Luye Pharma 绿叶制药

LUYE PHARMA GROUP LTD.
绿 叶 制 药 集 团 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB1,184.2 million or 22.9% to RMB6,357.6 million, as compared to the year ended 31 December 2018.
- EBITDA increased by RMB527.0 million or 26.9% to RMB2,488.3 million, as compared to the year ended 31 December 2018. Normalised EBITDA* increased by RMB560.4 million or 28.1% to RMB2,553.0 million as compared to the year ended 31 December 2018.
- Gross profit increased by RMB829.5 million or 20.5% to RMB4,878.9 million, as compared to the year ended 31 December 2018, and gross profit margin reached 76.7%.
- Net profit increased by RMB185.8 million or 14.2% to RMB1,491.8 million, as compared to the year ended 31 December 2018. Normalised net profit** increased by RMB279.9 million or 20.9% to RMB1,617.2 million as compared to the year ended 31 December 2018.
- Profit attributable to shareholders increased by RMB165.2 million or 12.7% to RMB1,468.6 million, as compared to the year ended 31 December 2018. Normalised profit attributable to shareholders** increased by RMB258.3 million or 19.4% to RMB1,592.3 million, as compared to year ended 31 December 2018.
- Earnings per share was RMB45.84 cents compared to RMB40.62 cents for the year ended 31 December 2018.
- The board of directors proposed a final dividend of RMB0.054 (equivalent to HK$0.060) per share (equivalent to approximately RMB175,487,000) for the year ended 31 December 2019.

* Normalised EBITDA is defined as the EBITDA for the year excluding the equity-settled share award scheme expenses.

** Normalised net profit and profit attributable to shareholders is defined as the net profit and profit attributable to shareholders for the year excluding the equity-settled share award expenses and convertible bond interest expenses.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Luye Pharma Group Ltd. (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**6,357,596**	5,173,385
Cost of sales		**(1,478,684)**	(1,123,971)
Gross profit		**4,878,912**	4,049,414
Other income and gains	5	**315,667**	220,699
Selling and distribution expenses		**(2,034,824)**	(1,685,927)
Administrative expenses		**(525,921)**	(441,377)
Other expenses		**(588,788)**	(499,631)
Finance costs	7	**(274,605)**	(170,605)
Share of profit of an associate		**1,214**	897
PROFIT BEFORE TAX	6	**1,771,655**	1,473,470
Income tax expense	8	**(279,829)**	(167,475)
PROFIT FOR THE YEAR		**1,491,826**	1,305,995
Attributable to:			
Owners of the parent		**1,468,562**	1,303,373
Non-controlling interests		**23,264**	2,622
		1,491,826	1,305,995
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic (RMB)			
— For profit for the year		**45.84 cents**	40.62 cents
Diluted (RMB)			
— For profit for the year		**45.50 cents**	40.45 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**1,491,826**	1,305,995
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	**—**	13,518
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**—**	(13,334)
	—	184
Exchange differences on translation of foreign operations	**(11,754)**	12,922
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(11,754)**	13,106
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(13,287)**	4,764
Remeasurement on defined benefit plan	**(2,399)**	1,570
Income tax effect	**285**	(301)
	(2,114)	1,269
Net other comprehensive income that will not to be reclassified to profit or loss in subsequent periods, net of tax	**(15,401)**	6,033
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(27,155)**	19,139
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,464,671**	1,325,134
Attributable to:		
Owners of the parent	**1,441,407**	1,322,512
Non-controlling interests	**23,264**	2,622
	1,464,671	1,325,134

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,162,137**	2,837,140
Advance payments for property, plant and equipment and other intangible assets		**795,091**	141,451
Right-of-use assets		**256,208**	—
Prepaid land lease payments		**—**	217,048
Goodwill		**1,038,068**	1,040,879
Other intangible assets		**4,486,866**	4,445,063
Investment in an associate		**6,346**	5,935
Equity investments designated at fair value through other comprehensive income		**64,257**	76,368
Financial assets at fair value through profit or loss	*12*	**1,263**	1,263
Pledged time deposits		**50,000**	—
Deferred tax assets		**93,859**	98,355
Total non-current assets		**9,954,095**	8,863,502
CURRENT ASSETS			
Inventories		**614,622**	585,609
Trade and notes receivables	*11*	**1,697,931**	1,531,282
Prepayments, other receivables and other assets		**254,102**	254,902
Due from related parties	*16*	**3,451**	2,816
Financial assets at fair value through profit or loss	*12*	**1,861,639**	1,882,839
Restricted cash		**36,643**	28,345
Pledged time deposits		**1,565,009**	1,409,782
Time deposits with original maturity of over three months		**1,001,000**	1,306,868
Cash and cash equivalents		**2,325,446**	1,672,865
Total current assets		**9,359,843**	8,675,308

	Notes	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES			
Trade and notes payables	*13*	**298,477**	279,750
Other payables and accruals		**1,078,153**	2,461,783
Interest-bearing loans and borrowings	*14*	**3,943,565**	5,290,547
Dividend payable		**5,000**	—
Government grants		**17,493**	42,090
Tax payable		**203,799**	128,760
Total current liabilities		**5,546,487**	8,202,930
NET CURRENT ASSETS		**3,813,356**	472,378
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,767,451**	9,335,880
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*14*	**2,289,120**	847,596
Convertible bonds	*15*	**1,833,173**	—
Retirement benefit obligations		**7,880**	4,568
Long-term payables		**55,810**	311,068
Government grants		**131,854**	108,714
Deferred revenue		**—**	40,907
Deferred tax liabilities		**77,772**	88,998
Total non-current liabilities		**4,395,609**	1,401,851
Net assets		**9,371,842**	7,934,029
EQUITY			
Equity attributable to owners of the parent			
Share capital		**420,565**	421,337
Treasury shares		**(279,558)**	(305,626)
Equity component of convertible bonds		**292,398**	—
Share premium		**2,734,985**	2,764,669
Reserves		**6,055,770**	4,928,033
		9,224,160	7,808,413
Non-controlling interests		**147,682**	125,616
Total equity		**9,371,842**	7,934,029

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the "SGX") on 5 May 2004, and has been delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the development, production, marketing and sale of pharmaceutical products.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss and notes receivable, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 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 IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19, IAS 28, 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.

The Group has adopted IFRS 16 using the modified retrospective method 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 recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued 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, motor 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).

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.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	250,645
Decrease in prepaid land lease payments	(217,048)
Decrease in prepayments, other receivables and other assets	(6,374)
Increase in total assets	27,223
Liabilities	
Increase in interest-bearing loans and borrowings	27,223
Increase in total liabilities	27,223

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

	RMB'000
Operating lease commitments as at 31 December 2018	30,412
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(511)
	29,901
Weighted average incremental borrowing rate as at 1 January 2019	4.76%
Discounted operating lease commitments as at 1 January 2019	26,985
Add: Finance lease liabilities recognised as at 31 December 2018	238
Lease liabilities as at 1 January 2019	27,223

(b) 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.

3.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB1,038,068,000 (2018: RMB1,040,879,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses ("ECLs") on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised tax losses and deductible temporary differences as at 31 December 2019 were nil (2018: RMB3,998,000) and RMB93,859,000 (2018: RMB94,357,000), respectively.

Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete or non-strategic assets that have been abandoned.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was RMB394,818,000 (2018: RMB166,794,000).

4. OPERATING SEGMENT INFORMATION

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment result is evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

For the year ended 31 December 2019

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue						
Sales to external customers	**2,811,518**	**1,043,225**	**1,004,585**	**1,339,125**	**159,143**	**6,357,596**
Total revenue	**2,811,518**	**1,043,225**	**1,004,585**	**1,339,125**	**159,143**	**6,357,596**
Segment results	**1,555,140**	**322,294**	**417,774**	**476,756**	**72,124**	**2,844,088**
Other income and gains						**315,667**
Administrative expenses						**(525,921)**
Other expenses						**(588,788)**
Finance costs						**(274,605)**
Share of profit of an associate						**1,214**
Profit before tax						**1,771,655**

For the year ended 31 December 2018

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue						
Sales to external customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Segment results	1,179,679	348,887	446,491	330,340	58,090	2,363,487
Other income and gains						220,699
Administrative expenses						(441,377)
Other expenses						(499,631)
Finance costs						(170,605)
Share of profit of an associate						897
Profit before tax						1,473,470

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Revenue from contracts with customers		
Sale of products	**6,357,596**	5,173,385

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

For the year ended 31 December 2019

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Type of goods or services						
Sale of products	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Geographical markets						
Mainland China	2,811,518	1,033,513	998,156	336,913	140,569	5,320,669
Asia (other than Mainland China)	—	9,712	6,429	379,566	978	396,685
European Union	—	—	—	276,636	—	276,636
Other countries	—	—	—	346,010	17,596	363,606
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Timing of revenue recognition						
Goods transferred at a point in time	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596

For the year ended 31 December 2018

	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Central nervous system drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Type of goods or services						
Sale of products	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Geographical markets						
Mainland China	2,391,326	773,473	924,376	163,465	126,029	4,378,669
Asian (other than Mainland China)	—	13,601	6,115	83,242	1,042	104,000
European Union	—	—	—	419,058	15,536	434,594
Other countries	—	—	—	256,122	—	256,122
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Timing of revenue recognition						
Goods transferred at a point in time	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 ***RMB'000***	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**47,783**	42,399

(ii) ***Performance obligations***

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

Sale of products

The performance obligation is satisfied upon acceptance of the products and payment is generally due within one month to three months, extending up to six months for major customers.

	2019	2018
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**95,941**	49,353
Government grants	**121,041**	85,862
Investment income from entrusted loans	**—**	1,092
Investment income from financial assets at fair value through profit or loss	**46,044**	39,154
Changes in fair value of financial assets at fair value through profit or loss	**9,402**	22,712
Other interest income from debt investments at fair value through other comprehensive income	**—**	13,334
Gain on disposal of items of property, plant and equipment	**9,777**	—
Foreign exchange gain, net	**21,095**	—
Others	**12,367**	9,192
	315,667	220,699

6. PROFIT BEFORE TAX

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

	2019 *RMB'000*	2018 *RMB'000*
Depreciation of items of property, plant and equipment	**213,283**	166,289
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payment)	**23,397**	6,282
Amortisation of other intangible assets*	**205,351**	144,614
Write-down of inventories to net realisable value**	**3,929**	3,104
Impairment of trade receivables, net	**589**	3,546
Operating lease expenses	**—**	24,926
Lease payments not included in the measurement of lease liabilities	**12,896**	—
Auditor's remuneration	**8,738**	8,058
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Wages and salaries	**586,493**	515,864
Pension scheme contributions	**109,435**	87,970
Pension plan costs (defined benefit plan)	**1,972**	1,665
Central Provident Fund in Singapore	**2,007**	1,183
Staff welfare expenses	**77,923**	38,885
Equity-settled share award expense	**64,677**	31,339
	842,507	676,906
Other expenses:		
Research and development costs	**579,455**	491,160
Foreign exchange loss, net	**—**	998
Donation	**8,876**	4,433
Loss on disposal of items of property, plant and equipment	**—**	1,657
Others	**457**	1,383
	588,788	499,631

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**1,478,684**	1,123,971
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:		
Depreciation of items of property, plant and equipment	**175,514**	124,681
Amortisation of other intangible assets*	**201,124**	140,902
Depreciation of right-of-use assets	**6,133**	—
Staff costs	**267,461**	252,864

* The amortisation of trademarks, distribution right, patents and technology know-how is included in "Cost of sales" in the consolidated statement of profit or loss.

The amortisation of software is included in "Administrative expenses" in the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value of RMB3,929,000 for the year ended 31 December 2019 (2018: RMB3,104,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

7. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other loans (including convertible bonds)	**241,793**	149,948
Interest on lease liabilities	**1,813**	—
Interest on discounted notes receivable	**10,218**	10,072
Finance charges payable under a hire purchase contract	**—**	32
Amortised interest on discounted long-term payables	**20,781**	10,553
	274,605	170,605

8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, 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.

Pursuant to the rules and regulations of Singapore, Malaysia, Switzerland and Germany, the Group is subject to 17%, 25%, 10.5% and 29.125% of taxable income in Singapore, Malaysia, Switzerland and Germany, respectively.

Pursuant to the rules and regulations of the USA, no provision for income tax has been made as the Group did not generate any taxable income in the USA during the year (2018: Nil).

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye, WPU and Sichuan Luye are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% during the year.

Nanjing AIGE is exempted from income tax as it is involved in the production and trading of agricultural products.

	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**287,821**	182,914
Overprovision in prior years	**(1,548)**	(4,997)
Deferred tax	**(6,444)**	(10,442)
Total tax charge for the year	**279,829**	167,475

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**1,771,655**	1,473,470
At the PRC's statutory income tax rate of 25%	**442,914**	368,368
Effect of tax rate differences in other jurisdictions	**44,220**	21,851
Preferential income tax rates applicable to subsidiaries	**(185,574)**	(137,005)
Additional deductible allowance for research and development expenses	**(63,310)**	(49,909)
Effect of tax levied on a deemed income basis	**163**	35
Adjustments in respect of current tax of previous years	**(1,548)**	(4,997)
Effect of non-deductible expenses	**36,237**	9,364
Income not subject to tax	**(6,061)**	(50,238)
Tax losses utilised from previous years	**(3,684)**	(8,156)
Tax losses not recognised	**16,076**	17,972
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**396**	190
Tax charge at the Group's effective rate	**279,829**	167,475

The effective tax rate of the Group for the year ended 31 December 2019 was 15.8% (2018: 11.4%).

9. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Interim — RMB0.059 (2018: RMB0.043) per ordinary share	**191,654**	140,720
Proposed final — RMB0.054 (2018: RMB0.057) per ordinary share	**175,487**	185,124
	367,141	325,844

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,203,472,322 (2018: 3,208,346,677) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,468,562**	1,303,373
Interest on convertible bonds	**60,674**	—
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**1,529,236**	1,303,373

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year	**3,203,472,322**	3,208,346,677
Effect of dilution — weighted average number of ordinary shares:		
Share award scheme	**17,984,051**	13,516,328
Convertible bonds	**139,871,185**	—
	3,361,327,558	3,221,863,005

11. TRADE AND NOTES RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**1,215,596**	1,143,778
Notes receivable	**487,053**	391,999
	1,702,649	1,535,777
Less: Impairment of trade receivables	**(4,718)**	(4,495)
	1,697,931	1,531,282

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 31 December 2019, notes receivable of RMB487,053,000 (2018: RMB391,999,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2019.

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

	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**1,141,426**	824,520
Between 3 and 6 months	**61,836**	277,068
Between 6 and 12 months	**8,213**	32,564
Between 1 and 2 years	**3,136**	8,077
Over 2 years	**985**	1,549
	1,215,596	1,143,778

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	*RMB'000*
Current		
Listed equity investments, at fair value	**75,542**	40,493
Other unlisted investments, at fair value	**1,786,097**	1,842,346
	1,861,639	1,882,839
Non-current		
Unlisted equity investment, at fair value	**1,263**	1,263

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above other unlisted investments were wealth management products issued by licensed financial institutions in Mainland China with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest. 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.

The fair value of the listed equity investment is derived from quoted price in an active market.

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

As at 31 December 2019, other unlisted investments of RMB1,221,580,000 (2018: RMB1,335,000,000) were pledged to secure intra-group notes payable.

As at 31 December 2019, other unlisted investments of RMB88,320,000 (2018: RMB25,000,000) were pledged to secure notes payable.

13. TRADE AND NOTES PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**196,590**	201,151
Notes payable	**101,887**	78,599
	298,477	279,750

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

	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**282,413**	263,980
Between 3 and 6 months	**9,470**	10,786
Between 6 and 12 months	**3,510**	2,779
Between 1 and 2 years	**1,512**	1,156
Over 2 years	**1,572**	1,049
	298,477	279,750

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

As at 31 December 2019, the Group's notes payable were secured by the Group's notes receivable with a carrying amount of RMB13,567,000 (2018: RMB45,341,000) and other unlisted investments with a carrying amount of RMB88,320,000 (2018: RMB25,000,000). The maturity of the notes payable is within six months.

14. INTEREST-BEARING LOANS AND BORROWINGS

31 December 2019

	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Bank loans — secured			
RMB30,000,000 bank loan	LPR+0.04	4 March 2020	30,000
RMB20,000,000 bank loan	LPR+0.04	4 March 2020	20,000
RMB70,000,000 bank loan	LPR–0.235	27 November 2020	70,000
RMB200,000,000 bank loan	LPR+0.04	24 April 2020	200,000
RMB150,000,000 bank loan	LPR+0.04	17 April 2020	150,000
RMB76,150,000 bank loan	4.00	23 March 2020	76,150
RMB50,000,000 bank loan	4.30	18 February 2020	50,000
RMB80,000,000 bank loan	4.30	20 February 2020	80,000
RMB80,000,000 bank loan	4.35	14 January 2020	80,000
RMB70,000,000 bank loan	4.35	17 January 2020	70,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
RMB65,000,000 bank loan	4.25	14 April 2020	65,000
RMB94,000,000 bank loan	4.35	25 April 2020	94,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
HK$117,800,000 bank loan	1-Month HIBOR+1.50	17 January 2020	105,523
HK$175,000,000 bank loan	1-Month HIBOR+1.10	8 May 2020	156,309
US$15,000,000 bank loan	3-Month LIBOR+0.80	24 April 2020	104,643
US$39,793,989 bank loan	3-Month LIBOR+0.85	24 June 2020	279,048
EUR21,000,000 bank loan	3-Month EURIBOR+0.70	6 March 2020	164,126
EUR21,000,000 bank loan	3-Month EURIBOR+0.70	24 April 2020	164,126
EUR12,000,000 bank loan	EURIBOR+1.40	12 April 2020	93,786
EUR9,500,000 bank loan	EURIBOR+1.40	15 April 2020	74,247
EUR22,000,000 bank loan	0.80	27 March 2020	171,941
EUR107,131,215 bank loan	3-Month EURIBOR+1.70	On demand	837,284
Discounted notes receivable	3.65	16 January 2020	100,000
	3.30	14 January 2020	50,000
	3.45	27 February 2020	60,000
	3.32	20 March 2020	100,000
	3.40	3 April 2020	70,000
Current portion of long term bank loans — secured			
RMB2,000,000 bank loan	4.90	21 December 2020	2,000
US$1,750,200 bank loan	3-Month LIBOR+2.85	30 June 2020	12,210
US$13,800,000 bank loan	3-Month LIBOR+2.85	30 June 2020	96,272
US$14,373,600 bank loan	3-Month LIBOR+2.85	30 June 2020	100,273
Lease liabilities	4.45	31 December 2020	16,627
			3,943,565

	Effective interest rate (%)	Maturity	*RMB'000*
Non-current			
Bank loans — secured			
RMB148,000,000 bank loan	4.90	21 June 2021– 6 June 2025	148,000
RMB250,000,000 bank loan	4.90	15 April 2022– 30 September 2026	250,000
US$15,751,800 bank loan	3-Month LIBOR+2.85	30 June 2021– 30 June 2025	109,888
US$124,200,000 bank loan	3-Month LIBOR+2.85	30 June 2021– 30 June 2025	866,444
US$129,362,400 bank loan	3-Month LIBOR+2.85	30 June 2021– 30 June 2025	902,458
Lease liabilities	4.75	1 January 2020– 30 August 2023	12,330
			2,289,120
Convertible bonds	7.29	2019–2024	1,833,173
			4,122,293
			8,065,858

Some of the Group's loan agreements are subject to covenants. As at 31 December 2019, one of the Group's loans did not meet certain covenant, and the bank was contractually entitled to request for immediate repayment of all or part of the outstanding loan amount of EUR107,131,215. Subsequently, the bank and the Group have reached an agreement. As of the date these financial statements were approved by the Board of Directors, the Group had obtained a waiver from the bank confirming no early repayment of the loan at this stage.

31 December 2018

	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB100,000,000 bank loan	4.35	5 February 2019	100,000
RMB50,000,000 bank loan	5.00	15 February 2019	50,000
RMB80,000,000 bank loan	5.00	22 February 2019	80,000
RMB69,000,000 bank loan	5.00	18 January 2019	69,000
RMB81,000,000 bank loan	5.00	16 January 2019	81,000
RMB100,000,000 bank loan	5.09	25 September 2019	100,000
RMB60,000,000 bank loan	4.40	22 February 2019	60,000
RMB5,000,000 bank loan	5.01	12 June 2019	5,000
RMB70,000,000 bank loan	5.00	12 February 2019	70,000
HK$117,800,000 bank loan	1-Month HIBOR+1.50	11 March 2019	103,216
US$299,003,804 bank loan	1-Month LIBOR+1.40	26 June 2019	2,052,111
US$30,000,000 bank loan	6-Month LIBOR+1.10	5 December 2019	205,895
US$25,000,000 bank loan	1-Year LIBOR+1.35	9 July 2019	171,580
EUR21,000,000 bank loan	1-Year EURIBOR+1.35	1 August 2019	164,792
EUR30,000,000 bank loan	3-Month EURIBOR+0.70	30 October 2019	235,419
EUR26,000,000 bank loan	3-Month EURIBOR+0.70	15 May 2019	204,030
EUR23,200,000 bank loan	1-Year EURIBOR+1.50	23 April 2019	182,057
EUR22,000,000 bank loan	3-Month EURIBOR+0.70	5 March 2019	172,641
EUR15,000,000 bank loan	6-Month EURIBOR+1.45	14 May 2019	117,710
EUR8,800,000 bank loan	1-Year EURIBOR+1.50	18 April 2019	69,056
Discounted notes receivable	3.90	27 January 2019	7,722
	3.75	26 January 2019	15,000
	4.35	28 June 2019	10,000
	3.85	18 October 2019	100,000
	3.65	18 October 2019	100,000
	3.20	18 October 2019	110,000
	3.30	18 October 2019	30,000
	3.35	18 October 2019	30,000
	3.45	18 October 2019	100,000
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 February 2019	47,084
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 August 2019	47,084
Current portion of long term finance lease payables	2.20	31 December 2019	150
			5,290,547
Non-current			
Bank loans — secured			
EUR108,000,000 bank loan	3-Month EURIBOR+1.70	14 February 2020–14 August 2023	847,508
Finance lease payables	2.20	1 January 2020–30 August 2020	88
			847,596
			6,138,143

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits of RMB941,170,000 (2018: RMB841,073,000);

(ii) the pledge of certain of the Group's notes receivable of nil (2018: RMB2,126,000);

(iii) the pledge of certain of the Group's intra-group notes receivable of RMB170,000,000 (2018: RMB275,000,000);

(iv) the pledge of certain of the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB582,211,000 (2018: Nil); and

(v) the pledge of certain of the Group's subsidiaries' shares.

15. CONVERTIBLE BONDS

On 9 July 2019, the Company issued 1.50 per cent. convertible bonds with an aggregate principal amount of US$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent. gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent. of its principal amount together with accrued but unpaid interest thereon on. The bonds carry interest at a rate of 1.50 per cent. per annum, which is payable semi-annually in arrears on 9 January and 9 July.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	2019 ***RMB'000***
Nominal value of convertible bonds issued during the year:	2,065,590
Equity component	(292,398)
Direct transaction costs attributable to the equity component	(3,504)
Direct transaction costs attributable to the liability component	(20,959)
Liability component at the issuance date	1,748,729
Interest expense	60,674
Interest paid	—
Exchange realignment	23,770
Liability component at 31 December	1,833,173

16. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Company	Relationship
Steward Cross Pte. Ltd. ("Steward Cross")	Associate
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	An entity controlled by certain directors of the Company
Yantai Lujian Real Estate Co., Ltd ("Lujian Real Estate")	An entity controlled by a director of the Company

(a) The Group had the following transactions with related parties during the year:

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Sales of products to Steward Cross	*(i)*	**7,398**	6,839
Sales of inventories to Shandong Boan	*(ii)*	**146**	846
Milestone payment for the acquisition of biological antibody drugs under research and development from Shandong Boan	*(iii)*	**300,000**	—

Notes:

(i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transactions. Further to completion of the Group's acquisition of Shandong Boan in February 2020, Shandong Boan has become a subsidiary of the Company.

(iii) The consideration was determined at the price mutually agreed between the parties.

(b) Outstanding balances with related parties:

Due from related parties

	2019 **RMB'000**	2018 *RMB'000*
Steward Cross	**926**	2,135
Shandong Boan	**2,525**	681
	3,451	2,816

The balances are unsecured, interest-free and have no fixed terms of repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. In 2019, the Group's sales of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 22.9% in 2019 as compared to 2018. The Group continually invests in research and development ("R&D") to maintain its competitiveness, and has a robust product pipeline including 42 China product candidates and 15 U.S., Europe and Japan product candidates. The R&D cost in 2019 increased by 18.0% in the reporting period when compared with that of year 2018.

Market Positioning

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the second largest market in China for pharmaceutical products in 2019. The Group's portfolio of oncology products includes Lipusu, the best-selling domestic pharmaceutical product for cancer treatment in China in 2019 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China National Medical Products Administration (the "NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2019. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Natural medicine for the treatment of hypercholesterolaemia and the best-selling vasoprotective pharmaceutical product in China in 2019, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2019. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2019 by revenue. IQVIA data showed that central nervous system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2019. The Group's key product Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in 2019.

For international markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine patches, Fentanyl patches and Buprenorphine patches.

For the year ended 31 December 2019, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and CNS products increased to RMB2,811.5 million, RMB1,004.6 million, RMB1,043.2 million and RMB1,339.1 million respectively, representing a growth rate of 17.6%, 8.0%, 32.5% and 45.3% respectively as compared to the year ended 31 December 2018 for the respective therapeutic areas, while other products increased by 11.6% to RMB159.1 million.

Key Products

The Company believes that the Group's seven key products are competitively positioned for high prevalence medical conditions that are expected to grow stably globally.

Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was RMB102.4 billion in 2019 and by revenue, Lipusu was the most popular domestic pharmaceutical product for cancer treatment in China in 2019, as well as the most popular paclitaxel product in China in 2019. As of 31 December 2019, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to the National Medical Products Administration ("NMPA"), CMNa was the only radio sensitiser drug available for sale in 2019. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the NMPA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2019. According to IQVIA, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB16.1 billion in 2019. According to IQVIA, Xuezhikang ranked as the most popular natural medicine for the treatment of hypercholesterolaemia in China in 2019.

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB3.4 billion in 2019. Maitongna was the best-selling sodium aescinate product in China in 2019 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2019.

Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in 2019. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB4.9 billion in 2019 and Bei Xi ranked as the third most popular acarbose product in China in 2019. In June 2019, the Acarbose Capsules (brand name "Bei Xi" (貝希)) has been granted approval by the NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs.

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the Food and Drug Administration of the United States ("U.S. FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease.

Seroquel® (思瑞康®) and Seroquel XR® (思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical anti-psychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in the PRC in 2019.

Research and Development

The Group's R&D activities are organised around four platforms in chemical drug sector — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. After completion of the acquisition of Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan") in February 2020, the Group has expanded its R&D capability to biological sector supported by Shandong Boan's three cutting-edge platforms, namely Human Antibody Transgenic Mouse Technology, Highly Effective Phage Display Technology and Nanobody Platform. Besides, the Group has built wide collaboration with China and multinational companies in the development of some new antibodies and cell therapies areas. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 31 December 2019, the Group's R&D team consisted of 748 employees, including 80 Ph.D. degree holders and 338 Master's degree holders in medical, pharmaceutical and other related areas. After the completion of acquisition of Shandong Boan in February 2020, there were additional 135 R&D professionals. As at 31 December 2019, the Group had been granted over 220 patents and had over 79 pending patent applications in the PRC, as well as over 665 patents and over 118 pending patent applications overseas.

Through the Group's seven platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology, cardiovascular and alimentary tract and metabolism, but also expands into the CNS therapeutic area. As at 31 December 2019, the Group had a pipeline of 42 PRC product candidates in various stages of development. These candidates included 16 oncology products, 8 cardiovascular and metabolism products, as well as 16 CNS products.

Also, the Group has a pipeline of 15 candidate products in the U.S., Europe and Japan in various stages of development. In the U.S., one product candidate (LY03004) has filed New Drug Application ("NDA") and passed a Pre-Approval Inspection ("PAI") with no FDA-483, Inspection Observation; five candidates (LY03003, LY03005, LY01005, LY03010, LY02404) are in different clinical stages. In Europe, one product candidate (LY30410) has completed pivotal study in Germany. In Japan, two products (LY03003 and LY03005) have commenced clinical trials and several products are targeting to commence application.

In March 2019, the Group successfully submitted a NDA to the U.S. FDA for LY03004, the Risperidone Extended-Release Microspheres for Injection in the U.S. To the Group's knowledge, this is the first NDA submission of a new formulation drug to the U.S. FDA by a Chinese pharmaceutical company.

In November 2019, the manufacturing facility of the Group located in Yantai, China (for the manufacturing of LY03004) successfully passed a PAI with no FDA-483, Inspection Observation. In January 2020, the Group received a complete response letter (CRL) from U.S. FDA regarding the NDA for LY03004, requesting additional information and the satisfactory resolution of inspection issues of the active pharmaceutical ingredient ("API") manufacturing facility before this application may be approved. With regard to the progress of LY03004 in China, in November 2019, the NDA for Risperidone Extended-release Microspheres for Injection (LY03004) was accepted by China Center for Drug Evaluation of National Medical Products Administration ("CDE, NMPA"). The NDA has been granted priority review status by CDE, NMPA in December 2019.

For overseas R&D progress:

In March 2019, the Rotigotine Extended Release Microspheres for Injection (LY03003) began phase I clinical trial in Japan.

In May 2019, the pivotal study of Rivastigmine Multi-day Transdermal Patch (LY30410), an innovative delivery system drug for the treatment of Alzheimer's disease, was completed in Germany.

In July 2019, the Rivastigmine once a day Transdermal Patch in dosage strength 13.3mg/24h, which was submitted as a line extension to the existing Marketing Authorisations for its lower dosage strengths (4.6 and 9.5mg/24h), was approved under the Decentralised Procedures (DCP) by the German Federal Institute for Drugs and Medical Devices ("BfArM").

In August 2019, the Group submitted the clinical trial application for Ansofaxine Hydrochloride Extended Release Tablets (LY03005), a New Chemical Drug for the treatment of major depressive disorder in Japan. The Phase I clinical trials commenced in December 2019.

In September 2019, the Goserelin Acetate Extended-release Microspheres for Injection (LY01005) completed human pharmacokinetic study in the U.S..

In December 2019, the Group successfully submitted the NDA to the U.S. FDA for LY03005, a new chemical drug for the treatment of major depressive disorder. The NDA was formally accepted by the U.S. FDA in March 2020.

For China R&D progress:

In March 2019, Recombinant Human Vascular Endothelial Growth Factor Receptor-antibody Fusion Protein Ophthalmic Injection (LY09004) was approved by the NMPA to initiate clinical trials in China.

In April 2019, Recombinant Anti-RANKL Human Monoclonal Antibody Injection (LY06006) commenced Phase III clinical trial in China.

In April 2019, the registration application of Pramipexole Dihydrochloride Extended Release Tablets was accepted by NMPA in China.

In September 2019, Xuezhikang Tablets (LY02404), a new dosage form with higher active pharmaceutical ingredients, was approved by the NMPA to initiate clinical trials in China.

In November 2019, recombinant anti-VEGF humanized monoclonal antibody injection, biosimilar to Avastin (LY01008) completed its primary endpoint observation for Phase III clinical trial in China.

In December 2019, Triptorelin Acetate Extended-release Microspheres for Injection (LY01007) completed Phase I clinical trial in China.

In March 2020, the clinical trial application of the Group's Class 1 new drug LPM3480392 injection product (LY03014) received formal acceptance from CDE, NMPA.

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2019. The Group's sales, marketing and distribution functions are conducted around 1,000 sales and marketing personnel, a network of approximately 1,650 distributors that collectively enabled the Group to sell its products to over 14,000 hospitals, which comprised approximately 1,500 or approximately 78.0% of all Class III hospitals, approximately 4,100 or approximately 58.0% of all Class II hospitals and approximately 8,500 or approximately 48.0% of all Class I and other hospitals and medical institutions, in the PRC in the year of 2019. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

In June 2019, Bei Xi was granted approval by the NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs. Bei Xi was one of the two successful tenders during the 2020 national volume-based procurement. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019 the Directors expect that the successful tender will significantly increase its market share and facilitate the product's entry into new provincial markets.

For international markets, the business of the Group covers 80 countries including the U.S., and certain countries in Europe. The Group has commercial offices in the U.S., the United Kingdom, Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group also has strong sales partnerships with more than 50 partners throughout the world.

In March 2019, the Group and AstraZeneca signed a Memorandum of Understanding (MOU) for intent to form a new strategic partnership jointly exploring opportunities for Xuezhikang Capsules in the global markets other than China, further boosting the internationalisation of Xuezhikang Capsules. In August 2019, the Group entered into an agreement with AstraZeneca to grant it the exclusive promotion rights of Lipascor® Capsules, the registered brand name of Xuezhikang Capsules in Singapore.

In February 2020, the Group granted Cipla Medpro South Africa (Pty) Limited the exclusive distribution and marketing rights for Seroquel® and Seroquel XR® in South Africa, Namibia and Botswana.

Merger & Acquisition ("M&A") and Collaborations

In January 2019, the Group entered into an agreement with AstraZeneca, pursuant to which, AstraZeneca is granted the right to promote the Group's Xuezhikang Capsules in China. Under the agreement, AstraZeneca is responsible for the promotion of Xuezhikang capsules in the Mainland China on an exclusive basis, while the Group continues to hold rights, such as asset rights, the right to sell, registration permit, all intellectual property rights and rights other than the promotion, of the product. Under the agreement, both parties agreed that the sales of Xuezhikang Capsule in China shall be maintained at a double digits Compound Annual Growth Rate ("CAGR") in the next ten years, significantly higher than the average growth rate of the market for the treatment of hypercholesterolaemia in China. Besides, both parties agreed to discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world (including but not limited to the U.S., Europe and other emerging markets) and to explore opportunities for closer ties of cooperation to enhance each other's future business development. In August 2019, Luye Pharma (Singapore) Pte Ltd entered into an agreement with AstraZeneca Singapore Pte Ltd, pursuant to which, AstraZeneca is granted the right to promote the Group's Lipascor® Capsules in Singapore. Lipascor® is the registered brand name of Xuezhikang Capsules in Singapore.

In April 2019, the Group and Pharma Mar S.A. ("PharmaMar") entered into a license development and commercialisation agreement with respect to a Phase III new innovative anticancer drug Lurbinectedin (Lurbinectedin) (the "Agreement"). Pursuant to the terms of the Agreement, the Company will have the exclusive rights to develop and commercialise Lurbinectedin for Small Cell Lung Cancer and all other indications in China. In addition, the Company will also have the right to request the transfer of the technology with respect the manufacturing of Lurbinectedin to the Company in China during the term of the Agreement.

Lurbinectedin (PM1183) is a compound under clinical investigation. It is an inhibitor of RNA polymerase II. This enzyme is essential for the transcription process that is over-activated in tumors with transcription addiction. Lurbinectedin has been granted Orphan Drug Designation from the FDA for the treatment of patients with Small Cell Lung Cancer. In May 2019, the abstract titled "Efficacy and safety profile of Lurbinectedin in second-line SCLC patients: results from a Phase II single-agent trial" was elected for that year's "Best of ASCO" (American Society of Clinical Oncology) meeting. In December 2019, PharmaMar filed the NDA for lurbinectedin, in monotherapy in the U.S., for the treatment of relapsed Small Cell Lung Cancer (SCLC), under the "accelerated approval" regulations. The drug was also granted Orphan Drug Designation in European Union and Switzerland for the treatment of patients with Small Cell Lung Cancer.

In February 2020, the Group completed the acquisition of 98.0% equity interest in Shandong Boan. Shandong Boan is a biotechnology company that develops biopharmaceutical products (including biosimilar and innovative drugs) with a focus on oncology, CNS, diabetes and immune diseases. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

The Board believes that Shandong Boan's portfolio of biosimilar and innovative products is highly complementary to the Group's existing core strengths and this acquisition will assist the Group in maintaining its position as a leading pharmaceutical player in China. In addition, Shandong Boan's novel antibody products have the potential to provide the Group with numerous excellent growth opportunities in the longer term.

In February 2020, Luye Hong Kong Limited ("Luye Hong Kong"), a wholly-owned subsidiary of the Group, signed an exclusive distribution and marketing service agreement with Cipla Medpro South Africa (Pty) Limited ("Cipla Medpro"), a wholly-owned subsidiary of Cipla Limited, India ("Cipla") for Seroquel® and Seroquel XR® in South Africa, Namibia and Botswana.

Industry Risk

In the past two years, the National Healthcare Security Administration (NHSA) has organised three rounds of volume-based procurement. In the first round of "4+7" volume-based procurement, 25 drugs won the bid with an average price cut of 51%. In the second round of volume-based procurement in the "Alliance area", the 25 products cut price 24% on average compared with "4+7" round. While in the third round of 2020 national volume-based procurement in 31 provinces and cities, another 32 drugs won the bid with an average price cut of 55%.

With the further advancement of medical reform, volume-based procurement will become the core task of NHSA. It is generally believed that the drug volume-based procurement is expected to be fully implemented and become the standard practice in China.

For the National Drug Reimbursement List (NDRL), a yearly dynamic management has becoming the new normal. On 20 August 2019, NHSA announced the regular 2019 New Drug Reimbursement List, which clarifies that no province could add any drugs to the list or adjust reimbursement standards. Particularly, class B drugs that were previously added to the provincial drug reimbursement list (PDRL) should be removed in three years; and those in "Drug list under National Key Monitoring for Rational Use", also known as "adjuvant drug list", should be removed on priority.

Furthermore, the short-term volatility effects on the industry caused by the pandemic of COVID-19 is inevitable.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry remains at low growth rate in 2019. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 9.4% in 2019, compared to 3.4% in 2018. The Group outperformed the market in both of these two years with growth rate of 21.5% and 30.2%, respectively.

However, since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by government policies, which may cause a significant degree of uncertainty during the pharmaceutical companies' development. In recent years, policies such as volume-based procurement and reimbursement have been creating significant impacts to the industry.

During the 2020 national volume-based procurement, the Group's major product Bei Xi was one of the two successful tenders. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019, the successful tender is expected to significantly increase its market share and facilitate the product's entry into more new provincial markets.

The Group also put a lot of effort on the academic studies of the marketed products. The Group's major product Lipusu has been included as a first-line drug in 2019 Chinese Society of Clinical Oncology Guidelines on Diagnosis and Treatment of Primary Lung Cancer since April 2019. In addition, Lipusu and CMNa have also been recommended by 2019 Guidelines on Radiotherapy of Esophageal Cancer in August 2019. The Group believes that the inclusion of Lipusu and CMNa in the Guidelines represents a high recognition of their clinical value, which will significantly increase their penetration into the relevant indications, and will inject momentum into their long-term growth.

For the year 2020, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates.

As described above, for the year 2019, the Group had made remarkable progresses in R&D fields. In China, the NDA of LY03004 has been accepted and granted priority review status by CDE, NMPA; The registration application of Pramipexole Dihydrochloride Extended Release Tablets has been accepted by NMPA; LY01008 has completed its primary endpoint observation for Phase III clinical trials; LY06006 has commenced Phase III clinical trial; LY09004, LY02404 and LY01007 have commenced Phase I clinical trial; the clinical trial application of LY03014 was accepted by CDE. Internationally, LY03004 has successfully submitted NDA to the U.S. FDA and passed PAI with no FDA-483 Inspection Observation; LY03005 has submitted NDA to the U.S. FDA and the NDA has been formally accepted by the U.S. FDA; LY01005 has completed human pharmacokinetic study in the U.S.; LY30410 has completed the pivotal study in Germany; the Rivastigmine once a day Transdermal Patch in dosage strength 13.3mg/24h has been approved under the Decentralised Procedures (DCP) by the BfArM; LY03003 and LY03005 have commenced phase I clinical trial in Japan.

For M&A, the acquisition of Shandong Boan is expected to not only expand and diversify the Group's pipeline portfolio, but also accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

The collaboration with AstraZeneca on Xuezhikang's promotion rights in mainland China will expand its sales network, accelerate its growth and improve its profitability. Besides, AstraZeneca and the Group will discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world.

The license in the exclusive rights to develop and commercialize Lurbinectedin for Small Cell Lung Cancer and all other indications in China is expected to enrich the Group's innovative product portfolio and leverage its sales and marketing capability in oncology therapeutic area.

For sales and distribution, the penetration into lower-tier hospitals is deepening. Backed by sales of Seroquel and Seroquel XR and the upcoming rivastigamine patch and LY03004, the Group has built a CNS sales team of over 100 representatives. The collaboration with AstraZeneca on Xuezhikang enabled the Group to leverage AstraZeneca's cardiovascular team of 3,000 representatives and accelerate the growth of the product.

For manufacturing, the Group is working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group's global manufacturing facility system. The new oncology drug injection facility in Nanjing site has finished construction and obtained the Good Manufacture Practice ("GMP") certificate by NMPA. The new transdermal patch facility in Yantai has finished construction and was put into pilot production. The manufacturing site for transdermal patches in Miesbach, Germany, attained compliance with the Falsified Medicines Directive (Directive 2011/62/EC) of the European Union (also known as serialisation requirement) in February 2019. A total of 9 inspections and audits by government authorities and customers during the year of 2019 underlined the compliance with GMP standards in Germany.

Management of the Group is confident that, with the Group's strong, competitive positions of its innovative products, its strong pipeline of product candidates, its proven R&D capabilities and its sales and marketing networks, as well as its capabilities to execute strategic acquisitions, the Group is well positioned to enter a new business phase.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue amounted to approximately RMB6,357.6 million, as compared to RMB5,173.4 million for the year ended 31 December 2018, representing an increase of approximately RMB1,184.2 million, or 22.9%. The increase is mainly attributable to the full year sales from newly acquired product Seroquel and sales growth of the Group's key products.

For the year ended 31 December 2019, the Group's revenue from sales of oncology products increased to RMB2,811.5 million, as compared to RMB2,391.3 million for the year ended 31 December 2018, representing an increase of approximately RMB420.2 million, or 17.6%, primarily attributable to the increase in sales volume of various key oncology products of the Group.

For the year ended 31 December 2019, revenue from sales of cardiovascular system products increased to RMB1,043.2 million, as compared to RMB787.1 million for the year ended 31 December 2018, representing an increase of approximately RMB256.1 million, or 32.5%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2019, revenue from sales of alimentary tract and metabolism products increased to RMB1,004.6 million, as compared to RMB930.5 million for the year ended 31 December 2018, representing an increase of approximately RMB74.1 million, or 8.0%, primarily attributable to the increase in sales volume of various alimentary tract and metabolism products of the Group.

For the year ended 31 December 2019, revenue from sales of CNS products increased by RMB1,339.1 million, as compared to RMB921.9 million for the year ended 31 December 2018, representing a increase of approximately RMB417.2 million or 45.3%, primarily attributable to full year sales of from newly acquired product Seroquel.

For the year ended 31 December 2019, revenue from sales of other products increased to RMB159.1 million, as compared to RMB142.6 million for the year ended 31 December 2018, representing an increase of approximately RMB16.5 million, or 11.6%, primarily attributable to the increase in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB1,124.0 million for the year ended 31 December 2018 to approximately RMB1,478.7 million for the year ended 31 December 2019, which accounted for approximately 23.3% of the Group's total revenue for the same year. The Group's increase in cost of sales was in line with the increase in sales volumes for the year ended 31 December 2019, as compared to year 2018.

Gross Profit

For the year ended 31 December 2019, the Group's gross profit increased to RMB4,878.9 million, as compared to RMB4,049.4 million for the year ended 31 December 2018, representing an increase of approximately RMB829.5 million, or 20.5%. The gross profit margin of 76.7%, as compared to 78.3% for the year ended 31 December 2018 decreased slightly mainly due to higher sales of slightly lower margin products.

Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the year ended 31 December 2019, the Group's other income and gains increased to RMB315.7 million, as compared to RMB220.7 million for the year ended 31 December 2018, representing an increase of approximately RMB95.0 million, or 43.0%. The increase is mainly attributable to higher government grant recognised during the year and higher interest income.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to RMB2,034.8 million, as compared to RMB1,685.9 million for the year ended 31 December 2018, representing an increase of RMB348.9 million, or 20.7%. The increase was mainly attributable to increased promotional activities for the Group's products, staff cost and conference expenses. On the other hand, as a percentage of revenue the Group's selling and distribution expenses are consistent with the year ended 31 December 2018.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB525.9 million, as compared to RMB441.4 million for the year ended 31 December 2018, representing an increase of approximately RMB84.5 million, or 19.1%. The slight increase was mainly due to higher staff cost and other administrative costs/expenses during the year.

Other Expenses

The Group's other expenses primarily consisted of R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2019, the Group's other expenses amounted to approximately RMB588.8 million, as compared to RMB499.6 million for the year ended 31 December 2018, representing an increase of approximately RMB89.2 million, or 17.9%. The increase was mainly due to increase in R&D costs during the year.

Finance Costs

For the year ended 31 December 2019, the Group's finance costs amounted to RMB274.6 million, as compared to RMB170.6 million for the year ended 31 December 2018, representing an increase of approximately RMB104.0 million, or 61.0%. The increase was mainly due to the issuance of convertible bonds and the higher level of monthly average outstanding bank borrowings for the year ended 31 December 2019 as compared to the corresponding year ended 31 December 2018.

Income Tax Expense

For the year ended 31 December 2019, the Group's income tax expense amounted to RMB279.8 million, as compared to RMB167.5 million for the year ended 31 December 2018, representing an increase of RMB112.3 million, or 67.0%. The effective tax rate for the year ended 31 December 2019 is 15.8% as compared to 11.4% for the year ended 31 December 2018.

Net Profit

The Group's net profit for the year ended 31 December 2019 was approximately RMB1,491.8 million, as compared to RMB1,306.0 million for the year ended 31 December 2018, representing an increase of approximately RMB185.8 million, or 14.2%.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

As at 31 December 2019, the Group had net current assets of approximately RMB3,813.4 million, as compared to approximately RMB472.4 million as at 31 December 2018. The current ratio of the Group increased slightly to approximately 1.7 as at 31 December 2019 from approximately 1.1 as at 31 December 2018. The increase in net current assets was mainly attributable to lower level of loans and borrowings in current liability.

Borrowings and Pledge of Assets

As at 31 December 2019, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB6,232.7 million, as compared to approximately RMB6,138.1 million as at 31 December 2018. Amongst the loans and borrowings, approximately RMB3,943.6 million are repayable within one year, and approximately RMB2,289.1 million are repayable after one year. RMB1,696.0 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for working capital of the Group. The bank loans were secured by the Group's time deposits, property, plant and equipment and notes receivable. As at 31 December 2019, the Group's borrowings were primarily denominated in RMB, Euro, HK dollar and U.S. dollar, and the cash and cash equivalents were primarily denominated in RMB and U.S. dollars.

Gearing Ratio

As at 31 December 2019, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 66.5% from 77.4% as at 31 December 2018. The decrease was primarily due to a decrease in the Group's total borrowings taken during the reporting period.

Contingent Liabilities

As at the date of this announcement, a subsidiary of the Group, was involved in arbitration proceedings commenced by the previous distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The Directors, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's relevant legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the arbitration, other than for the related legal and other costs.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2019. The directors of the Company (the "Directors") expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Issuance of Convertible Bonds

On 9 July 2019, the Company issued 1.50 per cent. convertible bonds with an aggregate principal amount of US$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent. gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent. of its principal amount together with accrued but unpaid interest thereon on. The bonds carry interest at a rate of 1.50 per cent. per annum, which is payable semi-annually in arrears on 9 January and 9 July. For further details, please refer to the announcements of the Company dated 24 June 2019 and 9 July 2019.

Employees and Remuneration Policy

As at 31 December 2019, the Group employed a total of 4,716 employees, as compared to a total of 4,417 employees as at 31 December 2018. For the year ended 31 December 2019, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB739.9 million as compared to RMB596.1 million for the year ended 31 December 2018. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

Share Award Scheme (the "Scheme")

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 31 December 2019, the Board has granted to the selected employees an aggregate of 25,206,000 (2018: 20,098,000) shares of the Company under the Scheme and 25,206,000 (2018: 20,098,000) awarded shares were accepted by selected employees.

Hedging Activities

As at 31 December 2019, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2019, the Group did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group does not have other plans for material investments or capital assets.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On 1 December 2019, Shandong Luye Pharmaceutical Co. Ltd., a wholly-owned subsidiary of the Company, and Luye Investment Group Co. Ltd. entered into a sale and purchase agreement pursuant to which Shandong Luye conditionally agreed to purchase and Luye Investment Group Co. Ltd. conditionally agreed to sell 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446.7 million (approximately US$205.8 million). On 22 January 2020, the ordinary resolution to approve the transaction was duly passed by the shareholders at the special general meeting. On 17 February 2020, the Board announced that all conditions to completion were fulfilled. Further to completion of the acquisition, Shandong Boan has become a subsidiary of the Company. For further details of the information, please refer to the Company's announcements dated 1 December 2019, 22 January 2020 and 17 February 2020 and the circular of the Company dated 6 January 2020.

FINAL DIVIDEND

On 28 August 2019, the Company declared an interim dividend of RMB0.059 (equivalent to HK$0.067) per share (equivalent to approximately RMB191,654,000) for the six months ended 30 June 2019 (the six months ended 30 June 2018: RMB0.043 (equivalent to HK$0.051) per share).

On 26 March 2020, the Board proposed a final dividend of RMB0.054 (equivalent to HK$0.060) per share (equivalent to approximately RMB175,487,000 for the year ended 31 December 2019 (2018: RMB0.057 (equivalent to HK$0.065) per share). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on Tuesday, 23 June 2020 and will be payable on or around Friday, 24 July 2020, if approved by the shareholders.

CLOSURE OF REGISTER OF SHAREHOLDERS

The Company's annual general meeting will be held on Tuesday, 23 June 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 17 June 2020.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from Thursday, 2 July 2020 to Monday, 6 July 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 30 June 2020.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The SEHK (the "**Listing Rules**") as its own code of corporate governance.

As at 31 December 2019 and up to the date of this announcement, the Company has complied with all the applicable code provisions set out in the CG Code, except for the following deviation:

Code provision A.2.1 of the CG Code

The roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organisation structure of the Company, Mr. Liu Dian Bo is the Executive Chairman of the Board and the Chief Executive Officer. With extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code For the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had repurchased and cancelled a total of 1,000,000 Shares during the year ended 31 December 2019. Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee has reviewed together with the Board the accounting principles and policies adopted by the Group, the audited annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2019. The audit committee also approved the annual results and the consolidated financial statements for the year ended 31 December 2019 and submitted them to the Board for approval.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULT AND 2019 ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2019 annual report containing all the information about the Company set out in this announcement including the financial results for the year ended 31 December 2019 will be posted on the Company's website (www.luye.cn) and the website of SEHK (www.hkexnews.hk) and despatched to the shareholders of the Company in due course.

By order of the Board
LUYE PHARMA GROUP LTD.
LIU Dian Bo
Chairman

Hong Kong, 26 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing and Ms. ZHU Yuan Yuan; the non-executive director is Mr. SONG Rui Lin; and the independent non-executive directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.