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Sihuan Pharmaceutical Holdings Group Ltd.
四 環 醫 藥 控 股 集 團 有 限 公 司

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

	For the year ended 31 December		Year-on-year change
	2019	2018	
	RMB'000	*RMB'000*	
Key Income Statement Items			
Revenue	**2,886,979**	2,917,405	**(1.0%)**
Gross profit	**2,294,927**	2,379,088	**(3.5%)**
Research and development expenditure	**777,032**	533,203	**45.7%**
Operating (loss)/profit	**(2,454,863)**	2,025,943	**(221.2%)**
Adjusted operating profit (Adding back the impairment losses on goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment (the "**Impairment Losses**"))	**1,516,640**	2,025,943	**(25.1%)**
(Loss)/profit attributable to owners of the Company	**(2,753,332)**	1,619,956	**(270.0%)**
Adjusted profit attributable to owners of the Company (Adding back the Impairment Losses)	**1,218,171**	1,619,956	**(24.8%)**
Key Financial Indicators			
Gross profit margin	**79.5%**	81.5%	
Net (loss)/profit margin	**(95.5%)**	57.6%	
Adjusted net profit margin (Adding back the Impairment Losses)	**42.1%**	57.6%	
(Loss)/earnings per share – Basic (RMB cents)	**(29.1)**	17.1	
Adjusted earnings per share – Basic (RMB cents) (Adding back the Impairment Losses)	**12.9**	17.1	
Trade receivables turnover ratio (days)	**48**	58	
Final dividend per share (RMB cents)	**1.3**	1.3	

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2019 (the "**Year**") has decreased by 1.0% to approximately RMB2,887.0 million (2018: RMB2,917.4 million).

- Gross profit margin decreased to 79.5% for the Year (2018: 81.5%).

- Net loss margin was incurred for the Year. It was mainly attributable to recognition of the Impairment Losses and an increase in research and development ("**R&D**") activities of the Group. Adjusted net profit margin (adding back the Impairment Losses) decreased to 42.1% from 57.6% of last year.

- Expenditure for R&D and related activities increased by 45.7% year-on-year to approximately RMB777.0 million, representing 26.9% of the total revenue of the Group. This was mainly due to more efforts in R&D activities and expansion of the R&D team.

- Loss attributable to owners of the Company amounting to approximately RMB2,753.3 million was incurred for the Year mainly as a result of recognition of the Impairment Losses and an increase in R&D activities of the Group. Adding back the Impairment Losses, adjusted profit attributable to owners of the Company decreased by 24.8% to approximately RMB1,218.2 million compared with last year.

- The Group has recorded approximately RMB1,417.9 million of net cash flows from operating activities, a 20.9% decrease compared with last year.

- The Board recommends the declaration and payment of a final cash dividend of RMB1.3 cents per share which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (2018: RMB1.3 cents per share).

* *Adjusted financial items and related indicators added back the impairment losses on goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment which are one-off losses and did not exist in last year. They are presented with an intention to provide additional and useful information to shareholders of the Company, potential investors and others to understand and evaluate the Group's consolidated results and to compare them across the accounting periods on a comparable basis.*

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the Year together with the comparative figures for the previous year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,731,010**	2,775,371
Investment properties		**232,802**	209,206
Right-of-use assets	*2(a)*	**893,555**	–
Land use rights	*2(a)*	**–**	849,190
Goodwill		**–**	2,843,903
Intangible assets	*4*	**480,008**	1,252,251
Investments accounted for using the equity method	*5*	**1,083,858**	1,168,623
Financial assets at fair value through profit or loss	*6*	**174,220**	181,783
Other non-current assets		**338,614**	275,615
Deferred tax assets		**332,222**	111,114
Total non-current assets		**6,266,289**	9,667,056
CURRENT ASSETS			
Inventories		**409,595**	301,117
Trade and other receivables	*7*	**630,073**	857,181
Financial assets at fair value through profit or loss	*6*	**148,336**	1,303,276
Cash and cash equivalents		**5,117,143**	3,314,845
Total current assets		**6,305,147**	5,776,419
TOTAL ASSETS		**12,571,436**	15,443,475
EQUITY			
Equity attributable to owners of the Company			
Share capital	*8*	**78,186**	78,233
Share premium	*8*	**4,084,846**	4,093,317
Other reserves		**192,674**	159,631
Retained earnings		**5,250,978**	8,179,232
		9,606,684	12,510,413
Non-controlling interests		**335,510**	263,950
Total equity		**9,942,194**	12,774,363

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**282,621**	256,937
Lease liabilities		**5,892**	–
Contract liabilities		**275**	9,575
Other non-current liabilities	*9*	**79,674**	153,981
Total non-current liabilities		**368,462**	420,493
CURRENT LIABILITIES			
Trade and other payables	*10*	**1,905,792**	1,686,749
Contract liabilities		**326,295**	517,519
Income tax payable		**14,033**	37,671
Lease liabilities		**4,058**	–
Other current liabilities	*9*	**10,602**	6,680
Total current liabilities		**2,260,780**	2,248,619
TOTAL LIABILITIES		**2,629,242**	2,669,112
TOTAL EQUITY AND LIABILITIES		**12,571,436**	15,443,475

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **_RMB'000_**	2018 *RMB'000*
Revenue	*11*	**2,886,979**	2,917,405
Cost of sales	*12*	**(592,052)**	(538,317)
GROSS PROFIT		**2,294,927**	2,379,088
Other income	*11*	**213,415**	214,676
Other gains – net	*11*	**402,185**	610,083
Impairment losses on goodwill	*12*	**(2,843,903)**	–
Impairment losses on intangible assets	*12*	**(759,615)**	–
Impairment losses on investments accounted for using the equity method	*12*	**(91,521)**	–
Impairment losses on property, plant and equipment	*12*	**(276,464)**	–
Distribution expenses	*12*	**(251,723)**	(271,119)
Administrative expenses	*12*	**(484,750)**	(396,106)
Research and development expenses	*12*	**(632,972)**	(480,325)
Other expenses	*12*	**(24,442)**	(30,354)
OPERATING (LOSS)/PROFIT		**(2,454,863)**	2,025,943
Finance expenses		**(4,870)**	(6,060)
Share of losses of investments accounted for using the equity method	*5*	**(7,190)**	(7,718)
(LOSS)/PROFIT BEFORE TAX		**(2,466,923)**	2,012,165
Income tax expense	*13*	**(290,388)**	(332,804)
(LOSS)/PROFIT FOR THE YEAR		**(2,757,311)**	1,679,361
Attributable to:			
Owners of the Company		**(2,753,332)**	1,619,956
Non-controlling interests		**(3,979)**	59,405
		(2,757,311)	1,679,361

	Notes	**2019**	2018
		RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR		**(2,757,311)**	1,679,361
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(2,757,311)**	1,679,361
Attributable to:			
Owners of the Company		**(2,753,332)**	1,619,956
Non-controlling interests		**(3,979)**	59,405
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(2,757,311)**	1,679,361
		RMB	*RMB*
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (loss)/earnings per share	*14*	**(29.1) cents**	17.1 cents

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		**1,927,308**	2,297,603
Income tax paid		**(509,450)**	(504,809)
Net cash flows from operating activities		**1,417,858**	1,792,794
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution to associates and joint ventures	*5*	**(13,946)**	(164,250)
Advances of loans to a third party		**(15,000)**	–
Advances of loans to an associate		**(57,127)**	–
Repayment of loans from a third party		**1,029**	–
Repayment of loans from associates		**2,000**	–
Acquisition of a subsidiary		**–**	(419,475)
Purchases of items of property, plant and equipment		**(500,793)**	(262,279)
Purchases of intangible assets		**(89,132)**	(19,742)
Purchases of land use rights		**–**	(107,433)
Prepaid land lease payments		**(55,638)**	–
Purchases of financial assets at fair value through profit or loss		**(19,510,723)**	(21,454,174)
Proceeds from disposal of financial assets at fair value through profit or loss		**20,625,351**	23,113,324
Proceeds from disposal of items of property, plant and equipment		**2,163**	2,158
Interest received		**163,781**	134,737
Net cash flows from investing activities		**551,965**	822,866
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(107,300)**	(137,132)
Proceeds from borrowings		**19,000**	224,192
Repurchase and cancellation of shares		**(8,518)**	–
Principal portion of lease payments		**(3,592)**	–
Non-controlling interests arising in subsidiaries		**132,112**	21,530
Dividends paid		**(198,805)**	(240,007)
Interest paid		**(422)**	(1,257)
Net cash flows used in financing activities		**(167,525)**	(132,674)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,802,298**	2,482,986
Cash and cash equivalents at beginning of year		**3,314,845**	831,859
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,117,143**	3,314,845

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. is incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries are the R&D, and the manufacture and sale of pharmaceutical products in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is Clarendon House, 2 Church Street, P.O. Box HM 1022, Hamilton HM DX, Bermuda. The address of the principal place of business of the Group in Hong Kong is Room 4309, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 22/F, Building 4, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

The Company had its primary listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 October 2010.

These consolidated financial statements have been approved for issue by the board of directors on 24 March 2020.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all IFRSs, International Accounting Standards ("**IASs**") and interpretations, promulgated by the International Accounting Standards Board (the "**IASB**"). These financial statements also complied with the disclosure requirements of the Hong Kong Companies Ordinance, and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosures

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRS 2015–2017 Cycle	Amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23

2. BASIS OF PREPARATION (Continued)

Changes in accounting policies and disclosures (Continued)

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified. asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2. BASIS OF PREPARATION (Continued)

Changes in accounting policies and disclosures (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics, relied on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review, and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 were as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	**860,137**
Decrease in land use rights	**(849,190)**
Increase in total assets	**10,947**
Liabilities	
Increase in lease liabilities	**10,947**
Increase in total liabilities	**10,947**

2. BASIS OF PREPARATION (Continued)

Changes in accounting policies and disclosures (Continued)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	13,449
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,610)
	11,839
Weighted average incremental borrowing rate as at 1 January 2019	4.83%
Discounted operating lease commitments as at 1 January 2019	10,947
Lease liabilities as at 1 January 2019	10,947

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the board of the Company. The executive directors of the board of the Company review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors of the board of the Company consider the business from product perspective. The Group is engaged in only one business segment, being the research and development, and the manufacture and sale of pharmaceutical products in the Mainland China. During the year ended 31 December 2019, all sales were from distributors and there were no distributors of the Group with which the revenue generated therefrom amounted to 10% or more of the Group's revenue (2018: Nil).

4. INTANGIBLE ASSETS

	Customer relationship *RMB'000*	Deferred development costs *RMB'000*	Product development in progress *RMB'000*	Trademark and software *RMB'000*	Total *RMB'000*
At 1 January 2018:					
Cost	433,932	1,421,714	350,767	52,070	2,258,483
Accumulated amortisation	(433,932)	(335,408)	–	(25,475)	(794,815)
Impairment	–	(2,032)	(123,630)	–	(125,662)
Net carrying amount	–	1,084,274	227,137	26,595	1,338,006
Cost at 1 January 2018, net of accumulated amortisation and impairment	–	1,084,274	227,137	26,595	1,338,006
Additions	–	13,165	–	926	14,091
Disposals	–	–	–	(2,936)	(2,936)
Amortisation charge *(Note 12)*	–	(95,148)	–	(1,762)	(96,910)
Net carrying amount at 31 December 2018	–	1,002,291	227,137	22,823	1,252,251
At 31 December 2018:					
Cost	433,932	1,434,879	350,767	49,124	2,268,702
Accumulated amortisation	(433,932)	(430,556)	–	(26,301)	(890,789)
Impairment	–	(2,032)	(123,630)	–	(125,662)
Net carrying amount	–	1,002,291	227,137	22,823	1,252,251
Cost at 1 January 2019, net of accumulated amortisation and impairment	**–**	**1,002,291**	**227,137**	**22,823**	**1,252,251**
Additions	**–**	**43,952**	**34,595**	**5,840**	**84,387**
Amortisation charge *(Note 12)*	**–**	**(95,400)**	**–**	**(1,615)**	**(97,015)**
Impairment *(Note 12)*	**–**	**(756,066)**	**–**	**(3,549)**	**(759,615)**
Net carrying amount at 31 December 2019	**–**	**194,777**	**261,732**	**23,499**	**480,008**
At 31 December 2019:					
Cost	**433,932**	**1,478,831**	**385,362**	**54,964**	**2,353,089**
Accumulated amortisation	**(433,932)**	**(525,956)**	**–**	**(27,916)**	**(987,804)**
Impairment	**–**	**(758,098)**	**(123,630)**	**(3,549)**	**(885,277)**
Net carrying amount	**–**	**194,777**	**261,732**	**23,499**	**480,008**

5. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2019	2018
	RMB'000	*RMB'000*
Opening balance at 1 January	**1,168,623**	1,012,091
Addition of associates	**–**	59,160
Addition of joint ventures	**–**	100,000
Capital contributions to an existing associate (i)	**3,946**	5,090
Capital contribution to an existing joint venture (ii)	**10,000**	–
Impairment during the year *(Note 12)*	**(91,521)**	–
Share of post-tax profits and losses of associates and joint ventures	**(7,190)**	(7,718)
Closing balance at 31 December	**1,083,858**	1,168,623

(i) In January 2019, the Group recognised an additional investment in an existing associate, Medifood International SA ("**Medifood**"). The capital was injected to Medifood by cash at the end of January 2019, and the legal and substance modification procedures were completed in 2019.

(ii) In April 2019, the Group recognised an additional investment in an existing joint venture, Fujian Pingtan Huaxing Kangping Pharmaceutical Industry Investment Partnership (Limited Partnership) ("**Fujian Pingtan**"). The capital was injected to Fujian Pingtan by cash at the end of April 2019, and the legal and substance modification procedures were completed in 2019.

Impairment testing

The management recognised each associate or joint venture as one CGU for impairment testing. The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions were used in the value in use calculation of the investments at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of investments:

Gross profit margins:	Management determined budgeted gross profit margins based on past performance and their expectations of market development.
Growth rate:	The average growth rates used are consistent with the forecasts included in industry reports.
Discount rate:	The discount rates used are before tax and reflect specific risks relating to the relevant units. When determining the estimated discount rate, the Group used the key parameters by reference to certain companies of the same industry.

During the year, an impairment losses of approximately RMB91,521,000 was recognized in the consolidated statement of profit or losses. The impairment changes are driven by the lower recoverable amount of CGU resulting in the directors' reassessment of estimate future business performance.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Set out below is an overview of financial assets, other than cash and cash equivalents and trade and other receivables, held by the Group as at the end of the reporting period:

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Non-current			
Financial assets at fair value through profit or loss:			
Unlisted investments, at fair value		**174,220**	181,783
Total non-current	(i)	**174,220**	181,783
Current			
Financial assets at fair value through profit or loss:			
Short-term investments		**148,336**	1,303,276
Total current	(ii)	**148,336**	1,303,276
Total other financial assets		**322,556**	1,485,059

The above equity investments at 31 December 2019 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

(i) The amount represents equity investments in the unquoted equity shares of Jiangsu Antai Biotechnology Co. Ltd, KBP Biosciences Holdings Limited, Lindeman Asia No.12 Investment Fund and Zhejiang Zhida Pharmaceutical Co. Ltd. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify at fair value through other comprehensive income.

During the year ended 31 December 2019, the loss at fair value in respect of the above equity investments amounted to RMB19,000,000.

(ii) The amount represents wealth management products issued by certain reputable banks in Mainland China with no fixed interest rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

7. TRADE AND OTHER RECEIVABLES

	As at 31 December 2019 RMB'000	2018 RMB'000
Trade receivables – third parties	**158,640**	203,467
Notes receivable	**137,166**	273,271
Prepayments to suppliers	**116,882**	117,253
Amounts due from associates	**79,326**	74,019
Amount due from other related party	**9,600**	9,674
Other receivables	**132,065**	191,173
Impairment for trade receivables	**(3,606)**	–
Impairment for other receivables	**–**	(11,676)
	630,073	857,181

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

	As at 31 December 2019 RMB'000	2018 RMB'000
Within 3 months	**135,426**	190,879
3 to 6 months	**13,114**	7,978
6 months to 1 year	**5,512**	4,544
More than 1 year	**982**	66
	155,034	203,467

8. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares *Share'000*	Number of issued and fully paid ordinary shares *Share'000*	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
As at 1 January 2018 and 31 December 2018 (HKD0.01 per share)	100,000,000	9,471,082	78,233	4,093,317	4,171,550
As at 1 January 2019	**100,000,000**	**9,471,082**	**78,233**	**4,093,317**	**4,171,550**
Movement for the year					
Repurchase and cancellation of shares *(Note (i))*	**–**	**(5,400)**	**(47)**	**(8,471)**	**(8,518)**
As at 31 December 2019 (HKD0.01 per share)	**100,000,000**	**9,465,682**	**78,186**	**4,084,846**	**4,163,032**

(i) The Company repurchased 5,400,000 shares of its own shares on the Stock Exchange at a total consideration (including expenses) of HKD9,690,000 (equivalent to RMB8,518,000). As at 31 December 2019, these repurchased shares were cancelled.

9. OTHER LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred government grants (i)	**81,276**	65,661
Other borrowings (ii)	**9,000**	95,000
	90,276	160,661
Less: current portion		
Deferred government grants (i)	**10,602**	6,680
	10,602	6,680
Non-current portion	**79,674**	153,981

(i) It represents the deferred revenue of government grants received for the construction of property, plant and equipment. It will be credited to the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(ii) It represents the new borrowings from non-controlling shareholders of the Group's subsidiary, which is interest-bearing, unsecured and repayable in ten years. The balance of the borrowing in 2018 was fully repaid by the end of 2019.

10. TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables (i)	**65,719**	37,202
Costs of construction and purchase of equipment payables	**49,197**	53,977
Payable for acquisition of a subsidiary	**300,000**	300,000
Amount due to other related party	**–**	83
Deposit payables	**223,469**	221,506
Accrued reimbursement to distributors	**1,152,308**	899,683
Other taxes payable	**–**	59,417
Salaries payable	**50,381**	55,329
Interest payables	**6,033**	3,995
Dividends payable	**112**	–
Other payables	**58,573**	55,557
	1,905,792	1,686,749

10. TRADE AND OTHER PAYABLES (Continued)

(i) The trade payables are non-interest-bearing and have an average term of 40 days.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**55,407**	31,271
6 months to 1 year	**2,036**	3,301
More than 1 year	**8,276**	2,630
	65,719	37,202

The fair values of trade and other payables approximate to their carrying amounts.

11. REVENUE, OTHER INCOME AND OTHER GAINS

	2019	2018
	RMB'000	*RMB'000*
Revenue		
Sale of pharmaceutical products	**2,886,979**	2,917,405

	2019	2018
	RMB'000	*RMB'000*
Other income		
Interest income	**169,745**	164,558
Sale of distribution rights (i)	**13,348**	21,300
Research and development income (ii)	**21,370**	15,786
Gross rental income from investment property operating leases (iii)	**6,662**	3,560
Others	**2,290**	9,472
	213,415	214,676

(i) Sale of distribution rights is included in other income as it is not derived from the Group's principal activities. The geographical market of all the sale of distribution rights is Mainland China. The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Sale of distribution rights contracts is for periods of five years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Amounts expected to be recognised as other income:		
Within one year	**9,300**	13,348
After one year	**275**	9,575
	9,575	22,923

11. REVENUE, OTHER INCOME AND OTHER GAINS (Continued)

(i) (Continued)

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

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of distribution rights	**13,348**	21,300

(ii) Research and development income is included in other income as it is not derived from the Group's principal activities. The geographical market of all the research and development income is Mainland China. The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing.

(iii) Gross rental income from investment property operating leases is included in other income as it is not derived from the Group's principal activities. The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. An analysis of rental income is as follows:

	2019	2018
	RMB'000	*RMB'000*
Geographical markets		
Mainland China	**5,912**	1,580
Hong Kong	**750**	1,980
	6,662	3,560

	2019	2018
	RMB'000	*RMB'000*
Other gains — net		
Government grants (i)	**401,155**	469,434
Exchange gains	**19,629**	–
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(18,599)**	137,779
Others	**–**	2,870
	402,185	610,083

(i) The total government grants represented the subsidies received from the local government and no specific conditions were attached to them.

12. EXPENSES BY NATURE

	2019 *RMB'000*	2018 *RMB'000*
Research expenses	**335,045**	263,829
Amortisation of deferred development costs	**95,400**	95,148
Raw materials used	**311,218**	265,469
Changes in inventories of finished goods and work in progress	**60,885**	29,626
Employee benefit expenses		
Wages and salaries	**468,521**	395,864
Welfares	**112,219**	99,451
Share-based payments	**353**	345
Depreciation of property, plant and equipment	**226,292**	189,599
Depreciation of right-of-use assets	**24,815**	–
Amortisation of land use rights	**–**	18,469
Amortisation of intangible assets excluding the amortisation of deferred development costs	**1,615**	1,762
Impairment losses of goodwill	**2,843,903**	–
Impairment losses of intangible assets	**759,615**	–
Impairment losses of investment accounted for using the equity method	**91,521**	–
Impairment losses of property, plant and equipment	**276,464**	–
Tax surcharges	**74,828**	101,740
Office expenses	**47,775**	42,541
Travelling expenses	**30,463**	26,526
Professional services expense	**104,805**	85,322
Transportation expenses	**24,759**	21,313
Utilities and property management fee	**9,727**	11,846
Rental expenses	**3,741**	9,115
Advertising and promotional expenses	**16,101**	28,182
Auditor's remuneration	**5,500**	5,500
Entertainment expenses	**14,175**	10,044
Bank charges	**6,395**	968
Others	**11,307**	13,562
Total cost of sales, distribution expenses, administrative expenses, research and development expenses, other expenses and impairment losses	**5,957,442**	1,716,221

13. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2019 and 2018 is analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Provision for the year	**485,812**	248,863
Provision for withholding tax	**–**	75,000
Total current tax	**485,812**	323,863
Deferred tax:		
Origination and reversal of temporary differences	**(340,424)**	8,941
Provision for withholding tax	**145,000**	–
Total deferred tax	**(195,424)**	8,941
Income tax expense	**290,388**	332,804

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise from using the statutory tax rate applicable to profits of the consolidated entities as follows:

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(2,466,923)**	2,012,165
Tax calculated at the PRC applicable statutory tax rate of 25% (2018: 25%)	**(616,731)**	503,041
Tax effects of:		
– Utilisation of previously unrecognised tax losses	**(888)**	(1,009)
– Effect of tax concessions and exemption	**(177,036)**	(260,043)
– Expenses not deductible for tax purposes	**807,026**	27,491
– Profits and losses attributable to joint ventures and associates	**1,798**	1,930
– Income not subject to tax	**–**	(32,842)
– Tax losses for which no deferred income tax asset was recognised	**131,219**	19,236
– Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**145,000**	75,000
Income tax expense	**290,388**	332,804

Bermuda profits tax

The Group was not subject to any taxation in this jurisdiction during the year (2018: Nil).

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

13. INCOME TAX EXPENSE (Continued)

PRC corporate income tax ("PRC CIT")

PRC CIT is provided on the assessable income of the companies now comprising the Group derived from the PRC, adjusted for those items which are not assessable or deductible for the PRC CIT purposes.

The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at the tax rate of 25%.

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2019 and 2018 was provided at the rate of 15%.

PRC withholding tax on retained profits

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%.

For purpose of cash dividends payment, a domestic subsidiary of the Group declared dividend plan amounting to RMB2,900,000,000 (2018: RMB1,500,000,000) to overseas to meet the special requirement for funding in year 2019 and the relevant withholding tax will be paid when distributed the dividend in year 2020.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issuance during the year.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of the Company *(RMB'000)*	**(2,753,332)**	1,619,956
Weighted average number of ordinary shares in issue for basic (loss)/earnings per share *('000)*	**9,468,079**	9,471,082
Basic (loss)/earnings per share *(RMB cents per share)*	**(29.1)**	17.1

(b) Diluted

There was no dilution to (loss)/earnings per share for 2019 and 2018 because there were no potential dilutive ordinary shares existing. The diluted (loss)/earnings per share amount equalled to the basic (loss)/earnings per share amount.

15. DIVIDENDS

The dividends paid in 2019 and 2018 were RMB160,987,000 and RMB161,008,000, respectively. A final cash dividend for the year ended 31 December 2019 of RMB123,053,866 was recommended by the Board and subject to approval at the forthcoming annual general meeting of the Company.

Dividends approved and paid to owners of the Company during the year:

	2019	2018
	RMB'000	*RMB'000*
Final 2018 dividend of RMB1.3 (2017: RMB1.3) cents per ordinary share for the previous year, paid during the year	**123,124**	123,124
Interim dividend of RMB0.4 (2018: RMB0.4) cents per ordinary share, declared and paid during the year	**37,863**	37,884
	160,987	161,008

Dividends proposed by the Company during the year:

	2019	2018
Proposed final cash dividend of RMB1.3 (2018: RMB1.3) cents per ordinary share	**123,054**	123,124

16. COMMITMENTS

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**284,296**	219,318
Intangible assets – product development in progress	**94,790**	101,806
	379,086	321,124

(b) Operating lease commitments as at 31 December 2018

The Group leased buildings under operating lease arrangements. Leases for buildings were negotiated for terms ranging from one to seven years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2018 *RMB'000*
Within 1 year	4,624
Between 2 and 5 years	7,344
More than 5 years	1,481
	13,449

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

2019 was an era of tremendous changes in China's pharmaceutical industry. A series of major policies related to the in-depth reform of the pharmaceutical industry, such as the National Centralized Drug Procurement, National Catalog of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products) (the "**Key Monitoring Drug List**"), adjustment to the National Reimbursement Drug List, the Drug Negotiation List as well as the new Drug Administration Law, have been introduced to further deepen the healthcare system and promote China's pharmaceutical industry to usher in a new stage of development. Among them, a new round of centralized procurement led by the National Healthcare Security Administration in the PRC has greatly reduced the profit margin of drugs, including innovative drugs, with unprecedented strength, thereby accelerating the restructuring of the pharmaceutical industry.

Key Financial Performance

For the Year, the Group recorded a revenue of approximately RMB2,887.0 million, representing a year-on-year decrease of 1.0%. Loss attributable to owners of the Company was approximately RMB2,753.3 million, mainly due to (i) the recognition of impairment losses on goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment; and (ii) an increase in R&D activities of the Group for the Year. Adding back those impairment losses, adjusted profit attributable to owners of the Company decreased year-on-year by 24.8% to approximately RMB1,218.2 million.

During the Year, gross profit was approximately RMB2,294.9 million, representing a year-on-year decrease of 3.5%. Gross profit margin decreased from 81.5% for 2018 to 79.5% for the Year. The lower gross profit margin was resulted by decreased sales of drugs which had better profit margin but were captured in the Key Monitoring Drug List during the Year.

During the Year, net cash flows from operating activities were approximately RMB1,417.9 million. The Group's debt to equity ratio, expressed as a percentage of other borrowings over equity attributable to owners of the Company, was maintained below 1.0%, maintaining a sound financial position.

During the Year, expenditure for R&D and related activities increased by 45.7% to approximately RMB777.0 million, representing 26.9% of the total revenue of the Group. This was mainly due to more efforts in R&D activities and expansion of the R&D team.

During the Year, revenue from cardio-cerebral vascular ("**CCV**") products decreased by 12.8% year-on-year to approximately RMB2,342.7 million, accounting for 81.1% of the Group's total revenue. The sales decline was mainly attributable to the Key Monitoring Drug List announced in July 2019. Revenue from non-CCV products significantly increased by 134.9% to approximately RMB544.3 million, accounting for 18.9% of the Group's total revenue. This sales growth was mainly attributable to an increase in hospital coverage of growth-stage products during the Year.

Revenue of Key CCV Products

Product name	For the year ended 31 December		Year-on-year change
	2019	2018	
	RMB'000	*RMB'000*	
Oudimei/Aofutai/Weitong/Jielixin (Cerebroside-kinin injection)	**730,515**	749,710	(2.6%)
Yuanzhijiu/Xingwei/Xinyintong (Troxerutin and cerebroproptein hydrolysate injection)	**531,145**	645,958	(17.8%)
Wei' Ao (Salvia miltiorrhiza and ligustrazine hydrochloride injection)	**270,267**	332,880	(18.8%)
Kelinao/Anjieli (Cinepazide maleate injection)	**214,821**	314,547	(31.7%)
Aogan/Xiangtong (GM1 injection)	**144,411**	153,516	(5.9%)
Nicotinamide injection	**119,826**	42,284	183.4%
Yikangning/Yimaining (Alprostadil lipid emulsion injection)	**102,621**	154,056	(33.4%)
Mainuokang (Floium ginkgo extract and tertram ethypyrazine sodium chloride injection)	**85,472**	59,667	43.2%
Yeduojia (Compound trivitamin B(II) for injection)	**58,471**	141,865	(58.8%)
Qu'ao (Cerebroprotein hydrolysate)	**27,754**	29,076	(4.5%)

Revenue of Key Non-CCV Products

Product name	For the year ended 31 December		Year-on-year change
	2019	2018	
	RMB'000	*RMB'000*	
Jie'ao (Roxatidine acetate hydrochloride for injection)	**123,025**	60,457	103.5%
Huineng (Monoammonium glycyrrhizinate and cysteine and sodium chloride injection)	**88,250**	44,604	97.9%
Shucheng (Nicotinic acid injection)	**60,925**	27,866	118.6%
Ren'ao (Oxcarbazepine)	**27,547**	22,436	22.8%
Xinnuoao (Clindamycin injection)	**14,281**	15,324	(6.8%)

Risks and Uncertainties

The following risks and uncertainties may affect the results and business operations of the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

1. *Drug approval process*

   The actual timing of the market launch of the Group's products under R&D could vary significantly from the Group's estimates due to various factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties in the outcome of the regulatory approval process. If any of the approvals in relation to the Group's products is delayed or not obtained, this could adversely affect the timing of the market launch of the Group's products.

2. *Results of drug tenders*

   The Group's revenue and profitability depends on the Group's ability to win in the drug tender of each province or region in China for the Group's products at a desirable tender price. If the Group's products fail to win the tenders or the new tender prices are significantly cut, the market share, revenue and profitability of the products concerned could be adversely affected.

3. *Compliance with certain PRC environmental and safety regulations*

   The Group is subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, noise pollution and the safety the workers during the manufacturing process. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of the Group's production facilities and obligations to take corrective measures. In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard.

4. *Exclusion of products from certain PRC medical reimbursement list*

   Drugs listed in the National Reimbursement Drug List or the Provincial Reimbursement Drug List are reviewed and updated from time to time. There is no assurance that the Group's products will be or continue to be listed in the above lists. If any of the Group's products are being removed from the above lists, the sales of the products concerned could be adversely affected.

B. Main Strategies

1. **Focus**: Focusing on core business and key therapeutic areas to enhance the Group's market competitiveness and market share.

2. **Change**: Intensifying the Group's organizational change, R&D change and change in talent incentive program.

3. **Social responsibility**: Taking the initiative to fulfill social responsibility and creating social and economic benefits.

I. Focus:

(I) Focusing on core business — pharmaceutical sector

"Dedicated in becoming the most competitive international pharmaceutical enterprise" is the Group's corporate vision and direction of efforts. The Group will arrange investment and prioritize work in R&D, production and marketing of pharmaceutical products, and will focus on the pharmaceutical sector and gradually divert from other non-core businesses.

(II) Focusing on key therapeutic areas to enhance the Group's market competitiveness and market share

1. Strengthening the CCV sector

(1) Enhancing traditional advantages in stroke treatment product line:

The Group takes cinepazide maleate as the stronghold product and increases efforts in sales and marketing of nicotinamide injection, floium ginkgo extract and tertram ethypyrazine, nicotinic acid injection, citicoline sodium, aceglutamide and other products, supplemented with out-of-pocket sales model for cerebroside-kinin, troxerutin and cerebroproptein hydrolysate and other products, to re-formulate the best product portfolio in accordance with relevant national policies on rational drug use, healthcare insurance and other aspects.

(2) Enriching product lines for vascular dementia, epilepsy and other neurological diseases:

Rivastigmine hydrogen tartrate capsule, which has just been granted production approval, is the first product in the PRC that is deemed to have passed the consistency evaluation. It is used for the treatment of mild to moderate Alzheimer's dementia. As the number of patients with such kind of dementia is increasing with an aging society and there is lack of effective medicines, it will be a market with huge potential. In respect of products for treatment of epilepsy, together with oxcarbazepine tablet which has been launched, levetiracetam tablet which has been granted production approval and will be launched soon, as well as midazolam oromucosal solution and eslicarbazepine tablet which have also been granted registration approval, are expected to create synergy and provide epilepsy patients with more better treatment options. In particular, midazolam oromucosal solution is also effective for febrile seizures. Compared with other formulations, it is convenient to administer and has a fast onset of effect, and can also be used for out-of-hospital and home emergency first-aid treatment. It is expected to greatly fill the existing market gaps after launch and will provide a safe and effective new treatment option for infants, children and adolescents at home.

2. Adapting to national policies and emphasizing on major diseases and chronic diseases

   The Group has been seeking to build a stronger presence in the oncology sector in combining innovative drugs and generic drugs. No matter from "Healthy China 2030 Plan" or a series of national regulations and policies to speed up review and approval, one can see that the national policies are concerned about and attach emphasis on major diseases and oncology. Earlier, the Group has also started innovation and R&D of oncology drugs, including CDK4/6 products undergoing clinical trials and oncology drugs in Phase I clinical and pre-clinical stage. Meanwhile, the Group has also set up more than 10 projects for oncology generic drugs to accelerate the enrichment of oncology product pipelines and product launches.

3. Planning for the area of anti-infective drugs with "product segmentation" strategy

   It is widely known that the area of anti-infective drugs is a leading prescription drug market and a highly competitive "red sea" market. The Group's planning for products in this sector focuses on "product segmentation" and strengthening product competitiveness.

   (1) In 2019, the Group was granted registration approvals for the non-PVC solid-liquid double chamber bag product series (cefuroxime, ceftazidime, cefodizime), and was the first and only enterprise in the PRC to obtain such infusion drug products' approvals for registration;

   (2) The Group acquired all interests and intellectual property rights of a "super" antibiotic — plazomicin, a new generation of aminoglycoside antibiotics, in the Greater China Region. In addition, for the self-developed carbapenem antibiotic, benapenem, Phase II clinical studies will be completed soon and Phase III clinical trial will be initiated;

(3) Azithromycin capsule of the Group was selected in the second round of the National Centralized Drug Procurement. It ranked second in the selection for supplying no less than 30 million capsules to 8 provinces, namely Jiangsu, Shandong, Fujian, Liaoning, Heilongjiang, Gansu, Guangxi and Tibet. This will expand the Group's business in the antibiotics market and will capture a larger market share in the sector;

(4) Breakthroughs in major infectious diseases: Regarding some major life-threatening infectious diseases, the Group has actively planned to diversify its anti-viral product line through various means including joint R&D, acquisition and joint ventures. For example, favipiravir tablet co-developed with the Institute of Microbiology Epidemiology of the Academy of Military Medical Sciences of the People's Liberation Army of the PRC in treating coronavirus disease 2019 ("**COVID-19**"), reached a framework cooperation agreement in the pharmaceutical manufacturing area with Hetero Labs Limited ("**Hetero**") in India, and independent R&D project for oseltamivir, etc.

Certainly, in addition to the above-mentioned key areas, in the existing therapeutic areas such as digestive and liver diseases, our product lines have also been further enriched and strengthened, including the inclusion of Huineng, which is available on the market, in the National Reimbursement Drug List, and the resumption of production and sales of octreotide.

(III) Enhancing evidence-based medical research for key monitoring products and expanding out-of-pocket drug market

The promulgation of the Key Monitoring Drug List in July 2019 and the subsequent National Reimbursement Drug List with removal of key monitoring drugs from provincial reimbursement list have put extreme pressure on the sales of several major products of the Group. While adjusting and enriching its product line, the Group has taken measures such as strengthening evidence-based medicine research, enhancing development in the low-end market and expanding out-of-pocket market for key products such as cinepazide maleate to actively promote clinical rational drug use.

1. Re-establishing the market position of cinepazide maleate

The Group has completed a large-scale clinical verification research for cinepazide maleate injection (Brand name: Kelinao) for the treatment of acute ischemic stroke, with 1,301 patients recruited. The results showed that the product can effectively improve prognosis and reduce the disability rate of stroke patients. A research conclusion meeting was held in April 2019 under the presidency of Professor Cui Liying from Peking Union Medical College Hospital, the leader unit of the research team, and the review materials were submitted to the Center for Drug Evaluation ("**CDE**") in October. The review is currently in the final stage. At the same time, the research results have been submitted to foreign academic journals for publication. According to our research, among clinical studies on acute ischemic stroke in the PRC which adopted a multi-center, double-blind and randomized controlled trial ("**RCT**") design in the past 20 years, there are only 2 RCT studies with a sample size of more than 500 cases. This verification research of Kelinao is the only study with a sample size of more than 1,000 cases. As a result, on the basis of such precise evidence-based verification, the Group has reasons to believe that, after being approved by the CDE, Kelinao will definitely restore its market leadership.

2. Accelerating the generation of evidence-based verification for other products and extending their life cycles

   No matter for other key monitoring drugs such as cerebroside-kinin injection, troxerutin and cerebroproptein hydrolysate injection, or other growth-stage products such as roxatidine, Huineng and floium ginkgo extract and tertram ethypyrazine, the Group has been actively carrying out post-launch re-evaluation and conducting pre-clinical studies in collaboration with top hospitals and research institutes in the PRC such as Tiantan Hospital, the First Hospital Affiliated to AMU (Southwest Hospital), the Institute of Medicinal Plant Development Affiliated with the Chinese Academy of Medical Sciences, and the Institute of Materia Medica of Peking Union Medical College, with an aim to verify the mechanism of action of these products. Currently, 9 fundamental research projects have been completed, and 3 projects are underway. The Group has been collaborating with top domestic hospitals such as the Peking Union Medical College Hospital, Tiantan Hospital, Peking University Third Hospital, the Chinese People's Liberation Army General Hospital (301 Hospital), the General Hospital of Beijing Military Region, and the First Affiliated Hospital of China Medical University. Together they have begun over 10 post-launch researches on the Group's products, aiming at verifying these products' clinical efficacy and safety. 6 SCI articles and 15 articles on various key medical journals have been published, and another 7 articles have been submitted for publishing.

   Based on the established mechanism of cerebrosidekinin injection resulted from previous fundamental research, the Group has carried out several large-scale clinical studies to confirm the efficacy and safety for its main indications. For instance, a multi-center RCT clinical study, currently carried out by the National Health Commission Stroke Prevention and Treatment Committee and led by the Southwest Hospital, is designed to verify the product's efficacy in patients with hypertensive cerebral hemorrhage through objective indicators such as imaging. Phased results analysis is currently underway. In addition, the Group has completed the national multi-center RCT clinical study, which was led by Peking University Third Hospital, on the efficacy of cerebroside-kinin in ischemic stroke patients, and the results confirmed that cerebroside-kinin can effectively improve their neurological functions and prognosis. The results have been published in "Neural Regeneration Research", a SCI-indexed journal. Results of evaluation on system of cerebroside-kinin for its 2 major indications (ischemic stroke and cerebral hemorrhage) have been published in key medical journals. These clincial research and meta-analysis results have greatly enhanced the evidence-based level of the product.

Troxerutin and cerebroproptein hydrolysate injection has successfully completed the multi-center RCT study for its 2 major indications, acute cerebral infarction and traumatic brain injuries, led by the Beijing Hospital and General Hospital of Beijing Military Region, respectively. The product's efficacy and safety has been fully confirmed by these research, the results of which have been published in "Chinese Journal of Neurosurgery" and other top domestic magazines in the PRC. In addition, the article on the neuroprotective effects of brain damage caused by febrile seizures in children has also been published and accepted in key medical journals. A meta-analysis of its effectiveness in the treatment of acute ischemic stroke has been published in key journals.

The Group is also pushing forward the fundamental research and clinical research projects of its other growth-stage products such as Jie'ao, Huineng and Mainuokang. Some of the research results have been published: Multi-center clinical studies of efficacy in prevention of stress-related mucosal disease of critical patients and safety evaluation of roxatidine acetate hydrochloride injection (Jie'ao) and omeprazole led by the Peking University Third Hospital was completed, and the results verified the efficacy and safety of roxatidine acetate hydrochloride for injection in inhibiting gastric acid secretion and preventing stress-related mucosal disease, etc. The results have been accepted by "Chinese Journal of Emergency Medicine"; The product development of floium ginkgo extract and tertram ethypyrazine sodium chloride injection for treating ischemic stroke was carried out by the Institute of Medicinal Plant Development of the Chinese Academy of Medical Sciences and Peking Union Medical College (pharmacodynamics and preliminary mechanism research) indicated that floium ginkgo extract and tertram ethypyrazine sodium chloride injection provides neuroprotection to rats with ischemic stroke. The results have been published in a key journal,"Pharmacology and Clinics of Chinese Materia Medica"; Pharmacoeconomic evaluation of monoammonium glycyrrhizinate and cysteinein improving liver dysfunction in patients with viral hepatitis, led by the Second Xiangya Hospital of Central South University was completed, and the results indicated that monoammonium glycyrrhizinate and cysteine and sodium chloride injection covered by the healthcare insurance negotiation agreement is a safe, effective and economical liver protection drug for treating liver function abnormalities in patients with viral hepatitis. The results have been accepted by "China Journal of Pharmaceutical Economics". More evidence will be generated to support the rational clinical use and academic promotion of these products subsequently.

3. Adapting to policy changes and strengthening academic promotions by promoting products inclusion interpretation of clinical pathways, rational drug use and guideline consensus, etc.

   While improving its evidence-based research system, the Group is proactively adapting to the changing government policies by spearheading products inclusion in interpretation of clinical pathways and rational drug use guidelines, which are in alignment with current government policies. Multiple products of the Group have been recommended for various indications in the "Interpretation of Clinical Pathways" and the "Interpretation of Clinical Pathway and Therapeutic Drugs". Meanwhile, cerebroside-kinin injection has been included in "China's Stroke Rational Drug Use Guidance", salvia miltiorrhiza and ligustrazine injection has been added to the "Coronary Heart Diseases Rational Drug Use Guideline", and roxatidine has been included in the "Expert Consensus on Multidisciplinary Prevention and Treatment of Acute Non-variceal Upper Gastrointestinal Bleeding (2019 Edition)". The Group will continue to step up academic promotions and actively participate in the promotion of rational drug use, expert consensus and guidelines.

4. Adjusting marketing strategy and refining management of promotion focus of products at different stages

   (1) Reinforcing existing mature products: such as cerebroside-kinin, troxerutin and cerebroproptein hydrolysate, the Group boosts the growth in the scope of rational use of drugs through intensifying the development of markets of hospitals that classified as Class II or below and exploring new models such as out-of-pocket drug market.

   (2) Increasing professional and academic promotion and hospital coverage of growth-stage products: such as Huineng, roxatidine, floium ginkgo extract and tertram ethypyrazine, nicotinamide and nicotinic acid, future growth prospects are positive given the low market penetration rate at present. In particular, through negotiation, Huineng was included in the new National Reimbursement Drug List in 2019, which has provided ample room for its market development. The Group increased its efforts in promotion of such product in order to accelerate hospital coverage, expand market share and alleviate pressure on the growth of mature products.

   (3) Newly launched products: For new products such as troxerutin and piracetam, the Group leverages on its strong marketing and promotion system, refines investment solicitation and holds professional and academic meetings to gain recognition from experts and tap into markets in an immediate manner.

II. Change

(I) Change in Organization

Advantageous businesses of each subsidiary are determined according to its product advantages, formulation advantages and talent advantages. Multiple business units have been formed by integrating R&D, production, clinical development and marketing. Shortcomings of over-reliance of various subsidiaries on the Group's management have been eliminated as a result of a change from the "aircraft carrier" model to a more efficient "EMU" model, which facilitate more efficient decision-making and integration of various functional modules, thereby enhancing market competitiveness of each business unit.

(II) Change in R&D

The Group will re-determine the strategy, positioning and organizational structure of Shandong Xuanzhu Research Institute and Aohe Research Institute in accordance with the new national drug review policy and registration management measures based on international and domestic market condition. Instead of independent research and development approach in the past, the Group will enhance the introduction of talents and technologies and, adopt various means and approaches such as joint ventures, cooperation, introduction and integration to accelerate product development and market launch.

Following the above-mentioned series of change, the Group had 113 projects under research, including 20 newly set up projects, and obtained over 300 patents for invention of innovative drugs, including over 80 overseas patents in 2019. There were 51 projects at the stage of review and approval by CDE. The Group submitted a total of 33 applications for production approval and was granted production approval for 4 applications. Of the 51 projects in the stage of review and approval, 14 are related to CCV and nervous areas, which will further strengthen the Group's advantages in the CCV area. In the next three years, the Group is expected to commence production and sales of more new products to be launched in the areas of anti-infection and chronic diseases such as diabetes.

(III) Change in talent incentive program

Corporate managers, core talents and key employees are encouraged to participate in various business units to arouse their sense of "partnership" and assuming responsibility for product output, quality, profitability and development goals of business units, in order to enhance differentiated competitive advantages.

Functional departments of the Group are required to follow new requirements of the management model to streamline integration, reduce communication cost and improve work efficiency. Meanwhile, talent structure has been optimized and core outstanding talents are given equity incentives and other rewards to encourage self-learning and improve their ability to "guide and serve" others with "entrepreneur" mindset, and thus quickly becoming all-round talents.

III. Social responsibility

(I) Taking the initiative to fulfill social responsibility

Amidst the COVID-19 epidemic, the Group actively performs its social responsibility and overcome various difficulties to commence clinical trials of favipiravir; actively identify possible effective products and reached a framework cooperation agreement in the pharmaceutical manufacturing area with Hetero in India; establish an emergency team of the Group for deployment of materials, with a view to actively resume work and production while carrying out epidemic prevention and control and caring for each employee, and make every effort to achieve social and economic benefits for society, enterprises and shareholders.

(II) Improving corporate profitability and creating benefits

Under the premise of ensuring scientific arrangement and quality, the Group will reduce its operating and production costs, especially lay stress on the investment and optimization of active pharmaceutical ingredient ("**API**"), so as to enhance competitiveness of future products and improve product profitability and create greater benefits.

C. Future Prospects

Looking forward, it is expected that China will continue to deepen its healthcare reform. It is expected that focusing on optimization and reform of its drug approval system, adjustment to medical insurance system, centralized drug procurement, as well as the Key Monitoring Drug List. The reformative measures will accelerate resource consolidation and revolution of the pharmaceutical industry. Further possible impact on prescription and procurement patterns is envisioned after the promulgation of the Key Monitoring Drug List in July 2019.

In view of the speed and scale of the rollout of new pharmaceutical policies, coupled with the changing macroeconomic and industrial landscapes, the Group will embrace the new policies and market trends with great adaptability, while diverting resources to drug R&D in order to create a sustainable drug pipeline. Through mergers and acquisitions ("**M&A**") and international collaborations, the Group will also optimize its product structure and strengthen the Group's pipeline layout and market advantage in therapeutic areas such as CCV, oncology and diabetes. The Group plans to strengthen its supply of API through M&A and equity acquisitions, aiming to reduce cost and gain competitive advantages of its generic products.

In terms of sales and marketing, the Group will utilize its diversified product portfolio and implement targeted marketing management for active promotion of growth-stage products and fast expansion of hospital coverage. Meanwhile, the Group will continue to strengthen its penetration in primary markets to fully achieve the potential of its core products in untapped markets. To promote clinical usage of its products, the Group will remain committed to optimizing its evidence-based research system to promote the inclusion of its key products in official clinical guidelines, expert consensus and interpretation of clinical pathways. In addition, the Group will continue the post-launch re-evaluations of its exclusive and main products to provide sufficient evidence to the clinical efficacy and safety of its products.

Despite various challenges ahead, the Group is taking firm steps on the right developmental track through implementation of key strategies such as focus and change.

FINANCIAL REVIEW

Turnover

Affected by the rollout of new pharmaceutical policies during the Year, revenue of the Group for the Year has decreased by 1.0% to approximately RMB2,887.0 million (2018: RMB2,917.4 million). Among it, income from sales of CCV drugs, which contributed to 81.1% of total revenue, was approximately RMB2,342.7 million (2018: RMB2,685.7 million). It has decreased by 12.8%, approximately RMB343.0 million, whereas the remaining revenue from sales of non-CCV drugs has significantly increased by 134.9% to approximately RMB544.3 million (2018: RMB231.7 million).

The decreased sales of CCV drug was mainly attributable to the Key Monitoring Drug List promulgated by the PRC government in July 2019. Sales volume on the monitoring drugs accordingly decreased while the Group continued to strengthen our CCV drugs through further realizing the potential of the product portfolio. For non-CCV drugs, the Group has kept increasing hospital coverage of growth-stage products during the Year.

Cost of sales

Cost of sales of the Group for the Year amounted to approximately RMB592.1 million (2018: RMB538.3 million), accounting for approximately 20.5% of the total revenue.

Gross profit

Gross profit for the Year amounted to approximately RMB2,294.9 million (2018: RMB2,379.1 million). It decreased by approximately RMB84.2 million. Overall gross profit margin decreased from 81.5% last year to 79.5% for the Year. The lower gross profit margin was resulted by decreased sales of drugs which had better profit margin but were captured in the Key Monitoring Drug List during the Year.

Other gains – net

Other gains – net for the Year has decreased by approximately RMB207.9 million to approximately RMB402.2 million (2018: RMB610.1 million). It was mainly due to a decrease in government grants and changes in fair value of financial assets at fair value through profit or loss compared with last year.

Impairment losses on non-current assets

The Group performed impairment testing on assets annually or more frequently if events or change in circumstances indicate that the carrying amount may be impaired. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and value-in-use.

- *Impairment losses on goodwill*

  During the Year, it recorded an impairment provision of approximately RMB2,843.9 million against the value of goodwill which arose from acquisition of subsidiaries. This was because the Chinese government promulgated the Key Monitoring Drug List in July 2019, which had an impact on prescription and procurement patterns and influenced sales prices of chemical medicines and biological products. As such, the Group conducted an impairment testing and re-assessed the recoverable amount of the cash-generating units to which the goodwill relates. The Group recognised goodwill impairment based on the result of the impairment testing.

- *Impairment losses on intangible assets and property, plant and equipment*

  During the Year, impairment losses of intangible assets and property, plant and equipment of RMB759.6 million and RMB276.5 million, respectively, were recognised in the consolidated statement of profit or loss. This was based on an assessment of the impact on prescription and procurement patterns after the promulgation of the National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products) in July 2019 and other impairment indications.

- *Impairment losses on investments accounted for using the equity method*

  During the Year, the Group has performed impairment testing for each single investment by comparing the recoverable amount with its carrying value using the equity method. In respect of the Group's investments in two associates and a joint venture, there are indications of impairment losses which include potential legal proceeding and investigation risk, termination of listing status in the Mainland China listed market and low acceptance of the core business strategy. Accordingly, impairment losses of RMB91.5 million was recognised in the consolidated statement of profit or loss.

Distribution expenses

Distribution expenses for the Year amounted to approximately RMB251.7 million (2018: RMB271.1 million). The decrease of approximately RMB19.4 million compared with last year was mainly due to a decrease in marketing expenses relating to sales of monitoring drugs.

Administrative expenses

Administrative expenses for the Year have increased by 22.4% to approximately RMB484.8 million (2018: RMB396.1 million). It was mainly due to the Group's overall expansion in operation during the Year.

Research and development expenses

Research and development expenses for the Year amounted to approximately RMB633.0 million (2018: RMB480.3 million) which represented an increase of 31.8%. It was mainly attributable to more efforts in R&D activities and expansion of the R&D team.

Other expenses

Other expenses for the Year amounted to approximately RMB24.4 million (2018: RMB30.4 million).

Loss before tax

Loss before tax of the Group for the Year amounted to approximately RMB2,466.9 million (2018: RMB2,012.2 million of profit).

Income tax expense

Income tax expense of the Group for the Year decreased by 12.7% to approximately RMB290.4 million (2018: RMB332.8 million).

Loss for the year

Due to the aforesaid, loss for the Year amounted to approximately RMB2,757.3 million (2018: RMB1,679.4 million of profit).

Loss attributable to owners of the Company

Loss attributable to owners of the Company for the Year amounted to approximately RMB2,753.3 million (2018: RMB1,620.0 million of profit). It was mainly due to the recognition of impairment losses on long-term assets, including goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment and an increase in R&D activities of the Group for the Year. Adjusted profit attributable to owners of the Company after adding back those impairment losses decreased by 24.8% to approximately RMB1,218.2 million for the Year.

Loss attributable to non-controlling interests

Loss attributable to non-controlling interests for the Year amounted to approximately RMB4.0 million (2018: RMB59.4 million of profit).

Liquidity and financial resources

As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB5,117.1 million (31 December 2018: RMB3,314.8 million) and other financial assets which represent wealth management products amounted to approximately RMB148.3 million (31 December 2018: RMB1,303.3 million).

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus fund investment. According to the terms of the agreements signed, the total amount of investment conducted by the Group for the Year was approximately RMB147.9 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. As at 31 December 2019, the Group recognised total financial assets at fair value through profit or loss of approximately RMB148.3 million, comprising principal of investment of approximately RMB147.9 million and approximately RMB0.4 million of interest income, in the consolidated statement of financial position. As at the date of this announcement, total amount of sold/redeemed investment principal amounted to RMB108.4 million.

The Group maintained strong financial position. As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB5,117.1 million (31 December 2018: RMB3,314.8 million). As at the same date, borrowings from non-controlling shareholders of a subsidiary of the Group amounted to RMB9.0 million (31 December 2018: RMB95.0 million). The Group maintained net cash of over approximately RMB5,108.1 million (31 December 2018: RMB3,219.8 million).

The Group had sufficient cash as at 31 December 2019. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**5,117,143**	3,314,845

Trade and other receivables

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Others of the Group mainly consist of prepayments to suppliers and amounts due from related parties. As at 31 December 2019, the Group's trade and other receivables were approximately RMB630.1 million (31 December 2018: RMB857.2 million). The amount decreased by approximately RMB227.1 million and was mainly due to a decrease in notes receivable.

Inventories

As at 31 December 2019, inventories amounted to RMB409.6 million (31 December 2018: RMB301.1 million). The inventory turnover period for the Year was 216 days (31 December 2018: 177 days). The increase was attributable to more API kept as at the end of the Year. It was because API, directly purchased from suppliers when needed in last year, have been produced by the Group and kept for internal demand.

Property, plant and equipment

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 31 December 2019, net book value of the property, plant and equipment was approximately RMB2,731.0 million (31 December 2018: RMB2,775.4 million). Impairment losses of RMB276.5 million was recognised during the Year.

Goodwill

The Group performed impairment testing on goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the Year, it recorded an impairment provision of approximately RMB2,843.9 million against the value of goodwill which arose from acquisition of subsidiaries. Accordingly, as at 31 December 2019, the goodwill has been fully impaired (31 December 2018: RMB2,843.9 million).

Intangible assets

The Group's intangible assets mainly comprise customer relationship, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-developed R&D projects. As at 31 December 2019, net intangible assets amounted to approximately RMB480.0 million (31 December 2018: RMB1,252.3 million). The significant decrease was mainly due to the impairment losses recognised during the Year.

Trade and other payables

The Group's trade and other payables mainly consist of trade payables, deposit payables, accrued expenses and payables to employee remuneration. As at 31 December 2019, trade and other payables amounted to approximately RMB1,905.8 million (31 December 2018: RMB1,686.7 million). The increase of approximately RMB219.1 million was mainly attributable to accrued reimbursement to distributors as a result of implementation of the two-invoice system.

Contingent liabilities and guarantees

As at 31 December 2019, the Group had no material contingent liabilities or guarantees (31 December 2018: Nil).

Off-balance sheet commitments and arrangements

As at 31 December 2019, the Group has neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations with any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

Capital commitment

As at 31 December 2019, the Group's total capital commitment was RMB379.1 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, wealth management products and other receivables.

All the cash equivalents and bank deposits are placed in certain PRC reputable financial institutions and high-quality international financial institutions outside Mainland China. All those irrevocable bank bills, classified as notes receivable, are issued by banks in the PRC with high credit rating. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit periods granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of groups of trade receivables bearing similar credit risk based on historical data and cash collection history.

Wealth management products are the bank financial products issued by certain PRC reputable banking institutions. There was no recent history of default and the executive Directors are of the opinion that the credit risk related to the investments is low.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the recoverability of these other receivables and follow up the disputes or amounts overdue, if any. The executive Directors are of the opinion that the default by counterparties is low.

No other financial assets bear a significant exposure to credit risk.

Foreign exchange risk

The Group's functional currency is RMB. Financial instruments are denominated in RMB. The Group is subject to currency risk of United States Dollar ("**USD**"), Hong Kong Dollar ("**HKD**") or Euro ("**EUR**") against RMB as the Group's has some cash balances denominated in USD, HKD or EUR. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. As at 31 December 2019, the Group had no outstanding borrowings denominated in foreign currencies.

During the Year, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury policy

The Group finances its ordinary operations with internally generated resources.

The principle objective of the Group's capital management is to sustain its ability to continue as a going concern. The Group regularly reviews its capital structure to ensure that the Group has sufficient financial resources to support its business operations.

Capital expenditure

The Group's capital expenditure mainly includes purchase of property, plant and equipment, prepaid land lease payments and intangible assets. For the Year, the Group's capital expenditure amounted to approximately RMB645.5 million, of which expense on property, plant and equipment, prepaid land lease payments and purchase or in-house development of intangible assets amounted to approximately RMB500.8 million, RMB55.6 million and RMB89.1 million, respectively. For the Year, the Group's investment in capital expenditure for R&D amounted to approximately RMB136.4 million, of which approximately RMB88.1 million was spent on property, plant and equipment. The remaining approximately RMB48.3 million related to, the purchase of, and self-developed, intangible assets.

Material acquisition and disposal

There was no material acquisition and disposal during the Year.

Pledge of assets

As at 31 December 2019, none of the Group's assets was pledged.

Human Resources and Remuneration of Employees

Talents are an indispensable asset to the Group's success in a competitive environment. The Group is committed to providing competitive remuneration packages and regularly reviewing human resources policies, to encourage employees to work towards enhancing the value of the Company and promoting the sustainable growth of the Company.

As at 31 December 2019, the Group had 4,009 employees. For the Year, the Group's total salary and related costs was approximately RMB581.1 million (2018: RMB495.7 million).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders of the Company (the "**Shareholders**").

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this announcement as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, the Company repurchased 5,400,000 shares through the Stock Exchange at a total consideration, before expenses, of approximately HKD9.65 million. Such shares have been cancelled as at the date of this announcement. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of repurchase are as follows:

Date of repurchase	Number of ordinary shares repurchased	Highest HKD	Lowest HKD	Consideration paid HKD million	Equivalent to RMB million
3 June 2019	5,400,000	1.80	1.77	9.65	8.48

EVENTS AFTER THE REPORTING PERIOD

Since the beginning of 2020 until now, the global wide spread of COVID-19 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact under control. The Group will also continue to pay close attention to the development of COVID-19, and will further evaluate and actively respond to such impact on the financial position and financial performance of the Group.

Clinical research of favipiravir tablet, which was co-developed for treatment of COVID-19 by the Group and the Institute of Microbiology Epidemiology of the Academy of Military Medical Sciences of the People's Liberation Army of the PRC, has commenced and is currently underway. The research was officially initiated by the Ministry of Science and Technology in early February 2020.

Save as otherwise disclosed in this announcement, the Group has no other significant events after the reporting period up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has complied with all the applicable code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules during the reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") had reviewed the Group's financial reporting matters and the internal control system in relation to finance and accounting and submitted improvement proposals to the Board.

The annual results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Monday, 15 June 2020. The notice of the Annual General Meeting will be published on the website of the Company and the Stock Exchange and sent to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Wednesday, 10 June 2020 to Monday, 15 June 2020 (both dates inclusive). In order to determine the identity of the Shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 June 2020.

INFORMATION ON FINAL CASH DIVIDEND

The Board recommended the declaration and payment of a final cash dividend of RMB1.3 cents per share (equivalent to HK1.4 cents per share) for the year ended 31 December 2019 in return for Shareholders' support, subject to approval by the Shareholders at the forthcoming Annual General Meeting. Together with an interim cash dividend of RMB0.4 cents per share, the total cash dividend for the year ended 31 December 2019 will be RMB1.7 cents per share.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL CASH DIVIDEND

The register of members of the Company will be closed from Monday, 22 June 2020 to Wednesday, 24 June 2020 (both dates inclusive). In order to qualify for the final cash dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 19 June 2020. The final cash dividend subject to the approval of the Shareholders at the Annual General Meeting, will be payable on or around Friday, 3 July 2020 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 24 June 2020.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2019 will be dispatched to Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to express its sincere appreciation to our shareholders, customers and suppliers for their continued support of the Group. The Board also wishes to thank the Group's management and staff for achieving remarkable progress in the Group's business and their dedication and commitment for improving the Group's management.

By order of the Board
Sihuan Pharmaceutical Holdings Group Ltd.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 24 March 2020

As at the date of this announcement, the executive directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Dr. Zhang Jionglong, Mr. Choi Yiau Chong and Ms. Chen Yanling; the non-executive director of the Company is Mr. Kim Jin Ha; and the independent non-executive directors of the Company are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.