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Sinco Pharmaceuticals Holdings Limited

兴科蓉医药控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 6833)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 33.4% or RMB282.9 million to RMB1,129.9 million for the Reporting Period (six months ended 30 June 2021: RMB847.0 million), among which revenue from sales of Human Albumin Solution increased by approximately RMB322.0 million, revenue from medical beauty services increased by RMB2.5 million, while revenue from sales of antibiotics decreased by approximately RMB41.6 million.
- In line with the increase in the Group's revenue, the gross profit of the Group increased by RMB34.7 million to RMB192.2 million for the Reporting Period (six months ended 30 June 2021: RMB157.5 million), while the gross profit margin slightly decreased from 18.6% to 17.0%, which was caused by the increase in the purchase cost.
- During the Reporting Period, although gross profit of the Group increased, the net profit decreased by approximately RMB13.4 million to RMB61.9 million (six months ended 30 June 2021: RMB75.3 million). Such decrease was mainly due to the increased sales expenses and administration expenses, which were caused by more market promotion activities carried out to expand the sales channel and the increased research and development expenses on the aesthetic medicine during the Reporting Period.
- During the Reporting Period, net profit attributable to owners of the Company amounted to RMB61.9 million (six months ended 30 June 2021: RMB75.3 million), representing a decrease in net profit by RMB13.4 million.
- Basic earnings per share amounted to RMB0.03049 for the Reporting Period (six months ended 30 June 2021: RMB0.04450).
- Diluted earnings per share amounted to RMB0.03048 for the Reporting Period (six months ended 30 June 2021: RMB0.04450).
- The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2021: Nil).

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sinco Pharmaceuticals Holdings Limited (the “**Company**”) hereby announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2021 and the comparative figures as at 31 December 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	For the six months ended	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	1,129,926	847,044
Cost of sales		(937,728)	(689,517)
Gross profit		192,198	157,527
Other income and gains	5	11,493	5,067
Selling and distribution expenses		(67,767)	(34,874)
Administrative expenses		(37,328)	(17,426)
Reversal of/(provision for) impairment losses on trade receivables	7	(6,151)	454
Reversal of/(provision for) impairment losses on financial assets included in prepayments, other receivables and other assets	7	280	(416)
Other expenses		(2,046)	(3,823)
Changes in fair value on financial liabilities at fair value through profit or loss		(494)	–
Finance costs	6	(11,617)	(14,825)
PROFIT BEFORE TAX	7	78,568	91,684
Income tax expense	8	(16,645)	(16,403)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		61,923	75,281

	For the six months ended	
	30 June	
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Attributable to owners of the Company	<u>61,923</u>	<u>75,281</u>
Earnings per share attributable to ordinary equity holders of the Company:		
– Basic	<i>10</i> RMB0.03049	RMB0.04450
– Diluted	<i>10</i> <u>RMB0.03048</u>	<u>RMB0.04450</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	
Non-current assets			
Property, plant and equipment	<i>11</i>	217,558	207,867
Investment property	<i>11</i>	6,409	6,499
Right-of-use assets	<i>11</i>	58,030	48,394
Other intangible asset	<i>11</i>	16,500	–
Prepayments, other receivables and other assets	<i>12</i>	101,008	169
Goodwill	<i>20</i>	66,536	–
Deferred tax assets		2,898	860
		<hr/>	<hr/>
Total non-current assets		468,939	263,789
		<hr/>	<hr/>
Current assets			
Inventories		45,246	61,270
Trade and bills receivables	<i>13</i>	232,583	213,601
Prepayments, other receivables and other assets	<i>12</i>	282,967	313,039
Pledged deposits		116,912	55,015
Cash and cash equivalents		456,707	326,052
		<hr/>	<hr/>
Total current assets		1,134,415	968,977
		<hr/>	<hr/>
Current liabilities			
Trade and bills payables	<i>14</i>	568,275	422,933
Contract liabilities		26,201	27,749
Other payables and accruals	<i>15</i>	46,460	53,424
Interest-bearing bank and other borrowings	<i>16</i>	200,843	208,320
Tax payable		4,311	12,826
Lease liabilities		1,632	384
		<hr/>	<hr/>
Total current liabilities		847,722	725,636
		<hr/>	<hr/>
NET CURRENT ASSETS		286,693	243,341
		<hr/>	<hr/>
Total assets less current liabilities		755,632	507,130
		<hr/>	<hr/>

		30 June	31 December
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	
Non-current liabilities			
Interest-bearing bank and other borrowings	<i>16</i>	131,966	132,244
Deferred tax liabilities		2,475	–
Financial liabilities at fair value through profit or loss	<i>20</i>	16,939	–
Lease liabilities		7,979	–
		<hr/>	<hr/>
Total non-current liabilities		159,359	132,244
		<hr/>	<hr/>
Net assets		596,273	374,886
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>17</i>	164	151
Reserves		596,109	374,735
		<hr/>	<hr/>
Total equity		596,273	374,886
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 (the “**Period**”) has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the Amendments to IFRS 3, Amendment to IFRS 16, Amendments to IAS 16, Amendments to IFRS 37 and *Annual Improvements to IFRS Standards 2018-2020* for the first time for the current period’s financial information.

The Group has assessed the impact of the adoption of the amendments and annual improvements, and concluded that the amendments and annual improvements did not have any significant financial impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and products and has three (six months ended 30 June 2021: one; year ended 31 December 2021: one) reportable operating segments as follows:

- (a) the sale of imported pharmaceutical products segment;
- (b) the research and manufacturing of aesthetic medicine segment; and
- (c) the medical beauty services segment.

In previous years/periods, the board of directors (the “**Directors**”) considered that there were no reportable segments other than the sale of imported pharmaceutical products segment. During the Period, as the Group’s research and development of the polycaprolactone microsphere facial filler for injection is progressing smoothly and is expected to start trial production for the research purpose in the second half of this year, it was separately managed as the research and manufacturing of aesthetic medicine segment. Besides, the Group acquired Deyang Demei Medical Beauty Hospital Limited Company (德陽德美醫療美容醫院有限公司, “**Demei Company**”), a medical beauty services provider (as further detailed in note 20), which was managed as the medical beauty services segment. The Directors monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Due to the changes in the composition of segment during the Period, the operating segment information for the six months ended 30 June 2021 was also restated.

Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that other income and gains, other expenses, finance costs not related to lease and charges attributable to issue of letters of credit and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, deferred tax liabilities, tax payable and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2022 and 30 June 2021, respectively.

Six months ended 30 June 2022

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue <i>(note 4)</i>				
Sales to external customers	1,127,374	–	2,552	<u>1,129,926</u>
Segment results	90,546	(7,319)	683	83,910
Reconciliation:				
Corporate and other unallocated expenses				(5,602)
Other income and gains				11,493
Other expenses				(2,046)
Finance costs (other than interest on lease liabilities and finance charges attributable to issue of letters of credit)				<u>(9,187)</u>
Profit before tax				<u>78,568</u>

Six months ended 30 June 2021

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 4)				
Sales to external customers	847,044	–	–	<u>847,044</u>
Segment results	107,790	–	–	107,790
Reconciliation:				
Corporate and other unallocated expenses				(2,550)
Other income and gains				5,067
Other expenses				(3,820)
Finance costs (other than interest on lease liabilities and finance charges attributable to issue of letters of credit)				<u>(14,803)</u>
Profit before tax				<u>91,684</u>

The following table presents information of assets and liabilities of the Group's operating segments as at 30 June 2022 and 31 December 2021.

As at 30 June 2022

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment assets	911,600	25,006	90,097	1,026,703
Reconciliation:				
Corporate and other unallocated assets				134
Deferred tax assets				2,898
Cash and cash equivalents				456,707
Pledged deposits				<u>116,912</u>
Total assets				<u>1,603,354</u>
Segment liabilities	638,570	8,430	20,434	667,434
Reconciliation:				
Corporate and other unallocated liabilities				52
Interest-bearing bank and other borrowings				332,809
Tax payable				4,311
Deferred tax liabilities				<u>2,475</u>
Total liabilities				<u>1,007,081</u>

As at 31 December 2021

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment assets	850,213	–	–	850,213
Reconciliation:				
Corporate and other unallocated assets				626
Deferred tax assets				860
Cash and cash equivalents				326,052
Pledged deposits				55,015
Total assets				1,232,766
Segment liabilities	504,427	–	–	504,427
Reconciliation:				
Corporate and other unallocated liabilities				63
Interest-bearing bank and other borrowings				340,564
Tax payable				12,826
Total liabilities				857,880

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers:		
Sales of pharmaceutical products	1,127,374	847,044
Medical beauty services	2,552	–
	1,129,926	847,044

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2022

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services			
Sales of pharmaceutical products	1,127,374	–	1,127,374
Medical beauty services	–	2,552	2,552
Total revenue from contracts with customers	<u>1,127,374</u>	<u>2,552</u>	<u>1,129,926</u>

For the six months ended 30 June 2021

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services			
Sales of pharmaceutical products	847,044	–	847,044
Medical beauty services	–	–	–
Total revenue from contracts with customers	<u>847,044</u>	<u>–</u>	<u>847,044</u>

Geographical market

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

Timing of revenue recognition

All revenue from contracts with customers of the Group for the Period is recognised when goods or services are transferred at a point in time.

Information about major customers

During the Period, revenue from contracts with customers of approximately RMB337,732,000 (for the six months ended 30 June 2021: RMB325,508,000) was derived from a major customer and contributed to 10% or more of the total revenue of the Group during the Period and the six months ended 30 June 2021.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Income from logistics services rendered	1,940	4,272
Gains on disposal of financial assets at fair value through profit or loss	617	518
Bank interest income	511	246
Government grants	42	3
Exchange differences, net	8,238	–
Rental income from investment property	145	28
	<u>11,493</u>	<u>5,067</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Unwinding of discount on long-term deposits received	–	2,798
Interest on lease liabilities	219	22
Finance charges attributable to issue of letters of credit	2,211	–
Interest on bank and other borrowings	9,187	12,005
	<u>11,617</u>	<u>14,825</u>

7. PROFIT BEFORE TAX

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

	Note	For the six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold		937,150	689,517
Cost of services provided		578	–
Provision for/(reversal of) impairment losses on trade receivables, net	13	6,151	(454)
Provision for/(reversal of) impairment losses on financial assets included in prepayments, other receivables and other assets, net		(280)	416

8. INCOME TAX

The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current		
– Mainland China	14,880	8,416
– Hong Kong	3,878	7,977
Deferred	(2,113)	10
	<u>16,645</u>	<u>16,403</u>

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (b) The assessable profits of the Group derived from Hong Kong are subject to a two-tiered profit tax rate regime. The first HK\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% for the Period and the six months ended 30 June 2021.
- (c) Except for Demei Company as described below, other subsidiaries established in Mainland China are subject to corporate income tax at a statutory tax rate of 25% on their taxable profits for the Period and for the six months ended 30 June 2021.

According to the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies (《關於深入實施西部大開發戰略有關稅收政策問題的通知》), Demei Company being a subsidiary located in Sichuan Province and engaged in the encouraged business is entitled to a preferential corporate income tax rate of 15% for the Period and until 31 December 2030.

9. DIVIDENDS

At a meeting of the Directors held on 31 August 2022, the Directors resolved not to declare or pay any interim dividends for the Period to shareholders (six months ended 30 June 2021: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the Company are based on the following data:

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	<u>61,923</u>	<u>75,281</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>2,031,122,629</u>	1,691,890,585
Effect of dilution: Share options	<u>775,461</u>	–
Weighted average number of ordinary shares in outstanding used in the diluted earnings per share calculation	<u>2,031,898,090</u>	<u>1,691,890,585</u>

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2021 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the six months ended 30 June 2021.

11. INVESTMENT PROPERTY, PROPERTY, PLANT AND EQUIPMENT, OTHER INTANGIBLE ASSET AND RIGHT-OF-USE ASSETS

Movements in investment property, property, plant and equipment, other intangible asset and right-of-use assets during the Period are as follows:

	Investment property RMB'000	Property, plant and equipment RMB'000	Other intangible asset RMB'000	Right-of-use assets RMB'000
Carrying amount at 1 January 2022	6,499	207,867	–	48,394
Additions	–	9,025	–	11,173
Acquisition of subsidiaries (note 20)	–	3,459	17,000	–
Disposals	–	(10)	–	–
Depreciation/amortisation charged for the Period	<u>(90)</u>	<u>(2,783)</u>	<u>(500)</u>	<u>(1,537)</u>
Carrying amount at 30 June 2022 (unaudited)	<u>6,409</u>	<u>217,558</u>	<u>16,500</u>	<u>58,030</u>

As at 30 June 2022, the Group's buildings with a net carrying amount of RMB66,191,000 (31 December 2021: RMB57,159,000) were pledged to secure its interest-bearing bank borrowings (note 16).

Other intangible asset refers to non-compete agreement and is the right appraised from the acquisition of Demei Company and is amortised on the straight-line basis over its' estimated useful life of 5.67 years by reference to the contractual term as stipulated in the non-compete agreement.

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
<i>Current portion:</i>		
Prepayments in respect of:		
– purchase of inventories	10,334	1,492
– consultation service fee	600	1,295
– others	1,389	800
Deposit in respect of:		
– issue of letters of credit	212,116	135,375
– distribution rights	–	127,514
– others	35,696	35,118
Value-added tax recoverable	14,080	6,050
Amount due from a related party (<i>note 21 (c)</i>)	11	11
Other receivables in respect of:		
– staff advances	1,438	1,091
– others	7,379	4,649
	<u>283,043</u>	<u>313,395</u>
Impairment allowance	(76)	(356)
	<u>282,967</u>	<u>313,039</u>
<i>Non-current portion:</i>		
Deposit in respect of distribution rights	87,248	–
Prepayments in advance in respect of:		
– prepaid property, plant and equipment	13,639	–
– prepaid office decoration	84	169
– others	37	–
	<u>101,008</u>	<u>169</u>
	<u>383,975</u>	<u>313,208</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Trade receivables	237,774	216,346
Impairment	<u>(9,262)</u>	<u>(3,111)</u>
Trade receivables, net of impairment	228,512	213,235
Bills receivable*	<u>4,071</u>	<u>366</u>
	<u>232,583</u>	<u>213,601</u>

* Bills receivable as at 30 June 2022 were classified as financial assets at fair value through profit or loss.

As at 30 June 2022, trade receivables of RMB163,324,000 (31 December 2021: RMB281,044,000) were covered by letters of credit.

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Within 3 months	224,653	207,097
Over 3 months	<u>3,859</u>	<u>6,138</u>
	<u>228,512</u>	<u>213,235</u>

Transferred financial assets that are derecognised in their entirety

As at 30 June 2022, the Group endorsed certain bills receivable accepted by banks in the People's Republic of China (the "PRC") to certain import agents in order to settle other payables, with a carrying amount in aggregate of RMB5,868,000 (31 December 2021: RMB20,103,000) (collectively referred to as the "**Derecognised Bills**"). All the Derecognised Bills had been accepted by banks which are reputable banks in the PRC and had a maturity within three months at the end of the reporting period. In accordance with the Laws of Negotiable Instruments of the PRC (《中華人民共和國票據法》), 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. 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 carrying 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 Period, no gains or losses were recognised from the Continuing Involvement, both during the Period or cumulatively. The endorsement has been made evenly throughout the Period.

14. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Trade payables	508,275	422,933
Bills payables	60,000	–
	<u>568,275</u>	<u>422,933</u>

An ageing analysis of the trade payables based on the issuance date of the pharmaceuticals' inspection reports are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Within 3 months	<u>508,275</u>	<u>422,933</u>

The Group's bills payable as at 30 June 2022 was secured by the pledge of certain of the Group's deposits amounting to RMB60,000,000.

15. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Payables related to:			
– Payroll and welfare payable		1,353	2,030
– Deposits received	(a)	22,602	14,117
– Consultation professional fees		5,983	12,616
– Other tax payables		730	845
– Import agent services	(b)	809	1,886
– Interest payable		–	114
– Others		14,983	21,816
		<u>46,460</u>	<u>53,424</u>

Notes:

- (a) The balances represented refundable deposits received from the Group's distributors in order to guarantee their performance under the respective distribution contracts, which were unsecured and interest-free.
- (b) The balance as at 30 June 2022 mainly represented payables to one (31 December 2021: one) independent third party, which is principally engaged in import agent services, for its' settlement of part of the purchase of pharmaceutical products on behalf of the Group together with the service charge for the import and logistics services. Such payables were non-interest-bearing and secured by inventories with a carrying amount of RMB29,097,000 (31 December 2021: RMB56,339,000).

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
<i>Current portion:</i>			
Secured and guaranteed bank loans	(a)	200,000	80,000
Unsecured other borrowing		–	127,514
Guaranteed long-term bank loans	(a)	843	806
		200,843	208,320
<i>Non-current portion:</i>			
Guaranteed bank loans	(a)	1,966	2,244
Unsecured other borrowing	(b)	130,000	130,000
		131,966	132,244
		332,809	340,564
Effective interest rate (%)		2.75~10.68	2.75~10.68

Notes:

- (a) As at 30 June 2022, the Group's bank loans were secured and guaranteed by:
- (i) mortgage over the Group's buildings, which had an aggregate carrying amount of RMB66,191,000;
 - (ii) Mr. Huang Xiangbin, the Company and Chengdu Sinco Pharmaceutical Technology Co., Ltd. (成都興科蓉醫藥技術有限責任公司) has jointly guaranteed certain of the Group's bank loans of RMB80,000,000;
 - (iii) Mr. Huang Xiangbin and the Company has jointly guaranteed certain of the Group's bank loans of RMB120,000,000; and
 - (iv) Mr. Huang Xiangbin has guaranteed the Group's bank loans of RMB2,809,000.
- (b) As at 30 June 2022, the balance represented the interest-bearing unsecured other borrowing granted by a third party.

17. ISSUED CAPITAL

The movement in the Company's issued capital during the Period is as follows:

	Number of share in issue	Issued capital <i>RMB'000</i>
As at 1 January 2022	1,872,890,585	151
Issue of new shares	<u>160,000,000</u>	<u>13</u>
As at 30 June 2022	<u>2,032,890,585</u>	<u>164</u>

Note:

On 3 January 2022, a total of 160,000,000 placing shares were allotted and issued to the placees at the price of HK\$1.29 per share, resulting new share capital of HK\$16,000 (before issue expenses).

18. SHARE OPTION SCHEME

The exercise prices and exercise periods of the share options outstanding as of 1 January 2022 and 30 June 2022 are as follows:

Number of options '000	Exercise price per share <i>HK\$</i>	Exercise period
460	0.568	21 September 2017 to 20 September 2022
345	0.568	21 September 2018 to 20 September 2022
<u>345</u>	0.568	21 September 2019 to 20 September 2022
<u>1,150</u>		

There was no movement in the number of share options outstanding during the Period.

19. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i>
Contracted, but not provided for:		
– Plant and machinery	111,129	83,008
– Furbishing of a property	<u>3,722</u>	<u>2,256</u>
	<u>114,851</u>	<u>85,264</u>

20. BUSINESS COMBINATION

On 10 May 2022, Sichuan Sinco Biotech Limited Company (四川興科蓉生物科技有限公司) (an indirectly wholly-owned subsidiary of the Company) acquired 100% equity interest in Deyang Yisida Biotech Limited (德陽億思達生物科技有限公司, “**Deyang Yisida**”), which owns and controls 70% equity interest in Demei Company, at a consideration of RMB66.5 million from Guanghan Fire Genie E-Commerce Co., Ltd. (廣漢火精靈電子商務有限責任公司, the “**Vendor A**”). On the same day, Mr. Huang Zhijian (the son of Mr. Huang Xiangbin who is the executive director, chairman of the board of directors and the substantial shareholder of the Company) acquired 100% equity interest in Deyang Renshangren Pharmaceutical Technology Co., Ltd. (德陽仁尚仁醫藥技術有限公司, “**Renshangren**”), which owns the remaining 30% equity interest in Demei Company, at a consideration of up to RMB28.5 million from Guanghan Haozheng Trading Co., Ltd. (廣漢市浩正商貿有限責任公司, the “**Vendor B**”). The Vendor A and the Vendor B are collectively referred to as the “Vendors”.

Upon the completion of the acquisition of Deyang Yisida, the Company indirectly held 70% equity interest in Demei Company. Through the entering into of a series of agreements constituting contractual arrangements (the “**old VIE Contractual Arrangements**”), the Group is entitled to exercise effective control over both operational and financial matters and enjoy the economic benefits derived from the entire equity interest in Renshangren and the remaining 30% equity interest in Demei Company. The acquisition of Deyang Yisida and the acquisition of Renshangren are collectively referred to as the “Acquisition”. Please refer to the announcements of the Company dated 22 March 2022 and 10 May 2022 for more details about the aforesaid acquisition and the old VIE Contractual Arrangements.

The fair value of the identifiable assets and liabilities of Demei Company as at the date of the Acquisition are as follows:

	Fair value recognised on on the Acquisition RMB’000 (unaudited)
Property, plant and equipment (<i>note 11</i>)	3,459
Other intangible asset – Non-compete agreement (<i>note 11</i>)	17,000
Deferred tax liabilities	(2,550)
	<hr/>
Total identifiable net assets at fair value	17,909
Goodwill on acquisition*	66,536
	<hr/>
Purchase consideration transferred	84,445
	<hr/>
Purchase consideration transferred satisfied by:	
Cash	68,000
Contingent consideration payable	16,445
	<hr/>
	84,445
	<hr/>

An analysis of the cash flows in respect of the Acquisition is as follows:

Net outflow of cash and cash equivalents included in cash flows used in investing activities during the Period	<hr/> 68,000
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* The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Demei Company. The goodwill recognised is not expected to be deductible for income tax purposes.

As part of the series of agreements with the Vendors, a contingent consideration is payable, which is dependent on the profit of Demei Company of each year of the years ended 31 December 2022, 2023 and 2024. At the acquisition date, the fair value of the initial amount recognised was estimated to be RMB16,445,000 which was determined using the scenario analysis method and is within Level 3 fair value measurement. As at 30 June 2022, the contingent consideration was remeasured as RMB16,939,000 at fair value. A significant increase/decrease in the profit of Demei Company would result in a significant change in the fair value of the contingent consideration. The contingent consideration is classified as financial liabilities at fair value through profit or loss. A reconciliation of fair value measurement of the contingent consideration liability is provided below:

	<i>RMB'000</i> (unaudited)
Liability arising on business combination	16,445
Unrealised fair value change recognised in profit or loss	494
	<hr/>
As at 30 June 2022	<u>16,939</u>

Contribution to the Group's revenue and consolidated profit for the six months ended 30 June 2022 since the acquisition date are as follows:

	<i>RMB'000</i> (unaudited)
Revenue	2,552
Consolidated profit	1,124
	<hr/>

Had the combination taken place at the beginning of the Period, the revenue of the Group and the profit of the Group for the Period would be:

	<i>RMB'000</i> (unaudited)
Revenue	1,136,904
Consolidated profit	58,230
	<hr/>

21. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with related parties:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Guaranteed by Mr. Huang Xiangbin: Interest-bearing bank loans	<u>202,809</u>	<u>72,467</u>

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

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (unaudited)
Salaries, allowances and benefits in kind	1,668	1,662
Pension scheme contributions	16	15
	<u>1,684</u>	<u>1,677</u>

(c) **Balance with a related party**

The Group had outstanding balance due from a related party at the end of the reporting period:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Amount due from Risun Investments Limited (“Risun”)	<u>11</u>	<u>11</u>

Risun, a company incorporated in the British Virgin Islands (“BVI”), is the parent and the ultimate holding company of the Company. The balance represents miscellaneous expenditure paid on behalf Risun, which are unsecured, interest-free and repayable on demand.

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group’s financial instruments, other than those with carrying amounts that reasonably approximate to fair values due to short term to maturity, are as follows:

	Carrying amounts		Fair values	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000
Financial assets				
Prepayments, other receivables and other assets – non-current	<u>87,248</u>	<u>–</u>	<u>81,749</u>	<u>–</u>
Financial liabilities				
Non-current portion:				
– interest-bearing bank loans	1,966	2,244	1,801	2,137
– other borrowings	130,000	130,000	141,312	131,349
– financial liabilities at fair value through profit or loss	<u>16,939</u>	<u>–</u>	<u>16,939</u>	<u>–</u>
	<u>148,905</u>	<u>132,244</u>	<u>160,052</u>	<u>133,486</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in current portion of prepayments, other receivables and other assets, financial liabilities included in the current portion of other payables and accruals, trade and bills payables and current interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current interest-bearing bank and other borrowings and non-current portion of prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for non-current financial liabilities as at 30 June 2022 was assessed to be insignificant.

The fair values of contingent consideration have been calculated by scenario analysis method, below is a summary of significant unobservable inputs to the valuation as at 30 June 2022:

	Valuation Technique	Significant unobservable input	Increase/ (decrease)	Sensitivity of fair value to the input
Financial liabilities at fair value through profit or loss	Scenario based method	Target net income change range	10% /(10%)	10% increase or decrease in net income would result in an increase in fair value by RMB791,824 and a decrease in fair value by RMB1,266,609.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Bills receivable:				
As at 30 June 2022 (Unaudited)	—	—	4,071	4,071
As at 31 December 2021	—	366	—	366

Liabilities measured at fair value:

As at 30 June 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities at fair value through profit or loss	—	—	16,939	16,939

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

23. EVENT AFTER THE PERIOD

On 19 August 2022, Mr. Huang Zhijian and Ms. Liu Keping, a PRC national who has been working in the Group since November 2013 and is currently the manager of the human resources department of Sichuan Sinco Pharmaceutical Co., Ltd. (四川興科蓉藥業有限責任公司) (an indirectly wholly-owned subsidiary of the Company), entered into an equity transfer agreement in respect of Renshangren, pursuant to which Mr. Huang Zhijian agreed to sell and Ms. Liu Keping agreed to acquire the entire equity interest in Renshangren. On the same day, the Group entered into a series of termination agreements for purpose of terminating agreements under the old VIE Contractual Arrangements (as defined in note 20) in respect of Renshangren (to which Mr. Huang Zhijian was a party) and entered into a series of structured contracts (in a form substantially same to the aforementioned terminated agreements of the old VIE Contractual Arrangements in respect of Renshangren) with Ms. Liu Keping. Please refer to the announcement of the Company dated 22 August 2022 for more details about the aforesaid equity transfer of Renshangren.

24. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the board of directors on 31 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The COVID-19 pandemic persists into 2022 around the world. At the same time, the outbreaks of the pandemic in major cities in the Mainland China in the first half of the year have also brought continuous and severe challenges to various industries. As far as the pharmaceutical industry is concerned, on one hand, due to the pandemic, demand for related pharmaceutical products has surged and certain market sub-segments have become popular. On the other hand, due to the fluctuation and continuation of the pandemic situation at home and abroad, it has caused huge pressure on the supply side and supply chain of pharmaceutical products. How to maintain a stable product supply in 2022, where pandemic has become the new normal, has become a difficult problem faced by every pharmaceutical company.

During the Reporting Period, the half-year batch release volume of human albumin was 30.66 million vials, representing a slight increase of 4% compared to the corresponding period of 2021. The proportions of imported albumin and domestic albumin were 58.4% and 41.6% respectively. Domestic albumin achieved a 15.7% increase due to the recovery of plasma collection in 2021. Due to the outbreak of the pandemic in major import port cities in the first half of this year, the progress of customs clearance and batch release of imported human albumin has been affected to varying degrees, and the total batch release volume of imported albumin has declined by 3%.

During the Reporting Period, the Group's sales of human albumin injection amounted to RMB1,127.4 million, representing an increase of approximately RMB322.0 million or 40% compared to the corresponding period of 2021, and revenue from medical beauty services amounted to approximately RMB2.5 million. The total gross profit achieved during the Reporting Period was RMB192.2 million, representing a period-on-period increase of RMB34.7 million or 22% compared to the gross profit of RMB157.5 million in the corresponding period of 2021. The increase in gross profit was mainly due to the increase in the sales of human albumin by the Group during the Reporting Period.

In May 2022, the Group acquired 70% equity interest in Deyang Demei Medical Beauty Hospital Limited Company* (德陽德美醫療美容醫院有限公司) (“**Demei Company**”), a company established under the law of the People’s Republic of China (the “**PRC**”), and entered into a series of structured contracts with relevant parties (including Mr. Huang Zhijiang (黃智健), son of the substantial shareholder of the Company and an executive Director) to obtain the control of operational and financial matters over and the economic interest derived from the remaining 30% equity interest in Demei Company (and the entire equity interest in Deyang Renshangren Pharmaceutical Technology Co., Ltd.* (德陽仁尚仁醫藥技術有限公司, “**Renshangren**”), being the registered holder of the remaining 30% equity interest in Demei Company), to operate its medical beauty services in the PRC. Through the aforesaid acquisition and contractual arrangements: (i) the Group could capitalise on the medical professionals, equipments and facilities of Demei Company as well as its network in the medical aesthetic industry, which could facilitate the research and development works of our medical aesthetic products; (ii) the Group could expand its presence and have direct access to the downstream end of the medical aesthetic industry, which could be beneficial for the Group to build up its brand name in the industry, to obtain more comprehensive market information and to have a direct and better understanding of the customers’ requirements in medical aesthetic products and services; and (iii) Demei Company and its network could bring synergy effect to the marketing and sales of the Group’s pharmaceutical products and medical aesthetic products at a later stage.

FUTURE AND OUTLOOK

In the first half of 2022, the COVID-19 pandemic broke out successively in major cities across the country, and the macroeconomic environment at home and abroad is still full of uncertainties. However, the rigid demand for the development of China’s pharmaceutical industry will exist for a long time. As an essential industry in China, the medical and health industry still has strong growth momentum and huge rigid demand.

Under the continuous influence of the domestic pandemic, the entire supply of imported human albumin is facing challenges in various aspects. Different from the supply of other pharmaceutical products, the import process of blood products is more complicated and the import cycle is longer. The outbreak of the pandemic in various import port cities in the first half of the year has significantly prolonged the entire import cycle, and the overall batch release volume has shrunk. However, as the pandemic is brought under control and imports return to normal, batch release volume is expected to rebound significantly in the second half of 2022 and may exceed last year’s supply throughout the year. The Group will continue to expand the marketing and promotion network, strengthen the management and control of the marketing team, improve the incentive system, and continue to promote the sinking of network channels. Moreover, the Group will increase profit contribution through the development of multi-mode cooperation with hospitals and pharmacies to access the terminal market, building core marketing capabilities and establishing a high-quality terminal promotion network.

As the Group officially launched the industrial layout of the medical aesthetic products last year, the research and development of the first product of the Group’s medical beauty product line, “Girl Needle”, has also been carried out smoothly this year. At present, the project has completed the development work in the laboratory stage, and is expected to start pilot production in the second half of this year. The Group will continue to invest the necessary manpower and resources in order to achieve an early launch of the product. At the same time, the Group is also continuing to investigate and research into the medical aesthetics market and will develop a series of “PCL+X” products based on polycaprolactone raw materials, and derive a variety of medical aesthetics products.

Apart from the above, the Group will continue to strengthen the construction of its internal control system and risk management, pay close attention to corporate social responsibilities and practise through 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 of the Company (the “Shareholders”).

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB1,129.9 million for the Reporting Period, representing an increase of RMB282.9 million or 33.4% as compared to RMB847.0 million in the corresponding period of 2021, which could be further analyzed as follows:

	<i>Notes</i>	For the six months ended 30 June			
		2022		2021	
		<i>RMB million</i>	<i>% of revenue</i>	<i>RMB million</i>	<i>% of revenue</i>
Human Albumin Solution	1)	1,127.4	99.8	805.4	95.1
Antibiotics	2)	–	–	41.6	4.9
Medical beauty services	3)	2.5	0.2	–	–
Total		<u>1,129.9</u>	<u>100.0</u>	<u>847.0</u>	<u>100.0</u>

Notes:

- 1) Throughout the Reporting Period, revenue of Human Albumin Solution of the Group stood at RMB1,127.4 million, representing an increase of approximately 40% or RMB322.0 million as compared to the first half of 2021. Such increase in revenue was mainly due to the increase in the supply volume and the sales volume of human albumin.
- 2) During the Reporting Period, the Group temporarily stopped the sales of the antibiotics products because the market demand was adversely affected by the continuous COVID-19 pandemic, and meanwhile, with the implementation of the drug volume-based purchase policy, the sales in state-owned hospitals declined. The Group was developing the new sales channel for the antibiotics products.
- 3) During the Reporting Period, revenue generated from medical beauty services amounted to RMB2.5 million, representing the revenue from Demei Company which was acquired by the Group during the Reporting Period.

Cost of sales

The Group recorded cost of sales of RMB937.7 million for the Reporting Period, representing an increase of RMB248.2 million or 36.0% as compared with RMB689.5 million in the corresponding period of 2021, which was in line with the increase in sales revenue.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB192.2 million, representing an increase of RMB34.7 million as compared with RMB157.5 million in the corresponding period of 2021, in which the gross profit of the human albumin increased by RMB36.2 million, the gross profit of medical beauty services increased by RMB1.9 million during the period, and the gross profit of antibiotics decreased by RMB3.4 million.

As compared with the corresponding period of 2021, the gross profit margin declined from 18.6% to 17.0% for the Reporting Period. The decrease in profit margin was mainly due to the decrease of the gross profit margin of the human albumin which was primarily caused by its increased purchase cost.

Other income and gains

During the Reporting Period, other income and gains of the Group amounted to RMB11.5 million, representing an increase of RMB6.4 million as compared with the corresponding period of 2021. Other income and gains for the Reporting Period mainly represented (i) logistics service income of RMB1.9 million; (ii) exchange gains of RMB8.2 million.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB67.8 million, representing an increase of RMB32.9 million as compared with the corresponding period of 2021. The increase was mainly due to the increase of marketing promotion expenses.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB37.3 million, representing an increase of RMB19.9 million as compared with the corresponding period of 2021. The administrative expenses mainly included staff cost of RMB10.4 million, consultation service fees of RMB7.3 million, R&D expenses of RMB5.0 million, tax charges of RMB3.7 million, depreciation and amortization of RMB3.7 million and other miscellaneous expenses.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB2.0 million representing a decrease of RMB1.8 million as compared with RMB3.8 million in the corresponding period of 2021.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB11.6 million, representing a decrease of RMB3.2 million as compared with the corresponding period of 2021, which was mainly due to the increase in the bank charges of the issuance of letter of credit of RMB2.2 million and offset by the decrease of the interest on bank and other borrowings of RMB3.6 million and the decrease of unwinding of discount on long-term deposits received of RMB2.8 million.

Income tax expense

During the Reporting Period, the Group recorded income tax expense of RMB16.6 million, representing a slight increase of RMB0.2 million as compared with the corresponding period of 2021, which was similar to that of the corresponding period of 2021.

Profit for the Reporting Period

As a result of the foregoing, the Group recorded the net profit of RMB61.9 million, representing a decrease of RMB13.4 million as compared with the corresponding period of 2021.

Inventories

Inventory balances amounted to RMB45.2 million as of 30 June 2022 (31 December 2021: RMB61.3 million), representing a decrease of RMB16.1 million as compared with the year-end balance of 2021. Such decrease was due to the decrease in the inventory balance of Human Albumin Solution.

Due to the recovery of the sales volume during the Reporting Period, the Group's average inventory turnover days decreased by 25 days from 45 days for the corresponding period of 2021 to 20 days for the Reporting Period.

Trade and bills receivables

The balance of trade receivables amounted to RMB228.5 million as at 30 June 2022 (31 December 2021: RMB213.2 million), representing an increase of RMB15.3 million as compared with the year-end balance of 2021. The increase was mainly due to the increase in the sales of the Group during the Reporting Period.

The balance of bills receivable as of 30 June 2022 was RMB4.1 million (31 December 2021: RMB0.4 million).

Prepayments, other receivables and other assets

As of 30 June 2022, the current portion of prepayments, other receivables and other assets amounted to RMB283.0 million (31 December 2021: RMB313.0 million), representing a decrease of RMB30.0 million as compared with the year-end balance of 2021, mainly due to the decrease of RMB127.5 million in the deposit paid, which was offset by the increase in the prepayment for letter of credit of RMB76.7 million, the increase of RMB8.8 million in the prepayments for purchase of inventories and the increase in the prepaid value added tax of RMB8.0 million as compared with the previous period.

Trade and bills payables

As of 30 June 2022, trade and bills payables amounted to RMB568.3 million (31 December 2021: RMB422.9 million), representing an increase of RMB145.4 million as compared with the year-end balance of 2021, among which payables for the purchase of Human Albumin Solution increased by RMB91.3 million, and payables for the purchase of antibiotics decreased by RMB6.0 million. The increase of trade payables was mainly due to the increase in purchases driven by the increase in sales in the current period.

Other payables and accruals (current portion)

As of 30 June 2022, other payables and accruals amounted to RMB46.5 million (31 December 2021: RMB53.4 million), representing a decrease of RMB6.9 million as compared with the year-end balance of 2021. The decrease was mainly due the decrease of payables for the consultation professional fees of RMB6.6 million.

Borrowings

As of 30 June 2022, the Group has borrowings of RMB332.8 million in total, with details set out below:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Current:		
Interest-bearing bank loans	200,843	80,806
Interest-bearing other borrowings	—	127,514
Non-current:		
Interest-bearing bank loans	1,966	2,244
Interest-bearing other borrowings	130,000	130,000
	332,809	340,564

Gearing ratio

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Interest-bearing bank and other borrowings	332,809	340,564
Trade and bills payables	568,275	422,933
Other payables	46,460	53,424
Lease liabilities	9,611	384
Tax payables	4,311	12,826
Less: Cash and cash equivalents	(456,707)	(326,052)
Less: Pledged bank balances	(116,912)	(55,015)
Net debt^(a)	387,847	449,064
Equity	596,273	374,886
Equity and net debt^(b)	984,120	823,950
Gearing ratio^(a/b)	39.4%	54.5%

Liquidity and capital resources

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

	<i>Notes</i>	For the six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Net cash from operating activities	1)	87,714	81,673
Net cash used in investing activities	2)	(90,047)	(1,635)
Net cash from financing activities	3)	124,625	44,825
		<hr/>	<hr/>
Net increase in cash and cash equivalents		122,292	124,863
Effect of foreign exchange rate changes, net		8,363	(1,626)
Cash and cash equivalents at beginning of the period	4)	326,052	143,765
		<hr/>	<hr/>
Cash and cash equivalents at end of the period	4)	456,707	267,002
		<hr/>	<hr/>

Notes:

1) Net cash from operating activities

During the Reporting Period, the Group's net cash inflow from operating activities amounted to approximately RMB87.7 million (six months ended 30 June 2021: net cash inflow of RMB81.7 million), which was mainly due to the increase in cash from sales during the Reporting Period as compared with the corresponding period of prior year.

2) Net cash used in investing activities

During the Reporting Period, the Group's net cash outflow in investing activities amounted to approximately RMB90.0 million, which was increased by RMB88.4 million as compared with the corresponding period of 2021 (net cash outflow of RMB1.6 million). The increase was mainly due to (i) the acquisition of the Demei Company of RMB68.0 million, and (ii) the increase of the purchase of items of property, plant and equipments of RMB20.5 million.

3) Net cash from financing activities

During the Reporting Period, the Group's net cash inflow from financing activities amounted to approximately RMB124.6 million (six months ended 30 June 2021: net cash inflow of RMB44.8 million), mainly including (i) net proceeds from bank and other borrowings of RMB160 million; and (ii) cash inflow from issuance of additional Shares of RMB159.5 million. The cash inflow was partially offset by (i) repayment of the interest-bearing loan of RMB40.4 million; (ii) payment of interests of RMB12.6 million; (iii) pledge of deposits for letter of credit to a bank and bills payable of RMB61.9 million; and (iv) the increase in prepayment of deposits for issuance of letter of credit of RMB76.7 million.

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

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Denominated in RMB	318,771	257,299
Denominated in US\$	32,997	74,138
Denominated in HK\$	93,933	47,887
Denominated in S\$	10,946	1,704
Denominated in C\$	–	39
	<hr/> 456,707 <hr/>	<hr/> 381,067 <hr/>

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 deposited 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\$, S\$ and C\$; and
- Purchase of products from overseas suppliers and relevant trade payables are denominated in US\$.

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

Capital expenditure

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

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Purchase of property, plant and equipment	<u>9,025</u>	<u>2,153</u>
	<u>9,025</u>	<u>2,153</u>

Contingent liabilities

The Group had no material contingent liabilities as of 30 June 2022.

Pledge of assets

As of 30 June 2022, the carrying amounts of the Group's pledged assets were set out as follows:

	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
For obtaining bank and other borrowings		
– Buildings	66,191	73,625
– Inventories	29,097	56,339
For issuance of letters of credit and bills payable		
– Bank balances	<u>116,912</u>	<u>55,015</u>

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2022, the Group had a total of 133 employees. For the Reporting Period, the total staff cost of the Group was RMB12.9 million (six months ended 30 June 2021: RMB8.8 million).

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

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

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

RISK MANAGEMENT

The principal risks and uncertainties identified by the Company which may have material and adverse impact on our performance or operation are 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 product portfolio from limited suppliers, either directly or indirectly through their sales agents.
- Exchange rate fluctuation – The Group's purchase of products from overseas suppliers is denominated in US\$, and certain items of bank balances, other receivables, bank borrowings and bonds are denominated in US\$ and HK\$.
- Decrease in gross profits due to increase in cost and competition.
- Experiencing prolonged delays or significant disruptions in 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, participates in formulating appropriate risk management and internal control measures, and ensures such measures are properly implemented in daily operational management.

RELATIONSHIP WITH KEY STAKEHOLDERS

Human resource 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 reselling 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 directly sells pharmaceutical products to hospitals and pharmacies or sells to distributors, who resell the products to hospitals and pharmacies. The Group maintains stable and long-term relationship with its distributors and delivers by providing them guidance, training and support to carry out more marketing and promotion activities in targeted fields.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business and operations are subject to applicable laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong Special Administrative Region ("**Hong Kong**") and the PRC. During the Reporting Period, the Group has complied with all 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.

CORPORATE GOVERNANCE CODE

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 (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save as disclosed below, during the Reporting Period, the Company had complied with all applicable code provisions under the CG Code.

Under code provision C.2.1 of Part 2 of the CG Code, the roles of chairman of the Board (the “**Chairman**”) and chief executive should be separate and performed by different individuals. Under the organization structure of the Company, Mr. Huang Xiangbin (“**Mr. Huang**”) is the Chairman. Further, Mr. Huang and Mr. Jin Min jointly serve as the co-chief executive officers of the Company, sharing the responsibility of overseeing the Group’s overall business development, operation, and management work. With Mr. Huang’s extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of the Chairman and co-chief executive officer in Mr. Huang is beneficial to the business prospects and management of the Group. The check and balance of power and authority is ensured by the operation of the Board and the senior management, which comprises experienced and high caliber individuals. Accordingly, the Board believes that this arrangement will not impair the balance of power and authority between the Board and the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER (“MODEL CODE”)

The Company has adopted 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 Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Reporting Period (for the six months ended 30 June 2021: Nil).

EVENT AFTER THE END OF THE REPORTING PERIOD

On 19 August 2022, the Group entered into a series of agreements for purpose of changing the registered holder of the entire equity interest in Renshangren from Mr. Huang Zhijian (a connected person of the Company) to Ms. Liu Keping (劉克萍). For details of the aforesaid change in registered holder of Renshangren, please refer to the announcement of the Company dated 22 August 2022.

Save as disclosed herein, the Directors are not aware of any other important events affecting the Group which have occurred since the end of the Reporting Period.

AUDIT COMMITTEE

The principal duties of the audit committee (“**Audit Committee**”) of the Company include the review and supervision of the Group’s financial reporting system, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor on matters within the scope of the Group’s audit.

The Audit Committee, together with management of the Company, have reviewed the unaudited condensed interim results of the Group and this announcement.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2022 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”) AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinco-pharm.com), and the 2022 interim report will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Sichuan, the PRC, 31 August 2022

As at the date of this announcement, the executive Director is Mr. Huang Xiangbin; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong.

* *For identification purpose only*