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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 2023

FINANCIAL HIGHLIGHTS

- Revenue of the Group slightly decreased by 3.5% or RMB39.8 million to RMB1,090.1 million for the Reporting Period (six months ended 30 June 2022: RMB1,129.9 million), among which revenue from sales of pharmaceutical products decreased by approximately RMB51.3 million, revenue from medical beauty services increased by RMB11.5 million.
- In line with the decrease in the Group's revenue, the gross profit of the Group decreased by RMB39.7 million to RMB152.5 million for the Reporting Period (six months ended 30 June 2022: RMB192.2 million), while the gross profit margin decreased from 17.0% to 14.0%, which was further caused by the increase in the purchase cost due to the fluctuation of the exchange rate.
- During the Reporting Period, the net profit decreased by approximately RMB42.3 million to RMB19.6 million (six months ended 30 June 2022: RMB61.9 million). Such decrease was mainly due to the decrease of the Group's gross profit as stated above.
- During the Reporting Period, net profit attributable to owners of the Company amounted to RMB19.6 million (six months ended 30 June 2022: RMB61.9 million), representing a decrease in net profit by RMB42.3 million.
- Basic earnings per share amounted to RMB0.00965 for the Reporting Period (six months ended 30 June 2022: RMB0.03049).
- Diluted earnings per share amounted to RMB0.00965 for the Reporting Period (six months ended 30 June 2022: RMB0.03048).
- The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2022: 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 2023 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2022 and the comparative figures as at 31 December 2022.

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

For the six months ended 30 June 2023

		For the six months ended 30 June	
		2023	2022
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	1,090,126	1,129,926
Cost of sales		(937,580)	(937,728)
Gross profit		152,546	192,198
Other income and gains	5	4,220	11,493
Selling and distribution expenses		(47,101)	(67,767)
Administrative expenses		(48,417)	(37,328)
Provision for impairment loss on trade receivables, net	7	(756)	(6,151)
Reversal of provision for impairment loss on financial assets included in prepayments, other receivables and other assets, net	7	–	280
Other expenses		(9,020)	(2,046)
Changes in fair value on financial liabilities at fair value through profit or loss		(1,343)	(494)
Finance costs	6	(7,360)	(11,617)
PROFIT BEFORE TAX	7	42,769	78,568
Income tax expense	8	(23,174)	(16,645)

		For the six months ended 30 June	
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>19,595</u>	<u>61,923</u>
Earnings per share attributable to owners of the Company:			
Basic			
– For profit for the period (RMB)	<i>10</i>	<u>RMB0.00965</u>	<u>RMB0.03049</u>
Diluted			
– For profit for the period (RMB)	<i>10</i>	<u>RMB0.00965</u>	<u>RMB0.03048</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	271,144	258,109
Investment property	<i>11</i>	6,229	6,319
Right-of-use assets	<i>11</i>	75,429	57,730
Other intangible assets	<i>11</i>	24,752	15,001
Payments in advance	<i>12</i>	2,917	231
Goodwill	<i>19</i>	66,536	66,536
Deferred tax assets		3,526	3,001
		<hr/>	<hr/>
Total non-current assets		450,533	406,927
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		9,476	88,148
Trade and bills receivables	<i>13</i>	302,534	351,268
Prepayments, other receivables and other assets	<i>12</i>	117,413	140,994
Pledged deposits		241,077	107,852
Bank balances and cash		520,822	329,144
		<hr/>	<hr/>
Total current assets		1,191,322	1,017,406
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	<i>14</i>	714,739	407,988
Contract liabilities		30,803	75,429
Other payables and accruals	<i>15</i>	43,263	117,927
Bank borrowings	<i>16</i>	200,857	180,806
Tax payable		14,112	5,437
Lease liabilities		3,004	2,998
		<hr/>	<hr/>
Total current liabilities		1,006,778	790,585
		<hr/>	<hr/>
NET CURRENT ASSETS		184,544	226,821
		<hr/>	<hr/>
Total assets less current liabilities		635,077	633,748
		<hr/>	<hr/>

		30 June 2023	31 December 2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	
NON-CURRENT LIABILITIES			
Bank borrowings	<i>16</i>	1,340	922
Deferred tax liabilities		2,025	2,250
Financial liabilities at fair value through profit or loss	<i>19</i>	20,421	19,078
Lease liabilities		5,996	7,686
		<hr/>	<hr/>
Total non-current liabilities		29,782	29,936
		<hr/>	<hr/>
Net assets		605,295	603,812
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>17</i>	164	164
Reserves		605,131	603,648
		<hr/>	<hr/>
Total equity		605,295	603,812
		<hr/>	<hr/>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

30 June 2023

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional/change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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 2022: three; year ended 31 December 2022: three) 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.

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, bank balances and cash and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude bank 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 2023 and 30 June 2022, respectively.

Six months ended 30 June 2023

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	1,076,097	–	14,029	<u>1,090,126</u>
Segment results	52,186	(3,197)	6,210	55,199
Reconciliation:				
Corporate and other unallocated expenses				(2,934)
Other income and gains				4,220
Other expenses				(9,020)
Finance costs (other than interest on lease liabilities and finance charges attributable to issue of letters of credit)				<u>(4,696)</u>
Profit before tax				<u>42,769</u>

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 (note 4)				
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>

The following table presents information of assets and liabilities of the Group's operating segments as at 30 June 2023 and 31 December 2022.

As at 30 June 2023

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	790,841	64,277	21,122	876,240
Reconciliation:				
Corporate and other unallocated assets				190
Deferred tax assets				3,526
Bank balances and cash				520,822
Pledged deposits				<u>241,077</u>
Total assets				<u>1,641,855</u>
Segment liabilities	792,693	20,535	4,863	818,091
Reconciliation:				
Corporate and other unallocated liabilities				135
Bank borrowings				202,197
Tax payable				14,112
Deferred tax liabilities				<u>2,025</u>
Total liabilities				<u>1,036,560</u>

As at 31 December 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	833,202	51,381	99,030	983,613
Reconciliation:				
Corporate and other unallocated assets				723
Deferred tax assets				3,001
Cash and cash equivalents				329,144
Pledged deposits				107,852
Total assets				<u>1,424,333</u>
Segment liabilities	596,059	5,753	29,232	631,044
Reconciliation:				
Corporate and other unallocated liabilities				62
Interest-bearing bank and other borrowings				181,728
Tax payable				5,437
Deferred tax liabilities				2,250
Total liabilities				<u>820,521</u>

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers:		
Sales of pharmaceutical products	1,076,097	1,127,374
Medical beauty services	14,029	2,552
	<u>1,090,126</u>	<u>1,129,926</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2023

Segments	Sale of imported pharmaceutical products RMB'000 (Unaudited)	Medical beauty services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Types of goods or services			
Sales of pharmaceutical products	1,076,097	–	1,076,097
Medical beauty services	–	14,029	14,029
Total revenue from contracts with customers	<u>1,076,097</u>	<u>14,209</u>	<u>1,090,126</u>

For the six months ended 30 June 2022

Segments	Sale of imported pharmaceutical products RMB'000 (Unaudited)	Medical beauty services RMB'000 (Unaudited)	Total RMB'000 (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>

Geographical market

All revenue from contracts with customers of the Group during the reporting 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 reporting 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 RMB204,155,000 (for the six months ended 30 June 2022: RMB337,732,000) was derived from a major customer and contributed to 10% or more of the total revenue of the Group during the Period and the the six months ended 30 June 2023.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Income from logistics services rendered	2,718	1,940
Gain on disposal of financial assets at fair value through profit or loss	–	617
Bank interest income	1,366	511
Government grants	–	42
Exchange differences, net	–	8,238
Rental income from investment property	97	145
Interest income from financial assets at fair value through profit or loss	3	–
Gain on disposal of property, plant and equipment	36	–
	<u>4,220</u>	<u>11,493</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest on lease liabilities	300	219
Finance charges attributable to issue of letters of credit	2,364	2,211
Interest on bank and other borrowings	4,696	9,187
	<u>7,360</u>	<u>11,617</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	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold		932,718	937,150
Cost of services provided		4,862	578
Provision for impairment loss on trade receivables, net	13	756	6,151
Reversal of impairment loss on financial assets included in prepayments, other receivables and other assets, net		–	(280)
Depreciation of property, plant and equipment	11	3,501	2,783
Depreciation of investment property	11	90	90
Depreciation of right-of-use assets	11	2,213	1,537
Amortisation of intangible assets	11	1,499	500
		<u>945,639</u>	<u>985,829</u>

8. INCOME TAX

The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current tax		
– Mainland China	18,963	14,880
– Hong Kong	–	3,878
– other jurisdiction	877	–
Under/(over) provision in prior year		
– Mainland China	5,126	–
– Hong Kong	(1,042)	–
Deferred	(750)	(2,113)
	<u>23,174</u>	<u>16,645</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 six months ended 30 June 2022.
- (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 2022.

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.

- (d) Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9. DIVIDENDS

During the current interim period, a final dividend of HK\$0.98 cents per share in respect of the year ended 31 December 2022 (2022: HK\$ nil cents per share in respect of the year ended 31 December 2021) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$20,000,000 (equivalents to RMB18,112,000) (2022: HK\$ nil).

Subsequent to the end of the current interim period, the directors of the Company have resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	For the six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculations	19,595	61,923
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,031,122,629	2,031,122,629
Effect of dilution: Share options	N/A	775,461
Weighted average number of ordinary shares in outstanding used in the diluted earnings per share calculation	2,031,122,629	2,031,898,090

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2023 in respect of a dilution as there is no share option outstanding as at 30 June 2023.

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

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

	Investment property <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Right- of-use assets <i>RMB'000</i>
Carrying amount at 1 January 2023	6,319	258,109	15,001	57,730
Additions	–	16,564	11,250	19,880
Disposals	–	(28)	–	–
Depreciation/amortisation charged for the Period	(90)	(3,501)	(1,499)	(2,213)
Exchange realignment	–	–	–	32
Carrying amount at 30 June 2023 (unaudited)	6,229	271,144	24,752	75,429

As at 30 June 2023, the Group's buildings with a net carrying amount of RMB69,654,000 (31 December 2022: RMB70,999,000) were pledged to secure its bank borrowings (note 16).

Other intangible assets mainly refers to non-compete agreement and development expenditures. Non-compete agreement 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. Development expenditure represents the Group's development cost in pharmaceutical products technology which are used to enhance the Group's products.

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
<i>Current portion:</i>		
Prepayments in respect of:		
– purchase of inventories	1,406	1,436
– consultation fee	259	–
– others	751	569
Deposits in respect of:		
– issue of letters of credit	73,840	99,897
– others	98	–
Value-added tax recoverable	38,103	34,730
Amount due from a related party (<i>note 20(c)</i>)	11	11
Other receivables in respect of:		
– staff advances	2,557	1,355
– others	465	3,073
	<u>117,490</u>	<u>141,071</u>
Impairment allowance	(77)	(77)
	<u>117,413</u>	<u>140,994</u>
<i>Non-current portion:</i>		
Prepaid office decoration	<u>2,917</u>	<u>231</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Trade receivables	307,842	359,478
Impairment	(10,072)	(9,316)
Trade receivables, net of impairment	297,770	350,162
Bills receivables*	4,764	1,106
	302,534	351,268

* Bills receivables as at 30 June 2023 and 31 December 2022 were classified as financial assets at fair value through profit or loss as they were held for endorsement or discounting.

As at 30 June 2023, trade receivables of RMB244,771,000 (31 December 2022: RMB319,381,000) 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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Within 3 months	236,032	349,742
Over 3 months	61,738	420
	297,770	350,162

Transferred financial assets that are derecognised in their entirety

As at 31 December 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 RMB25,821,000 (30 June 2023: nil) (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 Law of Negotiable Instruments in 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.

14. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Trade payables	639,383	366,988
Bills payables	75,356	41,000
	<u>714,739</u>	<u>407,988</u>

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Within 3 months	<u>714,739</u>	<u>407,988</u>

The Group's bills payables as at 30 June 2023 was secured by the pledge of certain of the Group's deposits amounting to RMB75,356,000 (2022: RMB41,000,000).

15. OTHER PAYABLES AND ACCRUALS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Payables related to:		
– Payroll and welfare payable	5,869	4,399
– Deposits received	23,935	21,513
– Consultation professional fees	2,054	3,324
– Other tax payables	6,287	3,780
– Import agent services	–	74,605
– Others	5,118	10,306
	<u>43,263</u>	<u>117,927</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 31 December 2022 mainly represented payables to three (30 June 2023: nil) 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 RMB38,982,000 (30 June 2023: nil).

16. BANK BORROWINGS

	Effective interest rate (%)	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
<i>Current portion:</i>				
Secured and guaranteed bank loans	3.50-5.00	(a)	200,000	180,000
Guaranteed long-term bank loans	2.75	(a)	857	806
			<u>200,857</u>	<u>180,806</u>
<i>Non-current portion:</i>				
Guaranteed bank loans	2.75	(a)	1,340	922
			<u>1,340</u>	<u>922</u>
			<u>202,197</u>	<u>181,728</u>

Notes:

- (a) The Group's bank loans were secured and guaranteed by:
- (i) As at 30 June 2023, the bank loan of RMB200,000,000 (2022: RMB180,000,000) was secured by the Group's certain buildings of RMB69,654,000 (31 December 2022: RMB70,999,000) and was jointly guaranteed by Mr. Huang Xiangbin, Chengdu Sinco Pharmaceutical Technology Co., Ltd. ("**Chengdu Sinco Technology**") and the Company;
 - (ii) Mr. Huang Xiangbin has guaranteed the Group's bank loans of RMB9,728,000 (2022: RMB9,728,000).

17. ISSUED CAPITAL

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

	Number of share in issue	Issued capital RMB'000
As at 1 January 2023 and 30 June 2023	<u>2,032,890,585</u>	<u>164</u>

18. COMMITMENTS

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Contracted, but not provided for:		
– Plant and machinery	17,320	27,322
– Furbishing of properties	<u>6,879</u>	<u>18,338</u>
	<u>24,199</u>	<u>45,660</u>

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

An analysis of the cash flows in respect of the acquisition of the above subsidiaries is as follows:

Net outflow of cash and cash equivalents included in cash flows used in investing activities during the Period	<u>68,000</u>
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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 2023 and 31 December 2022, the contingent consideration was remeasured as RMB20,421,000 and RMB19,078,000 at fair value respectively. 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	<u>2,633</u>
As at 31 December 2022	<u>19,078</u>
Unrealised fair value change recognised in profit or loss	<u>1,343</u>
As at 30 June 2023	<u>20,421</u>

20. 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Guaranteed by Mr. Huang Xiangbin: Interest-bearing bank loans	<u>200,000</u>	<u>180,000</u>

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

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	4,033	1,668
Pension scheme contributions	<u>71</u>	<u>16</u>
	<u>4,104</u>	<u>1,684</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 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	
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 of Risun, which are unsecured, interest-free and repayable on demand.

21. 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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000
Financial liabilities				
Non-current portion:				
– bank borrowings	1,340	922	1,344	868
– financial liabilities at fair value through profit or loss	20,421	19,078	19,078	19,078
	<u>21,761</u>	<u>20,000</u>	<u>20,422</u>	<u>19,946</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 bank 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 2023 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 2023 and 31 December 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 2023 (Unaudited)	–	4,764	–	4,764
As at 31 December 2022	–	1,106	–	1,106

Liabilities 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	
Financial liabilities at fair value through profit or loss	–	–	19,078	19,078
As at 30 June 2023 (Unaudited)	–	–	20,421	–
As at 31 December 2022	–	–	19,078	19,078

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.

22. EVENT AFTER THE REPORTING PERIOD

As disclosed in the announcements of the Company dated 26 September 2022, 30 September 2022, 24 October 2022, 8 December 2022, 13 December 2022, and 4 January 2023, the Company, on 15 September 2022, received the Letter from Ernst & Young (“EY”), being the then auditors of the Company, informing that there might be possible internal control irregularities (“**Incident**”), which involved transactions that took place in January 2022 with a sum equivalent to US\$13 million (approximately HK\$100 million).

On 17 September 2022, the Board resolved to establish the Independent Committee to review and investigate the Incident, which comprised of four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong. Having considered the current information and evidence available to the Company was insufficient and therefore a proper investigation of the Incident with the assistance of an external forensic accountant was necessary, on 21 December 2022, the Independent Committee appointed Grant Thornton Advisory Services Limited (“**Forensic Accountant**”) as an independent forensic accountant to conduct an independent forensic investigation into the Incident (“**Forensic Investigation**”) and produce a report on the findings of the Forensic Investigation to be presented to the Independent Committee.

On 15 March 2023, the Independent Committee received a draft forensic investigation report (“**Forensic Investigation Report**”) from the Forensic Accountant, details of which were set out in the Company’s announcement dated 21 March 2023.

On 21 April 2023 the Independent Committee engaged Moore Advisory Services Limited as the internal control consultant (the “**Internal Control Consultant**”) to view the findings from the Forensic Investigation Report to ensure the Company has established adequate and effective controls to minimize the risk identified, details of which were set out in the Company’s announcement dated 27 April 2023.

On 4 July 2023, the Independent Committee received from the Forensic Accountant the final Forensic Investigation Report, details of which were set out in the Company’s announcement dated 10 July 2023.

As at the date hereof, Internal Control Consultant has completed the first draft of the internal control review report with remedial actions proposed to the Independent Committee for deficiencies identified. The Internal Control Consultant is now conducting the follow-up review (the “**Phase 2 Review**”) and the report of the Phase 2 Review will be ready in mid of September 2023.

The Company will make further announcement to update investors and shareholders once the internal control review results are available.

Other than the above, the Board is not aware of any material event requiring disclosure, that has taken place after 30 June 2023 and up to the date of this announcement.

23. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the board of directors on 30 August 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2023, the global COVID-19 pandemic gradually came under control, but in the first half of the year, major cities in Mainland China experienced concentrated outbreaks, posing ongoing and severe challenges to various industries. The pharmaceutical industry, as a critical sector, was no exception. On one hand, the pandemic led to a sharp increase in demand for related pharmaceutical products, and specific market segments even experienced temporary shortages due to overwhelming demand. On the other hand, the domestic outbreak put immense pressure on the supply side and the pharmaceutical supply chain. Although the first wave of the pandemic in the first quarter gradually subsided, the pharmaceutical industry's supply chain quickly returned to normal, but not without facing numerous challenges during this process.

During this Reporting Period, the semi-annual batch release volume of human albumin was 38.6 million bottles, showing a significant increase of 25.8% compared to the same period last year. The proportion of imported albumin and domestically produced albumin was 55.7% and 44.3%, respectively. It is worth noting that the volume of domestically produced albumin remained stable at a high level, showing little change compared to the same period last year. On the other hand, for imported albumin, the volume experienced a decline last year due to frequent lockdowns in various port cities caused by the pandemic. However, this year, with the pandemic subsiding and the lifting of lockdown policies, the total batch release volume of imported albumin achieved a substantial increase of 19.9%.

During this Reporting Period, the sales revenue from pharmaceutical products was RMB1,076.1 million, showing a decrease of approximately RMB51.3 million compared to the same period last year, with a decline of 4.6%. Meanwhile, medical aesthetic services of the Group generated an income of approximately RMB14.0 million. During the Reporting Period, the Group achieved a gross profit of RMB152.5 million, which was a decrease of RMB39.7 million compared to the gross profit of RMB192.2 million in the same period last year, representing a decrease of 20.7%. The decline in gross profit was primarily attributed to a significant devaluation of the RMB exchange rate during the Reporting Period, leading to an increase in import costs. Despite facing challenges from exchange rate fluctuations, the Group remains committed to high-quality operations and maintain a keen market insight to respond to market changes with prudent financial controls and diversified strategic layouts. The Group will continue to strengthen market expansion, optimize product structures, enhance customer satisfaction, and actively implement effective measures to reduce costs and risks. Looking forward to the future, the Group aim to achieve better performance and steady growth in future development.

In addition, the medical aesthetics field is an important direction for the Group's future development. During the first half of 2023, the Group made steady progress in medical aesthetics research and development projects. The recruitment of team members has been successfully completed, and the setup of the product production line was also completed on schedule and has been validated. The Group is looking forward to future clinical research and believes that medical aesthetic products will inject new vitality into the Group's further development.

FUTURE AND OUTLOOK

In the first half of 2023, the COVID-19 pandemic broke out and rapidly subsided in major cities across the country, and the macroeconomic environment in China entered the recovery phase after the pandemic. At this important historical moment, the healthcare and pharmaceutical industry, as a crucial industry for people's livelihood in China, fully demonstrated its outstanding contributions in combating the virus over the past three years of the pandemic. Our front-line medical personnel have been tirelessly fighting, researchers have worked tirelessly, and pharmaceutical companies have continued to innovate, collectively building a strong defense line that showcases our boundless resilience and courage in the battle against the pandemic.

In the post-pandemic era, the healthcare and pharmaceutical industry continues to demonstrate strong growth momentum and significant rigid demand. With the increasing awareness of public health, people's focus on health and quality of life has deepened, providing vast opportunities for the sustained development of the pharmaceutical industry. Our Group firmly believes that the innovation and advancement in the healthcare sector will not only meet the growing health needs of the people but also drive progress and development for society as a whole.

Our Group will continue to play a leading role, firmly rooted in the healthcare and pharmaceutical industry, providing society with high-quality medical products and services. The Group will adhere to the original aspiration of the pharmaceutical industry, putting people's health at the center, keeping pace with technological advancements, continuously innovating business models, and enhancing product quality. The Group's commitment is to deliver superior, safer, and more reliable medical solutions to patients and medical institutions alike.

Unlike other pharmaceutical product supplies, the import process for blood products is more complex, and the import cycle is longer. With the rapid outbreak and subsequent decline of domestic COVID-19 cases at the beginning of the year, the import cycles in various ports have gradually returned to normal during the first half of 2023. Overall, there has been a significant increase in the batch release volume compared to the same period last year. It is expected that the batch release volume will continue to grow in the second half of 2023 and will significantly surpass last year's supply volume for the entire year. The Group will continue to expand the marketing and promotion network, strengthen the management of the marketing team, improve incentive systems, and advance network channel penetration. Simultaneously, the Group will extend reach to the end market through various cooperative modes with hospitals and pharmacies, aiming to enhance profit contribution and build core marketing capabilities while establishing a high-quality terminal promotion network.

As our Group officially launches its medical aesthetics industry layout, the research and development work for the first product in the medical aesthetics product line, "Girl Needle", has progressed smoothly this year. Currently, the project has successfully completed the product pilot production and clinical sample production. It is expected to complete all pre-clinical studies and enter the clinical research stage later this year. The Group will continue to invest the required manpower and resources to accelerate the product's market launch. Additionally, the Group is continuously researching the medical aesthetics market and will leverage polycaprolactone (PCL) as the raw material to develop a series of products, known as "PCL+X", which will yield various medical aesthetics products.

Furthermore, the Group will continue to strengthen the construction of our internal control system, enhance risk management, and place significant emphasis on corporate social responsibility, which will be practiced throughout the Group's governance. The Group is committed to providing employees with an ideal platform for professional development and tirelessly creating value for Shareholders. Moving forward, the Group will steadfastly uphold the values of integrity, professionalism, and innovation, and continue to advance the Group's strategy of innovative development, dedicating ourselves to stable operations and sustained growth. It is believed that through continuous improvement in management and resource optimization, the Group will become a leader in the pharmaceutical industry, creating even greater value for Shareholders and society.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB1,090.1 million for the Reporting Period, representing a decrease of RMB39.8 million or 3.5% as compared to RMB1,129.9 million in the corresponding period of 2022, which could be further analyzed as follows:

	<i>Notes</i>	For the six months ended 30 June			
		2023		2022	
		<i>RMB million</i>	<i>% of revenue</i>	<i>RMB million</i>	<i>% of revenue</i>
Sales of pharmaceutical products	1)	1,076.1	98.7	1,127.4	99.8
Medical beauty services	2)	14.0	1.3	2.5	0.2
Total		<u>1,090.1</u>	<u>100.0</u>	<u>1,129.9</u>	<u>100.0</u>

Notes:

- 1) Throughout the Reporting Period, revenue from the sales of pharmaceutical products was RMB1,076.1 million, representing a decrease of approximately 4.6% or RMB51.3 million as compared to the first half of 2022. Such decrease in revenue was mainly due to the decrease in the supply volume of human albumin.
- 2) During the Reporting Period, revenue generated from medical beauty services amounted to RMB14.0 million, representing the revenue from Demei Company which was acquired by the Group in the May of 2022.

Cost of sales

The Group recorded cost of sales of RMB937.6 million for the Reporting Period, almost as the same as the cost of sales of RMB937.7 million in the corresponding period of 2022.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB152.5 million, representing a decrease of RMB39.7 million as compared with RMB192.2 million in the corresponding period of 2022, in which the gross profit of the sales of pharmaceutical products decreased by RMB46.9 million and the gross profit of medical beauty services increased by RMB7.2 million during the period.

As compared with the corresponding period of 2022, the gross profit margin declined from 17.0% to 14.0% 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 decreased sales and increased purchase cost.

Other income and gains

During the Reporting Period, other income and gains of the Group amounted to RMB4.2 million, representing a decrease of RMB7.3 million as compared with the corresponding period of 2022. Other income and gains for the Reporting Period mainly represented (i) logistics service income of RMB2.7 million; and (ii) the bank interest income of RMB1.4 million. The decrease was mainly due to the decrease in the foreign exchange gain amounted to RMB8.2 million.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB47.1 million, representing a decrease of RMB20.7 million as compared with the corresponding period of 2022. The decrease was mainly due to the decrease of the market promotion expenses.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB48.4 million, representing an increase of RMB11.1 million as compared with the corresponding period of 2022. The administrative expenses mainly included staff cost of RMB17.5 million, consultation and intermediary service fees of RMB9.4 million, research and development expenses of RMB1.5 million, tax charges of RMB3.6 million, depreciation and amortization of RMB4.8 million, office rental expenses of RMB2.3 million, office related expense of RMB4.8 million and other miscellaneous expenses.

Other expenses

During the Reporting Period, the Group recorded other expenses of RMB9.0 million representing an increase of RMB7.0 million as compared with RMB2.0 million in the corresponding period of 2022. The other expenses mainly presented (i) foreign exchange loss of RMB5.8 million and (ii) bank charges RMB3.2 million.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB7.4 million, representing a decrease of RMB4.2 million as compared with the corresponding period of 2022, which was mainly due to the decrease of the interest on bank and other borrowings of RMB4.5 million.

Income tax expense

During the Reporting Period, the Group recorded income tax expense of RMB23.2 million, representing an increase of RMB6.6 million as compared with the corresponding period of 2022.

Profit for the Reporting Period

As a result of the foregoing, the Group recorded the net profit of RMB19.6 million, representing a decrease of RMB42.3 million as compared with the corresponding period of 2022.

Inventories

Inventory balances amounted to RMB9.5 million as of 30 June 2023 (31 December 2022: RMB88.1 million), representing a decrease of RMB78.6 million as compared with the year-end balance of 2022. Such decrease was due to the decrease in the inventory balance of Human Albumin Solution.

The Group's average inventory turnover days decreased by 1 day from 10 days for the corresponding period of 2022 to 9 days for the Reporting Period.

Trade and bills receivables

The balance of trade receivables amounted to RMB298.5 million as at 30 June 2023 (31 December 2022: RMB350.2 million), representing a decrease of RMB51.7 million as compared with the year-end balance of 2022. The decrease was mainly due to the decrease in the sales of the Group during the Reporting Period.

The balance of bills receivable as of 30 June 2023 was RMB4.8 million (31 December 2022: RMB1.1 million).

Prepayments, other receivables and other assets

As of 30 June 2023, the current portion of prepayments, other receivables and other assets amounted to RMB117.4 million (31 December 2022: RMB141.0 million), representing a decrease of RMB23.6 million as compared with the year-end balance of 2022, mainly due to the decrease of RMB26.1 million in the deposit in respect of issue of letters of credit, which was offset by the increase in the prepaid value added tax of RMB3.4 million as compared with the previous period.

Trade and bills payables

As of 30 June 2023, trade and bills payables amounted to RMB714.7 million (31 December 2022: RMB408.0 million), representing an increase of RMB306.7 million as compared with the year-end balance of 2022. The increase of trade payables was mainly due to the increase in purchase in the second quarter of this year and the payables are still not on due as at 30 June 2023.

Other payables and accruals (current portion)

As of 30 June 2023, other payables and accruals amounted to RMB43.3 million (31 December 2022: RMB117.9 million), representing a decrease of RMB74.6 million as compared with the year-end balance of 2022. The decrease was mainly due the decrease of payables related to import agent service of RMB74.6 million.

Borrowings

As of 30 June 2023, the Group has borrowings of RMB202.2 million in total, with details set out below:

	30 June 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current:		
Interest-bearing bank loans	<u>200,857</u>	<u>180,806</u>
Non-current:		
Interest-bearing bank loans	<u>1,340</u>	<u>922</u>
	<u>202,197</u>	<u>181,728</u>

Gearing ratio

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

	30 June 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Interest-bearing bank and other borrowings	202,197	181,728
Trade and bills payables	714,739	407,988
Other payables	43,263	117,927
Lease liabilities	9,000	10,684
Tax payables	14,112	5,437
Financial liabilities at fair value through profit or loss	20,421	19,078
Less: Cash and cash equivalents	(520,822)	(329,144)
Less: Pledged bank balances	(241,077)	(107,852)
Net debt^(a)	241,833	305,846
Equity	605,295	603,812
Equity and net debt^(b)	847,128	909,658
Gearing ratio^(a/b)	28.6%	33.6%

Liquidity and capital resources

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

	<i>Notes</i>	For the six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Net cash from operating activities	1)	425,785	87,714
Net cash used in investing activities	2)	(47,627)	(90,047)
Net cash from (used in) financing activities	3)	(188,493)	124,625
Net increase in cash and cash equivalents		189,665	122,292
Effect of foreign exchange rate changes, net		2,013	8,363
Cash and cash equivalents at beginning of the period	4)	329,144	326,052
Cash and cash equivalents at end of the period	4)	520,822	456,707

Notes:

1) Net cash from operating activities

During the Reporting Period, the Group's net cash inflow from operating activities amounted to approximately RMB425.8 million (six months ended 30 June 2022: net cash inflow of RMB87.7 million), which was mainly due to the increase in trade payables of RMB302.4 million, as the purchases were made in the second quarter and the purchase payables are still not on due.

2) Net cash used in investing activities

During the Reporting Period, the Group's net cash outflow in investing activities amounted to approximately RMB47.6 million, which was decreased by RMB42.4 million as compared with the corresponding period of 2022 (net cash outflow of RMB90.0 million). The decrease was mainly due to (i) the decrease in acquisition of subsidiaries of RMB68.0 million and (ii) the decrease in the purchase of items of property, plant and equipment of RMB6.1 million, which were offset by the increase in purchase of right-for-use assets and other intangible assets of RMB31.2 million.

3) Net cash from financing activities

During the Reporting Period, the Group's net cash used in financing activities amounted to approximately RMB188.5 million (six months ended 30 June 2022: net cash inflow of RMB124.6 million), mainly including (i) the increase of the pledged deposits for letter of credit of RMB133.2 million and (ii) the decrease in other payables and accruals of RMB74.6 million.

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

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Denominated in RMB	501,550	284,759
Denominated in US\$	191,327	69,328
Denominated in HK\$	20,058	72,120
Denominated in S\$	48,964	–
Denominated in C\$	–	10,789
	761,899	436,996

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	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Purchase of property, plant and equipment	<u>16,564</u>	<u>9,025</u>
	<u>16,564</u>	<u>9,025</u>

Contingent liabilities

The Group had no material contingent liabilities as of 30 June 2023.

Pledge of assets

As of 30 June 2023, the carrying amounts of the Group's pledged assets were set out as follows:

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
	For obtaining bank and other borrowings	
– Buildings	69,654	70,999
– Inventories	–	38,982
For issuance of letters of credit and bills payable		
– Bank balances	<u>241,077</u>	<u>107,852</u>

SIGNIFICANT FINANCING EVENT AND USE OF PROCEEDS

2022 Placing of new Shares under general mandate

In order to capture the market opportunities of medical aesthetic products and to develop its own center to develop, produce and sell medical aesthetic products gradually, the Company entered into a placing agreement with Silverbricks Securities Company Limited (the “**Placing Agent**”) on 7 December 2021, pursuant to which the Company has conditionally agreed to issue an aggregate of 160,000,000 Shares (the “**Placing Shares**”), and the Placing Agent agreed to procure not less than six independent individuals, institutional or other professional investors (the “**Placees**”) to subscribe for, on a best effort basis, an aggregate of 160,000,000 Placing Shares at the placing price of HK\$1.29 per Placing Share, with an aggregate nominal value of HK\$16,000. The Placing Price of HK\$1.29 per Placing Share represented a discount of approximately 19.38% to the closing price of HK\$1.60 per Share as quoted on the HKSE on 7 December 2021, being the date of the Placing Agreement.

The net proceeds from the Placing, after deduction of the commission for the placing and other related expenses, amounted to approximately HK\$194.9 million, at a net price (which is calculated by dividing the net proceeds by the number of Placing Shares) of HK\$1.22. The Company intends that as to:

- (a) approximately 40% of the net proceeds of the Placing (approximately HK\$78.0 million) will be used for the development of polycaprolactone microsphere facial filler and its materials for injection; and
- (b) approximately 60% of the net proceeds of the Placing (approximately HK\$116.9 million) will be used for the strategic acquisition/development of new projects/products in the field of medical aesthetic including but not limited to acquisition of medical aesthetic organisations or investing in medical aesthetic projects and development of new medical aesthetic products.

All the conditions precedent set out in the Placing Agreement (together with its supplemental agreement entered into between the Company and the Placing Agent on 30 December 2021) have been fulfilled and the completion under the Placing Agreement took place on 3 January 2022. For details, please refer to the announcement of the Company dated 7 December 2021, 30 December 2021 and 3 January 2022.

As of 31 December 2022 the unutilised net proceeds was approximately HK\$ 61.8 million, and during the Reporting Period, approximately HK\$18.8 million of the net proceeds had been used in accordance with the intended use and the details are as follows:

	Approximate % of total net proceeds (%)	Net proceeds from the 2022 placing HK\$(million)	Unutilised net proceeds as of 31 December 2022 HK\$(million)	Net proceeds utilised during the Reporting Period HK\$(million)	Unutilised net proceeds as of 30 June 2023 HK\$(million)	Expected timeline for full utilization of the remaining net proceeds
Development of polycaprolactone microsphere facial filler and its materials for injection, including but not limited to development of experimental workshop, research and development equipments and factories construction investment	40	78.0	24.4	14.7	9.7	6 months
Strategic acquisition/development of new projects/products in the field of medical aesthetic including but not limited to acquisition of medical aesthetic organisations or investing in medical aesthetic projects and development of new medical aesthetic products	60	116.9	37.4	4.1	33.3	18 months
Total	100	194.9	61.8	18.8	43.0	

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2023, the Group had a total of 266 employees. For the Reporting Period, the total staff cost of the Group was RMB24.4 million (six months ended 30 June 2022: RMB12.9 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 the Group's 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 a limited number of suppliers, 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 an increase in cost and competition.
- Experiencing prolonged delays or significant disruptions to the supply of the products.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure of the Group's business and participates in formulating appropriate risk management and internal control measures to ensure 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 products to hospitals and pharmacies through distributors and deliverers. On one hand, the Group maintains stable and long-term relationship with distributors and delivers by providing them guidance, training and support to carry out more marketing and promotion activities in targeted fields. Suppliers or its sales agents have granted the Group the rights to market, promote and manage sales channels for their products in China. On the other hand, 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.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business and operations are subject to relevant 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 complied with all applicable laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC, which would have 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 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 the CG Code, the roles of chairman of the Board (the “**Chairman**”) and chief executive officer should be separate and performed by different individuals. Under the organization structure of the Company, Mr. Huang Xiangbin (“**Mr. Huang**”) is the Chairman. Further, Mr. Huang and Mr. Jin Min jointly serve as the co-chief executive officers (“**Co-CEO**”) of the Company, sharing the responsibility of the Group’s overall business development, operation, and management work. With Mr. Huang’s extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of the Chairman and Co-CEO in Mr. Huang is beneficial to the business prospects and management of the Group. The check and balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high 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. On 29 March 2023, Mr. Huang resigned as the Co-CEO. Upon Huang’s resignation as a Co-CEO, the other Co-CEO, Mr. Jin Min, became the chief executive officer of the Company. Subsequent to Mr. Huang’s resignation as a Co-CEO of the Company, the Company confirmed there was no deviation with the Code Provision C.2.1 of the CG Code, in which stated that the roles of Chairman and chief executive officer should be separate and should not be performed by the same individual. The Company will continuously review and comply with Code Provision C.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules.

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 all Directors, all Directors confirmed that they 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 2022: Nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

As disclosed in the announcements of the Company dated 26 September 2022, 30 September 2022, 24 October 2022, 8 December 2022, 13 December 2022, and 4 January 2023, the Company, on 15 September 2022, received the Letter from Ernst & Young (“**EY**”), being the then auditors of the Company, informing that there might be possible internal control irregularities (“**Incident**”), which involved transactions that took place in January 2022 with a sum equivalent to US\$13 million (approximately HK\$100 million).

On 17 September 2022, the Board resolved to establish the Independent Committee to review and investigate the Incident, which comprised of four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong. Having considered the current information and evidence available to the Company was insufficient and therefore a proper investigation of the Incident with the assistance of an external forensic accountant was necessary, on 21 December 2022, the Independent Committee appointed Grant Thornton Advisory Services Limited (“**Forensic Accountant**”) as an independent forensic accountant to conduct an independent forensic investigation into the Incident (“**Forensic Investigation**”) and produce a report on the findings of the Forensic Investigation to be presented to the Independent Committee.

On 15 March 2023, the Independent Committee received a draft forensic investigation report (“**Forensic Investigation Report**”) from the Forensic Accountant, details of which were set out in the Company’s announcement dated 21 March 2023.

On 21 April 2023 the Independent Committee engaged Moore Advisory Services Limited as the internal control consultant (the “**Internal Control Consultant**”) to view the findings from the Forensic Investigation Report to ensure the Company has established adequate and effective controls to minimize the risk identified, details of which were set out in the Company’s announcement dated 27 April 2023.

On 4 July 2023, the Independent Committee received from the Forensic Accountant the final Forensic Investigation Report, details of which were set out in the Company’s announcement dated 10 July 2023.

As at the date hereof, Internal Control Consultant has completed the first draft of the internal control review report with remedial actions proposed to the Independent Committee for deficiencies identified. The Internal Control Consultant is now conducting the follow-up review (the “**Phase 2 Review**”) and the report of the Phase 2 Review will be ready in mid of September 2023.

The Company will make further announcements to update investors and shareholders once the internal control review results are available.

Other than the above, the Board is not aware of any material event requiring disclosure, that has taken place subsequent to 30 June 2023 and up to the date of this announcement.

AUDIT COMMITTEE

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

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

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2023 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 2023 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, 30 August 2023

As at the date of this announcement, the executive Directors are Mr. Huang Xiangbin and Mr. Lei Shifeng; 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*