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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2019 was approximately RMB1,176.4 million, increased by approximately 23.4% as compared to approximately RMB953.0 million for the year ended 31 December 2018.

- Gross profit for the year ended 31 December 2019 decreased by approximately 2.3% from approximately RMB221.0 million for the year ended 31 December 2018 to approximately RMB216.0 million for the year ended 31 December 2019. Gross profit margin decreased to approximately 18.4% for the year ended 31 December 2019 as compared to approximately 23.2% for the year ended 31 December 2018.

- Profit for the year ended 31 December 2019 increased by approximately 108.2% to approximately RMB22.9 million from a loss of approximately RMB280.6 million for the year ended 31 December 2018.

- Basic earnings per share for the year ended 31 December 2019 amounted to RMB0.014 (2018: basic loss per share of RMB0.166).

- The Board does not recommend the payment of dividend for the Reporting Period (2018: Nil).

The board (the "**Board**") of directors (the "**Directors**") of Sinco Pharmaceuticals Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") announces the unaudited consolidated results of the Group for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2018, which have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") as below. For the reasons explained in the paragraph headed "Delay in Publication of Audited Annual Results of the Company due to Travel and Other Restrictions Relating to COVID-19 Pandemic" in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
REVENUE	*2*	**1,176,409**	952,957
Cost of sales		**(960,373)**	(731,932)
Gross profit		**216,036**	221,025
Other income and gains	*3*	**15,055**	12,115
Selling and distribution expenses		**(114,536)**	(268,576)
Administrative expenses		**(45,805)**	(55,497)
Impairment loss on goodwill		**–**	(23,701)
Impairment losses on trade receivables		**(1,326)**	(951)
Reversal of impairment loss/(impairment losses) on financial assets included in prepayments, other receivables and other assets		**54**	(526)
Other expenses		**(7,151)**	(121,086)
Profit/(loss) from operations		**62,327**	(237,197)
Finance costs	*4*	**(20,026)**	(34,818)
PROFIT/(LOSS) BEFORE TAX	*5*	**42,301**	(272,015)
Income tax expense	*6*	**(19,405)**	(8,600)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**22,896**	(280,615)
Attributable to:			
Owners of the Company		**22,898**	(280,614)
Non-controlling interests		**(2)**	(1)
		22,896	(280,615)
		RMB	*RMB*
Earnings/(loss) per share:			
Basic	*8*	**0.014**	(0.166)
Diluted	*8*	**0.014**	(0.166)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Notes	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Investment property		**7,133**	–
Other property, plant and equipment		**198,034**	181,809
		205,167	181,809
Intangible assets		**45**	113
Payments in advance		**3,665**	39,455
Goodwill		**–**	–
Deposit		**–**	3,000
Deferred tax assets		**721**	1,300
Total non-current assets		**209,598**	225,677
CURRENT ASSETS			
Inventories		**250,963**	214,806
Trade and bills receivables	*9*	**30,710**	26,177
Prepayments, other receivables and other assets		**46,108**	64,759
Other financial assets measured at amortised cost		**1,990**	–
Pledged bank balances		**5,001**	13
Cash and cash equivalents		**219,755**	80,330
Total current assets		**554,527**	386,085
CURRENT LIABILITIES			
Trade payables	*10*	**146,158**	106,901
Contract liabilities		**38,582**	129,670
Other payables and accruals		**137,764**	205,525
Interest-bearing bank and other borrowings		**187,484**	145,000
Lease liabilities		**1,022**	–
Tax payable		**11,361**	1,943
Total current liabilities		**522,371**	589,039
NET CURRENT ASSETS/(LIABILITIES)		**32,156**	(202,954)
Total assets less current liabilities		**241,754**	22,723

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	**154**	–
Other payables	**195,962**	–
Total non-current liability	**196,116**	–
NET ASSETS	**45,638**	22,723
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**136**	136
Reserves	**46,410**	23,493
	46,546	23,629
Non-controlling interests	**(908)**	(906)
TOTAL EQUITY	**45,638**	22,723

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These financial information have been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual IFRS, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board (the "**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention. These financial information are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2019, the Group incurred a consolidated profit of RMB22,896,000 (2018: consolidated loss of RMB280,615,000). As at 31 December 2019, the Group had net current assets of RMB32,156,000 (2018: net current liabilities of RMB202,954,000).

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. To sustain the Group as a going concern and to monitor the Group's liquidity and cash flow, the Group implemented or is in the process of implementing the following measures:

(a) As at 31 December 2019, the Group had unused bank facilities in aggregate of RMB22.9 million;

(b) On 31 December 2019, the Group had obtained a facility of RMB200 million from an independent third party, which is an import agent of the Group, for a period from 1 January 2020 to 30 June 2021. As at 31 December 2019, the Group has an amount payable to this import agent of RMB 195,962,000. According to the facility provided, the Group has the right to repay the outstanding balance on or before 30 June 2021.

(c) 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.

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 restate the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these potential adjustments have not been reflected in these financial information.

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 enhancing the cash flow position of the Group, in order to remove uncertainties relating to the going concern of the Group for the next twelve months.

1.2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases – incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b) *Lessee accounting and transitional impact*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to other property, plant and equipment.

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.5%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 *RMB'000* **(Unaudited)**
Operating lease commitments at 31 December 2018	**2,218**
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(39)**
	2,179
Less: total future interest expenses	**(132)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	**2,047**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000* (Audited)	Capitalisation of operating lease contracts *RMB'000* (Unaudited)	Carrying amount at 1 January 2019 *RMB'000* (Unaudited)
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Other property, plant and equipment	181,809	2,047	183,856
Total non-current assets	225,677	2,047	227,724
Lease liabilities (current)	–	(870)	(870)
Current liabilities	589,039	(870)	588,169
Net current liabilities	(202,954)	(870)	(203,824)
Total assets less current liabilities	22,723	1,177	23,900
Lease liabilities (non-current)	–	(1,177)	(1,177)
Total non-current liabilities	–	(1,177)	(1,177)
Net assets	22,723	–	22,723

2. REVENUE AND SEGMENT REPORTING

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 operating and reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment. In addition, the principal non-current assets employed by the Group are located in Mainland China. Accordingly, no segment analysis is presented other than entity-wide disclosures.

An analysis of revenue is as follows:

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Revenue from contracts with customers, within the scope of IFRS 15		
Sale of goods	**1,176,409**	952,957

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Type of goods		
Human albumin solution	**848,156**	548,423
Antibiotics (Axetine, Medocef and Trifamox IBL)	**325,994**	396,413
Sale of other goods (Taurolite, Esafosfine, Dipherelina and Tanakan)	**2,259**	8,121
Total revenue from contracts with customers	**1,176,409**	952,957

Geographical markets

All revenue from contracts with customers of the Group during each of the two years ended 31 December 2019 and 2018 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 substantially 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 2019 and 2018 are 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**114,612**	33,542

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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Customer A	**212,321**	120,370
Customer B	**N/A***	116,763
Customer C	**121,675**	N/A*

* Less than 10% of the total revenue

(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 0 days to 1 year from delivery, except for new and small customers, where payment in advance is normally required.

(iii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date.

All sales contracts with customers are for periods of one year or less. As permitted under IFRS 15, the transaction price allocate to these contracts for the remaining unsatisfied performance obligations is not disclosed.

3. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest income on financial assets measured at amortised cost	**311**	627
Government grants*	**712**	1,611
Foreign exchanges gains, net	**63**	3,414
Gains on settlement of derivative financial instruments	**–**	6,407
Service income	**12,992**	–
Gross rental income from investment property	**234**	–
Others	**743**	56
	15,055	12,115

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

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest on bank loans and other borrowings	**18,684**	27,583
Interest on discounted bills receivable	**392**	1,033
Interest on bonds	**–**	6,202
Interest on lease liabilities	**91**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**19,167**	34,818
Interest accrued on advance payments from customer	**859**	–
	20,026	34,818

5. PROFIT/(LOSS) BEFORE TAX

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

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
Cost of inventories sold	**960,373**	731,932
Depreciation charge *(note i)*		
– Investment property	**114**	–
– Owned property, plant and equipment	**9,128**	10,363
– Right-of-use asset	**1,006**	–
	10,248	10,363
Amortisation of intangible assets	**68**	110
Research and development expenses *(note i)*	**1,585**	2,074
(Reversal of impairment loss)/impairment losses recognised on each of the followings:		
Goodwill	**–**	23,701
Trade receivables	**1,326**	951
Financial assets included in prepayments, other receivables and other assets	**(54)**	526
	1,272	25,178
Short-term lease payments	**627**	–
Total minimum lease payments for lease previously classified as operating leases under IAS 17	**–**	1,464
Auditors' remuneration	**1,850**	2,700
Employee benefit expense (including Directors' remuneration) *(note i)*:		
Wages and salaries	**10,209**	11,061
Welfare and other benefits	**352**	307
Equity-settled share option expense	**19**	540
Pension scheme contributions		
– Defined contribution fund	**1,410**	1,336
Housing fund		
– Defined contribution fund	**506**	513
Total employee benefit expense	**12,496**	13,757
Write-off of inventories	**106**	117,875
Losses on disposal of items of property, plant and equipment	**39**	–
Rental income from investment property less direct outgoing of RMBNil (2018: RMB nil)	**(234)**	–

Note:

(i) Included in research and development expenses are depreciation of RMB315,000 (2018: RMB112,000) and employee benefit expenses of RMB458,000 (2018: RMB534,000), which are also included in the respective total amounts disclosed separately above.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

No provision for Hong Kong profits tax has been made as the Group's subsidiary in Hong Kong has accumulated tax losses brought forward which exceed the estimated assessable profit for the year (2018: 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. All subsidiaries domiciled in the PRC were subject to PRC CIT at a rate of 25% during the two years ended 31 December 2019 and 2018.

The major components of income tax expense are as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax:		
Income tax in Mainland China for the year	**12,114**	10
Under-provision in respect of prior year	**6,712**	731
	18,826	741
Deferred tax		
Origination and reversal of temporary differences	**579**	7,859
Total tax charge for the year	**19,405**	8,600

7. DIVIDENDS

At a meeting of the Board held on 30 March 2020, the Directors resolved not to pay final dividends to Shareholders for the Reporting Period (2018 final dividend: Nil).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earning/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited profit/(loss) attributable to ordinary equity shareholders of the Company for the Reporting Period of RMB22,898,000 (2018: loss of RMB280,614,000), and the weighted average number of 1,691,890,585 ordinary shares (2018: 1,688,529,683 ordinary shares) in issue during the year.

(b) Diluted earning/(loss) per share

For the year ended 31 December 2019, diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise price of the option was higher than the average market price per share.

For the year ended 31 December 2018, diluted loss per share was the same as the basic loss per share as the potential ordinary share outstanding had an anti-dilutive effort on the basic loss per share.

9. TRADE AND BILLS RECEIVABLES

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Trade receivables	*(a)*	**28,412**	23,921
Less: Allowance for credit losses		**(2,441)**	(1,115)
		25,971	22,806
Bills receivable		**4,739**	3,371
		30,710	26,177

(a) The Group granted credit terms ranging from 0 days to 1 year (2018: from 45 days to 1 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.

An ageing analysis of the trade receivables as at the end of the reporting periods, based on the invoice date, is as follows:

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Within 3 months	**26,476**	20,684
3 to 12 months	**1,509**	2,755
Over 1 year	**427**	482
	28,412	23,921

10. TRADE PAYABLES

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

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Within three months	**18,813**	106,241
Over three months	**127,345**	660
	146,158	106,901

Trade payables of the Group are non-interest-bearing and are generally settled within 360 days from the invoice date (2018: 90 days).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB1,176.4 million for the Reporting Period, representing an increase of RMB223.4 million, or 23.4% as compared to RMB953.0 million in 2018, which could be further analysed as follows:

		2019		2018	
		RMB million	***% of revenue***	*RMB million*	*% of revenue*
		(Unaudited)		(Audited)	
Human Albumin Solution	*1)*	**848.2**	**72.1**	548.4	57.5
Antibiotics	*2)*	**326.0**	**27.7**	396.4	41.6
Other products	*3)*	**2.2**	**0.2**	8.2	0.9
Total		**1,176.4**	**100.0**	953.0	100.0

1) Benefited from the performance of the Group's marketing work, revenue from sales of Human Albumin Solution increased by RMB299.8 million, or by approximately 54.7% for the Reporting Period as compared with 2018. Meanwhile, from the beginning of the Reporting Period, the Group obtained the sole distribution right of the human albumin in China market that were produced at supplier's factories located in Austria and Germany, while the sole distribution right only applies to 16 provinces, 5 autonomous regions and 3 direct-controlled municipalities of the PRC last year, which was the reason that the Group's sales of Human Ablumin Solution increased so significantly in 2019 as compared to that of 2018.

2) During the Reporting Period, revenue from sales of antibiotics decreased by RMB70.4 million as compared with 2018, representing a decrease of approximately 17.8%. The decrease was mainly caused by the decreased sales of product Axetine due to tough market competition and the sales of the non-core product of Trifamox IBL stopped in this year.

3) During the Reporting Period, the percentage of revenue from other products was relatively low. As the Group has concentrated its resources on the business of core products such as Human Albumin Solution and antibiotics, revenue from sales of these products decreased by approximately RMB6.0 million during the Reporting Period as compared with that of 2018.

Cost of sales

The Group recorded cost of sales of RMB960.4 million for the Reporting Period, representing an increase of RMB228.5 million, or 31.2% as compared with RMB731.9 million in 2018, which was generally in line with the increase in sales.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB216.0 million, representing a decrease of RMB5.0 million as compared with RMB221.0 million in 2018, while gross profit margin decreased from 23.2% to 18.4% for the Reporting Period as compared with that of 2018. The decrease in gross profit margin was mainly due to the decrease of the gross profit of antibiotics by RMB65.9 million, and partially offset by the increase of gross profit of human albumin by RMB60.1 million and other products by RMB0.8 million.

Other income and gains

During the Reporting Period, other income and gains of the Group amounted to RMB15.1 million, representing an increase of RMB3.0 million as compared with that of 2018. Other income and gains for the Reporting Period mainly represented (i) service income of RMB13.0 million, while no such income was recognised in 2018; and (ii) government grants of RMB0.7 million.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB114.5 million, representing a decrease of RMB154.1 million as compared with that of 2018. The decrease was mainly resulted from the significantly reduced market development expenses. With the implementation of the "Two-Invoice System" in 2017 and 2018, the Group's substantial investment in the area has laid a solid foundation for the follow-up sales channel construction and adjustment.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB45.8 million, representing a decrease of RMB9.7 million as compared with that of 2018, mainly due to the decrease in professional service fee of RMB9.9 million during the Reporting Period.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB7.2 million, representing a decrease of RMB113.9 million as compared with that of 2018, mainly due to a decrease in write-off of inventories by RMB117.8 million in the Reporting Period as compared with that of 2018, where there was a write-off of inventories of RMB117.9 million in 2018.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB20.0 million, representing a decrease of RMB14.8 million as compared with that of 2018, which included (i) the decrease in the bond interest expense of RMB6.2 million; (ii) the decrease in interest expenses on bank and other borrowings of RMB8.9 million; and (iii) the decrease in the interest on discounted bills receivable of RMB0.6 million.

Income tax expense

During the Reporting Period, the Group recorded income tax expenses of RMB19.4 million as the operation result was in a profit position, which was increased by RMB10.8 million as compared to that of 2018.

Profit for the Reporting Period

As a result of the foregoing, the Group recorded the net profit of RMB22.9 million, while in 2018 the Group recorded a net loss of RMB280.6 million.

Inventories

Inventory balances amounted to RMB251.0 million as of 31 December 2019 (31 December 2018: RMB214.8 million), representing an increase of RMB36.2 million as compared with the year-end balance of 2018. The main reason for such increase was because the Group enhanced the marketing and promotion of the products during the Reporting Period, which led to an increase in the inventory balance of Human Albumin Solution of RMB9.8 million, and the increase in inventory balance of antibiotics and other products of RMB26.4 million.

Due to the recovery of the sales volume during the Reporting Period, the Group's average inventory turnover days decreased by 37.7 days from 126.2 days in 2018 to 88.5 days for the Reporting Period.

Trade and bills receivables

The balance of trade receivables amounted to RMB26.0 million as of 31 December 2019 (31 December 2018: RMB22.8 million). The main reason for the increase of RMB3.2 million as compared with the year-end balance of 2018 was because the Group provided certain distributors and commercial pharmaceutical delivery companies with credit terms ranging from 0 to 360 days based on the sales conditions on the market to improve the sales performance of the products, which led to an increase in the balance of trade receivables.

The outstanding bills receivable as at 31 December 2019 is RMB4.7 million (31 December 2018: RMB3.4 million).

Deposit, prepayments, other receivables and other assets

As at 31 December 2019, the current portion of deposits, prepayments, other receivables and other assets amounted to RMB46.1 million (31 December 2018: RMB64.8 million), representing a decrease of RMB18.7 million as compared with the year-end balance of 2018, which was mainly because (i) the prepayment in relation to purchase of inventories declined by RMB20.1 million and (ii) deposit in relation to purchase of inventory decreased by RMB11.4 million.

Trade payables

As at 31 December 2019, trade payables amounted to RMB146.2 million (31 December 2018: RMB106.9 million), representing an increase of RMB39.3 million as compared with the year-end balance of 2018, among which payables for the purchase of Human Albumin Solution increased by RMB39.3 million.

Other payables and accruals

As at 31 December 2019, other payables amounted to RMB333.7 million (31 December 2018: RMB205.5 million), representing an increase of RMB128.2 million as compared with the year-end balance of 2018. The Group has payables to four independent third parties of RMB280.1 million, which represents an increase of RMB135.9 million as compared with the year-end balance of 2018. On the other hand, payables in relation to tax other than income tax decreased by RMB5.9 million, and deposits received from distributors decreased by RMB11.1 million.

Borrowings

As of 31 December 2019, the Group has borrowings of RMB187.5 million in total and repayable within one year, with details set out below:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest-bearing bank loans	**47,484**	5,000
Interest-bearing other loan	**140,000**	140,000
Total	**187,484**	145,000

The interest-bearing other loan referred to above relates to a loan agreement entered into on 23 April 2018 (as supplemented by a supplemental agreement dated 27 March 2019) (collectively, the "**Loan Agreement**") among the Company as the borrower, Mr. Gui Guoping ("**Mr. Gui**") as the lender, Risun Investment Limited ("**Risun**") as the chargor and Mr. Huang Xiangbin (黃祥彬), the chairman, executive Director, Chief Executive Officer ("**CEO**") and one of the controlling shareholders of the Company ("**Mr. Huang**"), as the guarantor for a loan of RMB140.0 million (the "**Loan**") with an interest rate of 13.2% per annum. The Company has arranged for the repayment of the Loan together with relevant interest amounts under the Loan Agreement on 3 January 2020. In such connection, Mr. Gui agreed to the release of the 1,049,990,000 Shares charged and placed in a custodian account pursuant to the Loan Agreement and the guarantee provided by Mr. Huang in connection with the Loan. For more details, please refer to the Company's announcements dated 23 April 2018, 27 March 2019, 9 April 2019 and 3 January 2020.

Gearing ratio

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest-bearing bank and other borrowings	**187,484**	145,000
Trade payables	**146,158**	106,901
Other payables and accruals	**333,726**	205,525
Lease liabilities	**1,176**	–
Tax payables	**11,361**	1,943
Less: Cash and cash equivalents	**(219,755)**	(80,330)
Less: Pledged bank balances	**(5,001)**	(13)
Net debt[(a)]	**455,149**	379,026
Equity	**45,638**	22,723
Equity and net debt[(b)]	**500,787**	401,749
Gearing ratio[(a/b)]	**90.9%**	94.3%

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies. Substantial amounts of the Group's cash and cash equivalent are held in major financial institutions located in Mainland China. The Group seeks to maintain strict control over its outstanding receivables and the senior management of the Company reviews and assesses the creditworthiness of the Group's existing customers on an ongoing basis. To manage liquidity risk, the Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations. Cash and cash equivalents of the Group are mainly denominated in RMB.

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; and
- Purchase of products from overseas suppliers and relevant trade payables are denominated in US$.

Future Plans for Material Investments and Capital Assets

As at 31 December 2019, the Group had capital commitments of RMB80,258,000 (2018: RMB 83,719,000) for construction of a warehouse.

Capital expenditure

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Purchase of property, plant and equipment	**555**	1,412
	555	1,412

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2019.

Pledge of assets

As of 31 December 2019, the carrying amounts of the Group's pledged assets were set out as follows:

	31 December	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
For obtaining bank and other borrowings		
– Buildings	**76,495**	–
– Inventories	**224,686**	147,516
For issuance of letters of credit and billings		
– Bank balances	**5,001**	13

Dividend

The Directors resolved not to declare any final dividend for the Reporting Period (2018: Nil).

BUSINESS REVIEW

With extensive experience in the distribution of pharmaceutical imports, the Group provides comprehensive marketing, promotion and channel management ("**MPCM**") services for small and medium-sized overseas pharmaceutical manufacturers. Meanwhile, the Group is the only MPCM service provider for imported blood products in the PRC, leveraging our quality product portfolio that 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 and blood products. 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 1940s, blood products have undergone decades of fast development. Such products have grown from human albumin at the very beginning to the current 20-plus categories in three series, encompassing such sub-categories as human albumin, immune globulin and blood coagulation factors. Given the approval granted to new indications and an improved rate of diagnosis, the Plasma Protein Therapeutics Association (PPTA) predicts that the market demand for blood products will retain a high-speed growth around the globe. In these two years, as many new plasma collection stations have been put into service, the amount of plasma collection increases every year and production capacity of domestic manufacturers also increased rapidly. As the largest sales category in the market of blood products in the PRC, human albumin is the only kind of blood product allowed to be imported at present, and its lot release of imported and domestic categories maintains a rapid growth every year. In 2019, the annual batch release amounted to 53.4 million vials (2018: 46.3 million vials), among which the percentages of imported and domestic categories were 60.3% and 39.7% 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 batch release of the Human Albumin Solution in the PRC in 2019, the market share of the Human Albumin Solution manufactured by Octapharma was approximately 7.8%.

In early beginning of 2020, the COVID-19 outbreak occurred in many countries and regions, including China. Global pandemic has resulted in a large number of the critically ill patients. Given there is no specific medicine against the virus, human albumin plays a very important role in the rescue of critically ill patients. For patients with acute respiratory distress syndrome (ARDS) and/or septic shock, human albumin is an indispensable drug. The use of human albumin is also recommended in the "clinical management of severe acute respiratory infection when novel coronavirus infection is suspected" published by the World Health Organization (WHO).

As one of the main suppliers of human albumin products in China, the Group quickly organized manpower and deployed inventory after the outbreak to send human albumin products to various regions in need of medicine, including Wuhan. The epidemic is expected to stimulate human albumin demand in the short term and increase product sales.

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.

As early as 2012, China implemented the "Administrative Measures for the Clinical Application of Antibacterial Drugs", which was known as the "most restrictive measure for antibiotics". With the country's special rectification of the antibiotic market, China's antibiotic market has changed from its original rapid growth to a steady growth in recent years. At present, approximately 75% of outpatient cases in China involve the use of antibiotics, while the rate for surgical operations is higher than 95%, indicating that the domestic market demand for antibiotics is still much higher than international levels.

The Axetine products sold by the Group have also maintained steady growth in recent years. The sales volume in 2019 increased by 18.4% as compared with 2018. Affected by the re-registration of the Imported Drug License, the product supply in the first half of 2020 may be lower than last year. We expect the sales of Axetine for the whole year to be the same as last year. Also, following the completion of the re-registration process for Medocef in last year, sales volume has increased significantly compared to 2018, and the sales volume of 2020 is expected to be similar as 2019.

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 objective, and strove to develop its marketing team in respect of the ability of quickly responding to market environment changes and executing operational plans with high efficiency. Furthermore, the Group sorted out its human resources in each division. The marketing team had its structure streamlined and its performance management further refined, with optimized allocation of sales resources that are invested in each product and higher efficiency of business operation.

At the same time, the implementation of "Two-Invoice System" took place at a faster pace in each province. To positively respond to such implementation, the existing structure of distributor network was comprehensively sorted out. Based on sufficient communication with its distributors, the Group has further extended its sales channels to end markets through the collaboration between its internal sales team and local distributors. Originally, promoters were allocated by region. Now, the promoters are matched with each hospital of the region concerned, which enables the Group's sales network to reach the end market. Besides, the coverage of the network has also been extended from large top Class-III hospitals to provincial, municipal and county hospitals, to keep improving market penetration, thereby establishing a precision management system that each hospital will have its respective promoters.

In addition, the Group has further improved the direct participation of its internal marketing team in product marketing activities. In this regard, approaches include regular training for 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 extending the opinion leadership network for the main therapeutic areas of products. All the approaches serve to ensure accurate and timely delivery of product information to doctors. In addition to product promotion, the Group has taken the initiative to invite third party promoters from across the country to discuss and interpret the major impact of national policies, and to increase the added value and attraction of the Group's training.

3. Cold Chain Storage Facility

Considering the future demand for business expansion and the significant demand for pharmaceutical cold chains in the storage and delivery of blood products and bio-products, the Group has constructed a cold chain storage facility in Shuangliu District, Chengdu, Sichuan Province. The Group has completed the first phase of its cold chain storage facility (15,000 square meters), which can satisfy the Group's storage demand and provide better control for the quality and safety of the blood products in our product portfolio. Additionally, we will be able to provide third parties with high quality pharmaceutical cold-chain storage services upon completing the second-phase construction, which will be a new business unit of the Group. Currently, the Group has applied to Shuangliu District Government for land transfer, with its procedures well under way.

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

4. Research and Development ("R&D")

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 RMB1.6 million as the R&D expenses for developing Sinco I.

FUTURE AND OUTLOOK

In 2019, the domestic and global macro-economic environment still remains in uncertainty. Under the top-level strategy for a "Healthy China", the Chinese pharmaceutical and healthcare reform will enter a crucial year that features full implementation of multiple medical-reform policies, optimization of industrial structures, upgrade of technologies and facilities, and more support for international development. Meanwhile, there will be greater disparity in corporate and product landscape, together with faster industrial integration, presenting both opportunities and challenges. Factors, such as an aging population, greater health awareness, changes to disease spectrum and the application of new technologies, will generate long-term rigid demand to support the development of the Chinese pharmaceutical industry. As an important sector in China relating to people's livelihood, the pharmaceutical and healthcare industry still enjoys a strong growth momentum and huge rigid demand.

After the pile-up of channel inventory in 2017 and the gradual inventory reduction in 2018, the year of 2019 witnessed 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 investments 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.

POSSIBLE ACQUISITIONS, PLACING AND CONVERTIBLE BOND ISSUE DURING THE REPORTING PERIOD

Memorandum of understanding in respect of a possible acquisition

On 15 December 2018, the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with two third parties (the "**Vendor(s)**") in relation to a possible acquisition (the "**Possible Acquisition**") of majority stake in a company, and the relevant group of target companies were principally engaged in maternal and child care and its related services. Pursuant to the terms of the MOU, the MOU would be terminated if the relevant formal agreement had not been signed among the parties to the MOU upon the end of the relevant exclusive period under the MOU. On 15 March 2019, no formal agreement was signed among the parties to the MOU and the parties to the MOU did not agree to extend such exclusive period. Accordingly, the Possible Acquisition did not proceed. The Board considered that the termination of the MOU had no material adverse impact on the existing business operation and financial position of the Group. Details of the Possible Acquisition was set out in the Company's announcements dated 15 December 2018 and 15 March 2019.

Possible acquisition, placing of Shares and issuance of convertible bonds

On 4 February 2019, the Company entered into the placing agreement (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 placees. In such connection, the Company entered into a non-legally binding memorandum of understanding dated 4 February 2019 (the "**PP MOU**") with PIEL Capital Company Limited in relation to the possible acquisition of a company, which intended to acquire certain interest in a provider of low-cost long-life and long-duration energy storage systems. 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. According to the PP MOU, it shall be terminated upon the expiry of the exclusivity period under the PP MOU, which was a period of six months from the date of the PP MOU. As at the date of this announcement, no definitive agreement relating to the possible acquisition was signed among the parties to the PP MOU, accordingly, the possible acquisition did not proceed. Details of the possible acquisition, Placing Agreement and termination agreement was set out in the Company's announcements dated 4 February 2019 and 13 March 2019.

Possible acquisition of Zhongshan Sinobioway

On 6 December 2019, the Company, as a potential purchaser, entered into a non-legally binding memorandum of understanding with Ms. Pan Wen (潘雯女士), Mr. Gong Tao (龔濤先生) and Ms. Xu Jie (許婕女士) in relation to a possible acquisition by the Company (or its wholly owned subsidiary), of the entire equity interest in Zhongshan Sinobioway Hygene Biomedicine Co., Ltd* (中山未名海濟生物醫藥有限公司). As at the date of this announcement, the Company is in negotiation with the relevant parties regarding the possible acquisition. Please refer to the Company's announcement dated 6 December 2019 for details.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2019, the Group had a total of 107 employees. For the Reporting Period, the total staff costs of the Group were RMB12.0 million (As of 31 December 2018: RMB13.2 million).

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service quality. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute during the Reporting Period.

In addition, the Group adopted a share option scheme to recognize the contribution by certain employees of the Group, and to provide them with incentives in order to retain them for their continuing support in the operation and development of the Group. As at 31 December 2019, there were 15,650,000 outstanding share options granted under the share option scheme.

RISK MANAGEMENT

The principal risks and uncertainties identified by the Group 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 Group 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$, and certain items of bank balances, receivables and payables are denominated in US$ and HK$.

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

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

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

RELATIONSHIP WITH KEY STAKEHOLDERS

Human resources is one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance based incentives.

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

- Promoting paperless office

- Encouraging low-carbon commuting

- Ensuring reasonable energy consumption

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

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.

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 is the chairman of the Board and the 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 are 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

DIVIDEND

The Board does not recommend the payment of dividend by the Company for the Reporting Period.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") is proposed to be held on Friday, 12 June 2020. A notice convening the AGM will be published and despatched to the Shareholders in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM. 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, 8 June 2020.

POST REPORTING PERIOD EVENTS

On 3 January 2020, the Company has arranged for the repayment of the Loan together with the relevant interest amounts under the Loan Agreement, and the (i) 1,049,990,000 Shares charged and (ii) guarantee provided by Mr. Huang in such connection was subsequently released. Please refer to the section headed "Management Discussion and Analysis – Financial Review – Borrowings" above for more details.

After the outbreak of COVID-19 in the first quarter of 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any direct material adverse effect on the Group's financial performance as a result of the COVID-19 outbreak.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") consists of Mr. Lau Ying Kit, Mr. Wang Qing and Mr. Liu Wenfang, all of whom are the Company's independent non-executive Directors. The chairman of the Audit Committee is Mr. Lau Ying Kit.

The unaudited annual results contained herein have been reviewed by the Audit Committee.

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS OF THE COMPANY DUE TO TRAVEL AND OTHER RESTRICTIONS RELATING TO COVID-19 PANDEMIC

Due to certain travel restrictions in force in parts of the PRC for the outbreak of COVID-19, the auditing process for the Group's annual results for the Reporting Period has not been completed as at the date of this announcement and it is expected to be continued to be carried out by the auditors of the Company beyond 31 March 2020. The Company is in ongoing discussions with its auditors on the audit works on the financial results of the Group for the Reporting Period, and is informed that the progress of the relevant audit field works in the PRC has been affected by the on-going uphold of certain travel restrictions imposed due to the pandemic. As such, there is a delay in publishing the relevant audited annual results as required under the Listing Rules.

Given the reasons as set out above, the unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Listing Rules.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) to inform the Shareholders and potential investors whether the Company's annual results contained in this announcement are subsequently agreed by its auditors, and where applicable, the audited results for the year ended 31 December 2019 which has been agreed by the Company's auditors and auditing process that has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants, and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before 17 April 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENTS AND THE ANNUAL REPORT

This unaudited annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Company (http://www.sinco-pharm.com). Any further announcement(s) relating to the Company's annual results will also be published on the same websites in due course. The annual report of the Company for the year ended 31 December 2019 containing all the information as required by the Listing Rules will be despatched to the Shareholders and made available for review on the same websites in due course.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 March 2020

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. Lau Ying Kit, Mr. Wang Qing and Mr. Liu Wenfang.