (iii) general working capital. In view of the termination of the Placing Agreement, the Board will use its best effort to conduct alternative fund-raising activities to refinance the existing indebtedness of the Company and settle the consideration for the Proposed Acquisition.

Termination of Memorandum of Understanding in Respect of a Possible Acquisition

On 15 December 2018, the Company, as purchaser, entered into a non-legally binding memorandum of understanding (the "**MOU**") with two third parties (the "**Vendors**") in relation to a possible acquisition of (the "**Possible Acquisition**") of majority stake in a company (or the holding company or a subsidiary of the Target Company) (the "**Target Company**"). The Target Company is an investment holding company. The Target Company and its subsidiaries (jointly the "**Target Group**") are principally engaged in maternal and child care and its related services operated under the brand name of "愛氏 (Cherish)".

The Possible Acquisition is subject to, among others, further negotiations and entering into of a formal sale and purchase agreement (the "**Formal Agreement**"). Pursuant to the terms of the MOU, the MOU will be terminated if the Formal Agreement has not been signed among the parties to the MOU during the period of 90 days from the date of the MOU or such longer period as the parties may agree (the "**Exclusive Period**"). Details of the Possible Acquisition were set out in the Company's announcement dated 15 December 2018.

On 15 March 2019, since the Formal Agreement has not been signed among the parties to the MOU and the parties to the MOU did not agree to extend the Exclusive Period. Given the non-binding nature of the MOU, save for provisions relating to confidentiality, exclusivity and governing law in the MOU, the Company would have no obligation to proceed with the Possible Acquisition upon termination of the MOU. Accordingly, the Possible Acquisition will not proceed. The Board considers that the termination of the MOU has no material adverse impact on the existing business operation and financial position of the Company and its subsidiaries. Details of the termination of MOU were set out in the Company's announcement dated 15 March 2019.

SUPPLEMENTAL AGREEMENT TO THE LOAN AGREEMENT AND POSSIBLE CHANGE IN THE CONTROLLING SHAREHOLDER

Reference is made to the announcement of the Company dated 23 April 2018 in relation to the loan agreement (the "**Loan Agreement**") entered into among the Company as the borrower, Mr. Gui as the lender, Risun as the chargor and Mr. Huang as the guarantor for the loan in the amount of RMB140,000,000 (the "**Loan**"). On 27 March 2019 (after trading hours), the Company, Mr. Gui, Risun, Mr. Huang, Guangsha Overseas and Mr. Ye entered into the Supplemental Agreement to extend the repayment date of the Loan for an additional year from 30 April 2019 to 30 April 2020. In addition, pursuant to the Supplemental Agreement, Risun shall transfer certain shares of the Company for partial settlement of the Loan in aggregate principal amount of RMB78,955,849.10 (of which, RMB65,420,560.70 will be due by the Company to Guangsha Overseas (the "**Guangsha Loan**") and RMB13,535,288.40 will be due by the Company to Mr. Ye (the "**Ye Loan**")) and the related accrued interests pursuant to the share charge under the Loan Agreement. Details of the Supplemental Agreement were set out in the Company's announcement dated 27 March 2019.

For settlement of the Guangsha Loan and the related accrued interests, Risun shall on the date of the Supplemental Agreement, transfer to Guangsha Overseas 490,186,916 shares of the Company, representing 29.00% of the total issued share capital of the Company. And for settlement of the Ye Loan and the related accrued interest, Risun shall on the date of the Supplemental Agreement, transfer to Mr. Ye 101,417,983 shares of the Company, representing 6.00% of the total issued share capital of the Company.

As at 27 March 2019, both Guangsha Overseas and Mr. Ye have no definite timetable for the execution the Transfers. The Company shall inform the Stock Exchange in writing as soon as the Company has been informed of any further developments. Further announcement will be made in accordance with the Listing Rules following the execution of the Transfers.

Upon completion of the possible Transfers, the shareholding of Risun in the Company will reduce from 62.06% to 27.06% and each of Risun and Mr. Huang will cease to be a controlling shareholder of the Company. In addition, Guangsha Overseas and Mr. Ye will hold 29.00% and 6.00% of the total issued share capital of the Company respectively and Guangsha Overseas will become a substantial shareholder (as defined under the Listing Rules) of the Company.

AUDIT COMMITTEE

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 the external auditors of the Company, has reviewed the annual results for the Reporting Period.

AUDITOR

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

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sinco-pharm.com), and the 2018 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 Stock Exchange and the Company in due course.

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

Sichuan, the PRC, 29 March 2019

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