# NANJING SINOLIFE UNITED COMPANY LIMITED*
# 南京中生聯合股份有限公司

*(A joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock code: 3332)**

# FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

## FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 28.8% to RMB322.6 million (2018: RMB453.2 million).
- Gross profit decreased by approximately 37.0% to RMB156.8 million (2018: RMB249.0 million).
- Loss for the Year was approximately RMB194.7 million (2018: Loss of RMB112.8 million).
- Loss per share was RMB20.57 cents (2018: Loss per share RMB11.92 cents).
- The Board does not recommend the payment of any final dividend (2018: Nil) for the Year or any special dividend (2018: Nil).

## FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Nanjing Sinolife United Company Limited* 南京中生聯合股份有限公司 (the " **Company**") is pleased to announce its audited consolidated final results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the comparative figures for the year ended 31 December 2018 which are as follows:

* *For identification purpose only*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Revenue | 4 | **322,613** | 453,199 |
| Cost of sales | | **(165,775)** | (204,229) |
| **Gross profit** | | **156,838** | 248,970 |
| Other income and gains | 4 | **8,673** | 9,053 |
| Selling and distribution expenses | | **(185,436)** | (225,550) |
| Administrative expenses | | **(85,187)** | (79,768) |
| Finance costs | | **(3,601)** | (3,363) |
| Other expenses | | **(72,841)** | (76,465) |
| Loss before tax | | **(181,554)** | (127,123) |
| Income tax (expense)/credit | 6 | **(13,104)** | 14,286 |
| **Loss for the year** | | **(194,658)** | (112,837) |
| **Other comprehensive income** | | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods, after tax: | | | |
| Exchange differences on translation of foreign operations | | **2,153** | 1,363 |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods, after tax: | | | |
| Gains on property revaluation | | **101** | – |
| **Total comprehensive loss for the year** | | **(192,404)** | (111,474) |
| **Loss attributable to:** | | | |
| Owners of the parent | | **(194,658)** | (112,837) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the parent | | **(192,404)** | (111,474) |
| | | **RMB** | RMB |
| **Loss per share attributable to ordinary equity holders of the parent:** | | | |
| — Basic and diluted | 8 | **(20.57) cents** | (11.92) cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **154,966** | 140,825 |
| Investment properties | | **2,630** | – |
| Prepaid land lease payments | | **–** | 10,216 |
| Right-of-use assets | | **28,880** | – |
| Goodwill | *9* | **43,413** | 77,269 |
| Other intangible assets | | **30,361** | 69,707 |
| Deferred tax assets | | **12,763** | 34,871 |
| Pledged deposits | | **–** | 1,170 |
| Other non-current assets | | **5,454** | 6,734 |
| **Total non-current assets** | | **278,467** | 340,792 |
| **Current assets** | | | |
| Inventories | | **89,751** | 110,904 |
| Trade receivables | *10* | **44,400** | 57,654 |
| Prepaid land lease payments | | **–** | 247 |
| Prepayments, deposits and other receivables | | **17,434** | 24,134 |
| Tax recoverable | | **3,462** | 5,405 |
| Pledged deposits | | **1,685** | 434 |
| Cash and cash equivalents | | **107,521** | 201,411 |
| **Total current assets** | | **264,253** | 400,189 |
| **Total assets** | | **542,720** | 740,981 |
| **Current liabilities** | | | |
| Trade payables | *11* | **13,495** | 15,678 |
| Other payables and accruals | | **59,318** | 73,211 |
| Interest-bearing bank borrowings | | **27,500** | 20,000 |
| Lease liabilities | | **6,256** | – |
| Tax payables | | **6,545** | 6,303 |
| **Total current liabilities** | | **113,114** | 115,192 |
| **Net current assets** | | **151,139** | 284,997 |
| **Total assets less current liabilities** | | **429,606** | 625,789 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*As at 31 December*

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Non-current liabilities** | | |
| Interest-bearing bank borrowings | **–** | 7,500 |
| Lease liabilities | **13,013** | – |
| Deferred tax liabilities | **4,715** | 14,021 |
| Provision | **728** | 714 |
| **Total non-current liabilities** | **18,456** | 22,235 |
| **Net assets** | **411,150** | 603,554 |
| **Equity** | | |
| **Equity attributable to owners of the parent** | | |
| Share capital | **94,630** | 94,630 |
| Other reserves | **316,520** | 508,924 |
| **Total equity** | **411,150** | 603,554 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

## 1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock limited liability company established in the People's Republic of China (the "**PRC**"). The address of its registered office is 30/F, Deji Building, 188 Chang Jiang Road, Xuanwu District, Nanjing, Jiangsu Province, PRC.

The Group is principally engaged in the manufacture and sale of nutritional supplements and health food products in the PRC, Australia and New Zealand.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), 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 investment properties which have been measured at fair value. These financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and Annual Improvements to HKFRSs 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 HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 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 HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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

The Group has adopted HKFRS 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 HKAS 17 and related interpretations.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

**New definition of a lease**

Under HKFRS 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 HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 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 HKFRS 16***

The Group has lease contracts for various items of property, 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 HKFRS 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).

***Impacts 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 in the statement of financial position. 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 HKAS 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 HKFRS 16 at 1 January 2019:

- A lessee applied a single discount rate to portfolio of lease with reasonably similar characteristics;

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

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 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.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 17 | *Insurance Contracts*[2] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[1] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

## 3. OPERATING SEGMENT INFORMATION

### (a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of nutritional supplements and the sale of packaged health food products in the PRC, Australia and New Zealand.

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

### (b) Geographical information

Most of the Group companies are domiciled in the Mainland China and the majority of the non-current assets are located in the Mainland China, New Zealand and Australia. The Group's revenue from external customers is primarily derived in the Mainland China, New Zealand and Australia.

The following is an analysis of the Group's revenue from its major markets:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **202,653** | 310,110 |
| New Zealand | **107,075** | 125,970 |
| Australia | **6,380** | 7,386 |
| Vietnam | **842** | 3,481 |
| Other countries | **5,663** | 6,252 |
| | **322,613** | 453,199 |

### (c) Non-current assets

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **172,191** | 190,055 |
| New Zealand | **43,582** | 29,965 |
| Australia | **1,064** | 728 |
| | **216,837** | 220,748 |

The non-current assets information above is based on the locations of the assets and excludes goodwill, deferred tax assets, pledged deposits and other non-current assets.

### (d) Information about major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue (2018: Nil).

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Type of goods or services** | | |
| Sale of goods | **322,454** | 453,165 |
| Rendering of services | **159** | 34 |
| Total revenue from contracts with customers | **322,613** | 453,199 |
| **Timing of revenue recognition** | | |
| Goods or services transferred at a point in time | **322,613** | 453,199 |
| Total revenue from contracts with customers | **322,613** | 453,199 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of goods | **7,957** | 15,196 |
| **Other income** | | |
| Bank interest income | **2,895** | 4,242 |
| Government grants* | **3,333** | 3,068 |
| Foreign exchange differences, net | **1,539** | 1,486 |
| (Reversal)/impairment of trade receivables | **663** | – |
| Rental income | **64** | – |
| Others | **179** | 257 |
| | **8,673** | 9,053 |

* Various government grants have been received for the Group's contribution to the development of local economy. There are no unfulfilled conditions or contingencies relating to these grants.

## 5. LOSS BEFORE TAX

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

| | *Note* | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|---|
| Cost of inventories sold | | **162,481** | 176,081 |
| Depreciation of property, plant and equipment | | **12,841** | 8,786 |
| Depreciation of right-of-use assets (2018: amortisation of land lease payments) | | **6,737** | 247 |
| Lease payments not included in the measurement of lease liabilities | | **5,368** | 13,710 |
| Amortisation of intangible assets* | | **3,667** | 3,651 |
| Auditor's remuneration | | **2,580** | 1,950 |
| Research and development expenses | | **3,538** | 2,551 |
| Employment benefit expense (excluding directors', supervisors' and chief executive's remuneration): | | | |
| Wages and salaries | | **71,672** | 88,222 |
| Pension scheme contributions | | **4,282** | 3,649 |
| Other benefits | | **6,432** | 14,571 |
| Foreign exchange differences, net | | **(1,539)** | (1,486) |
| Impairment of goodwill** | *9* | **34,798** | 70,050 |
| Impairment of other intangible assets** | | **36,066** | – |
| (Reversal)/Impairment of trade receivables | | **(663)** | 4,201 |
| Write-down of inventories to net realisable value*** | | **3,294** | 28,227 |
| Bank interest income | | **(2,895)** | (4,242) |
| Government grants | | **(3,333)** | (3,068) |
| Loss on disposal of items of property, plant and equipment | | **49** | 163 |

* The amortisation of intangible assets for the year is included in "Selling and distribution expenses" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** The impairment of goodwill and the impairment of other intangible assets are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

*** The write-down of inventories to net realisable value for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

## 6. INCOME TAX EXPENSE/(CREDIT)

The amounts of income tax expense/(credit) in the consolidated statement of profit or loss and other comprehensive income represent:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current | | |
| — PRC | **998** | 4,920 |
| — New Zealand | **175** | – |
| Overprovision in prior years | **(941)** | – |
| | **232** | 4,920 |
| Deferred | **12,872** | (19,206) |
| Total tax expense/(credit) for the year | **13,104** | (14,286) |

One of the Group's subsidiaries obtained the Certificate of High and New Technology Enterprise in 2019 and was approved by tax authorities to enjoy the preferential tax rate of 15%. Except for the aforementioned subsidiary, the income tax of the Company and its subsidiaries established in the PRC are subject to the statutory rate of 25% of the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC. New Zealand income tax is calculated at 28% of the assessable profits of the subsidiaries operating in New Zealand. Australia income tax is calculated at 30% of the assessable profits of the subsidiary operating in Australia.

## 7. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends approved and paid | **–** | – |

The Board has resolved not to declare any final dividend for the year ended 31 December 2019 (2018: Nil).

## 8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 946,298,370 (2018: 946,298,370) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic loss per share is based on:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Loss** | | |
| Loss attributable to ordinary equity holders of the parent used in the basic loss per share calculation | **(194,658)** | (112,837) |

| | **2019** | 2018 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares for the purpose of the basic loss per share calculation | **946,298,370** | 946,298,370 |

## 9. GOODWILL

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | | |
| Cost | **147,715** | 146,134 |
| Accumulated impairment | **(70,446)** | – |
| Cost at 1 January, net of accumulated impairment | **77,269** | 146,134 |
| Impairment during the year | **(34,798)** | (70,050) |
| Exchange realignment | **942** | 1,185 |
| Cost at 31 December, net of accumulated impairment | **43,413** | 77,269 |
| Cost at 31 December | | |
| Cost | **148,719** | 147,715 |
| Accumulated impairment | **(105,306)** | (70,446) |
| Net carrying amount | **43,413** | 77,269 |

## 10. TRADE RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **48,724** | 62,574 |
| Impairment | **(4,324)** | (4,920) |
| | **44,400** | 57,654 |

In general, the entities in the Group has no credit period granted to the retail customers, and invoices would be due once they have been issued. The credit period offered by the Group to its distributors is generally 30 to 90 days, and the credit terms granted to TV shopping platforms is 30 days. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **17,106** | 34,277 |
| Over 1 month but within 3 months | **15,293** | 15,584 |
| Over 3 months but within 1 year | **11,444** | 6,875 |
| Over 1 year | **557** | 918 |
| | **44,400** | 57,654 |

## 11. TRADE PAYABLES

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **4,487** | 9,021 |
| Over 1 month but within 3 months | **4,760** | 5,490 |
| Over 3 months but within 1 year | **2,477** | 320 |
| Over 1 year | **1,771** | 847 |
| | **13,495** | 15,678 |

The trade payables are non-interest-bearing and the credit terms are normally between 30 and 40 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In 2019, to further implement the Group's development strategy, the Group made great efforts into the development of products under the maternity and child series, continued to diversify its various sales channels including distributors, TV shopping platforms and e-commerce platforms, and strengthened the marketing of the Good Health brand series products. The sales revenue for the Year decreased as compared to that of 2018 due to the reduced sales revenue of original retail shops under the Zhongsheng brand and online call centres as a result of the Group's adjustment of sales channels. The revenue of the Group decreased from approximately RMB453.2 million in 2018 to approximately RMB322.6 million for the Year, representing a decrease of approximately 28.8%. The Group recorded a loss of approximately RMB194.7 million, as compared to a loss of approximately RMB112.8 million in 2018.

During the Year, the Group continued to adopt the strategies of focusing on the Good Health brand and sales promotion through distributors, TV shopping and e-commerce channels, so as to achieve increasingly higher brand recognition of Good Health brand in the target markets. The Group carried out continuous brand building and promotion mainly through combination of distributors, TV shopping platforms, chain pharmacies and travel channels, and at the same time by opening flagship stores on domestic major e-commerce platforms.

During the Year, in order to enhance the market competitiveness of its products and meet the evolving consumer demands, the Group has adopted a market-oriented strategy for research and product development to further strengthen the development of new products. During the Year, the Group has launched a total of 25 new products, including 2 Hejian series products, 20 Good Health series products and 3 Living Nature series products. The new products mainly comprise probiotic solid beverage, green-lipped mussel, organic fucoidan capsule and DHA & PS soft capsule.

For the PRC's market, the Group has made great effort to develop domestic distributors, TV shopping platforms and e-commerce platforms during the Year. In terms of TV shopping platforms, the Group has built cooperation with a number of platforms including yougou.com, hao24.com, best1.com, jiajiamall, CNRmall, happigo.com, ocj.com.cn and Global Home Shopping to sell general trade and cross-border trade products. In terms of e-commerce platforms, the Group continued to cooperate with e-commerce platforms such as Tmall International, JD.com, suning.com, xiaohongshu.com, pinduoduo.com and Health Post.

The Group's overseas diversified sales platforms mainly include international distribution network broadly distributed in countries including the United Kingdom, Germany, Singapore, Vietnam and Thailand, and local large chain pharmacies, health goods supermarkets and tourist souvenir shops in New Zealand and Australia.

## FINANCIAL REVIEW

### Results

The revenue of the Group for the Year was approximately RMB322.6 million, representing a decrease of approximately 28.8% from approximately RMB453.2 million in 2018. The Group recorded a loss of approximately RMB194.7 million, as compared to a loss of approximately RMB112.8 million for 2018. The Company's loss per share was approximately RMB20.57 cents (2018: loss per share of approximately RMB11.92 cents) based on the weighted average number of 946,298,370 (2018: 946,298,370) ordinary shares of the Company in issue for the Year.

### Revenue

The revenue of the Group decreased by approximately 28.8% from approximately RMB453.2 million for 2018 to approximately RMB322.6 million for the Year. As of the end of 2019, as a result of further implementing the Group's strategic planning of focusing resources on developing distributors, TV shopping platform and e-commerce platforms, the sales of offline retail shops decreased by approximately 91.6% from approximately RMB86.6 million for 2018 to approximately RMB7.3 million for the Year, and the sales of online call centres decreased by approximately 65.3% from approximately RMB97.9 million for 2018 to approximately RMB34.0 million for the Year.

### Gross profit

The Group's gross profit decreased from approximately RMB249.0 million for 2018 to approximately RMB156.8 million for the Year. The Group's average gross profit margin decreased from approximately 54.9% for 2018 to approximately 48.6% for the Year. Such decrease in gross profit margin was mainly due to the proportion of sales revenue of distributors, TV shopping platforms and e-commerce platforms further increased as compared with 2018 under the Group's adjustment of sales channels. The gross profit margins of distributors and TV shopping platforms were lower than that of the offline retail shops and online call centres. Meanwhile, the Group promoted its honey series products by discount. As such, the Group's overall gross profit margin was affected.

### Other income and gains

The Group's other income and gains mainly comprised bank interest income, foreign exchange gain and government grants, which decreased from approximately RMB9.1 million for 2018 to approximately RMB8.7 million for the Year.

### Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 17.8% from approximately RMB225.6 million for 2018 to approximately RMB185.4 million for the Year, representing approximately 49.8% and 57.5% of the Group's revenue for 2018 and the Year respectively. Such decrease was primarily due to the adjustment of the number of offline retail shops and online call centres by the Group, the reduction of headcount, the decrease in staff remuneration expenses and daily expenses as well as the cut-down of marketing expenses of Good Health during the Year.

**Administrative expenses**

The Group's administrative expenses increased by approximately 6.8% from approximately RMB79.8 million for 2018 to approximately RMB85.2 million for the Year, representing approximately 17.6% and 26.4% of the Group's revenue in 2018 and the Year respectively. Such increase was primarily the increase in fixed assets depreciation as a result of being put into operation of the Group's research & development ("**R&D**") centre.

**Income tax (expense)/credit**

The Group recorded an income tax expense of approximately RMB13.1 million for the Year, as compared with an income tax credit of approximately RMB14.3 million for 2018, which was primarily due to the derecognition of deferred income tax assets recognised in prior years during the Year.

The Group's effective tax rates in 2018 and the Year was approximately 11.2% and (7.2)% respectively.

**Loss for the Year**

As a result of the foregoing, the Group recorded a loss for the Year of approximately RMB194.7 million, as compared with a loss of approximately RMB112.8 million for the year ended 31 December 2018.

The loss for the Year was mainly caused by the following factors:

1. With the Group's adjustment of sales channels, the number of offline retail shops was cut down, and the advertising and marketing activities of online call centres were reduced, leading to the decrease in sales revenue from offline retail shops and online call centres.

2. The proportion of sales revenue of distributors, TV shopping platforms and e-commerce platforms further increased as compared with 2018. The gross profit margins of distributors and TV shopping platforms were lower than that of the offline retail shops and online call centres. Meanwhile, the Group promoted its honey series products by discount, thereby affecting the Group's overall gross profit margin.

3. At the end of the Year, the Company re-assessed the performance of Shanghai Hejian Nutritional Food Products Company Limited* (上海禾健營養食品有限公司) ("**Hejian**") for the Year and in the coming years. As the performance of Hejian was below the Company's expectation, the Company recognised an impairment loss for the goodwill and intangible assets for Hejian.

* *For identification purpose only*

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flow

During the Year, the Group's cash and cash equivalents decreased by approximately RMB93.9 million, which mainly comprised the net cash outflow from operating activities with the amount of approximately RMB68.1 million, net cash outflow used in investing activities with the amount of approximately RMB17.4 million, net cash outflow used in financing activities with the amount of approximately RMB9.3 million and exchange gain of approximately RMB1.0 million.

### Inventories

The Group's inventories amounted to approximately RMB89.8 million (as at 31 December 2018: approximately RMB110.9 million) as at 31 December 2019. The Group's inventories comprised raw materials, work in progress, finished goods and goods merchandise. The inventories balances decreased by approximately 19.0% compared with that as at 31 December 2018. During the Year, inventory turnover days was approximately 221 days (2018: 307 days). The shorter inventory turnover days during the Year was primarily because the Company made greater efforts in the sale of the beginning inventories of the honey series products during the Year.

### Trade receivables

The Group's trade receivables amounted to approximately RMB44.4 million (as at 31 December 2018: approximately RMB57.7 million) as at 31 December 2019 which represents a decrease of approximately 23.1% from that as at 31 December 2018, which was mainly due to the decreased sales revenue for the Year.

### Trade payables

The Group's trade payables amounted to approximately RMB13.5 million (as at 31 December 2018: approximately RMB15.7 million) as at 31 December 2019, representing a decrease of approximately 14.0% from that as at 31 December 2018. Turnover days for trade payables increased to 32 days (2018: 31 days), which showed no significant fluctuation.

### Foreign exchange exposure

The Group conducts in-bound transactions principally in RMB and outbound transactions principally in New Zealand Dollar and Australian Dollar. In respect of the Group's risk exposure to exchange rate, the Group had not utilised any financial instruments for hedging purposes as at 31 December 2019.

### Borrowings and pledge of assets

The Group had loan balances of RMB27.5 million and pledge of assets (being the property interest of the Company in Deji Building in Nanjing and the Company's shareholding in Shanghai Weiyi Investment & Management Limited Company* (上海惟翊投資管理有限公司)) as at 31 December 2019.

### Capital expenditure

The Group invested approximately RMB25.7 million during the Year (2018: approximately RMB39.1 million) for building the R&D centre, plant and equipment.

### Capital commitments and contingent liabilities

As at 31 December 2019, the Group did not have significant capital commitments (as at 31 December 2018: approximately RMB38.8 million).

## OUTLOOK

In 2019, in order to establish a healthy environment for the development of the health product industry, the Chinese government regulators further strengthened the supervision and rectification measures to ensure that the health product market will become more and more standardised. When people take the initiative to boost healthy immunity as a rigid demand in life, the consumption of health products will become more normalised, and the management of product research, development and product application will also become more refined, thereby guiding consumers to improve their level of health in a more scientific way. For enterprises in the industry, high-quality products, standardised production and brand credibility will be the most important core competitiveness. The Good Health brand exactly meets the above requirements.

The outbreak of the novel coronavirus epidemic in early 2020 has caused material impact on the PRC's economic operation and the living of the public. The epidemic also affected the Company's daily operation to a certain extent, especially in the product distribution and logistics. Recently, with the gradual control and mitigation of the PRC's epidemic, logistics and distribution have basically resumed to normal. The Company has evaluated the epidemic with due care and believes that it will not bring material impact on the Company's daily operation and cash flow. The fight against the epidemic also arouses the public to reflect on the importance of health and immunity. After the SARS epidemic, the health product industry ushered in a wave of growth since 2003. With the subsequent vigorous efforts invested by the PRC into the big health industry and the improvement of the living standards of the public, the health product industry has maintained growth year by year. According to the data from third-party statistical agencies, the global health product market reached US$266.7 billion in 2019, and the PRC has become the world's second largest health product market with its market share of up to 21.8% and a volume of approximately US$58 billion which demonstrated year-by-year growth. In 2020, the Company will continue to implement its established development strategy and focus on the Good Health brand. In particular, it will increase investment in research and development, market promotion, and channel construction of products under the maternity and child series to increase the Company's results in 2020.

* *For identification purpose only*

## HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff is indispensable asset to the Group's success in the competitive market. By providing comprehensive training and corporate culture education periodically, the employees are able to obtain on-going training and development in the nutritional supplements industry. Furthermore, the Group offers competitive remuneration packages commensurated with industry practice and provides various fringe benefits to all employees. The Group reviews its human resources and remuneration policies periodically to ensure they are in line with market practice and regulatory requirements. As at 31 December 2019, the Group employed a work force of 448 employees. The total salaries and related costs for the Year amounted to approximately RMB86.0 million (as at 31 December 2018: approximately RMB111.1 million).

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Year.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as the code of conduct for Directors in their dealings in the Company's securities.

The Company has made specific enquiry with the Directors and all the Directors confirmed that they have complied with the Model Code during the Year.

## CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules during the Year.

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Zhang Jitong, Ms. Cai Tianchen and Mr. Wang Wei. Ms. Cai Tianchen serves as the chairman of the Audit Committee. The Audit Committee is primarily responsible for the review and supervision of the financial reporting process, and risk management and internal control system. It has reviewed the accounting principles and practices adopted by the Company and the audited final results of the Group for the Year.

## SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the Year as set out in this announcement have been agreed by the Company's auditor, Ernst & Young to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this announcement.

## FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board does not recommend the payment of any final dividend for the Year or any special dividend.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be convened on Friday, 5 June 2020. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 6 May 2020 to Friday, 5 June 2020, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM or any adjournment thereof, shareholders of the Company's H shares must lodge their share certificates and all the relevant instruments of transfer for registration with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Tuesday, 5 May 2020.

## PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.zs-united.com. The annual report of the Company for the Year will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
**Nanjing Sinolife United Company Limited**
**Gui Pinghu**
*Chairman*

Nanjing, People's Republic of China, 27 March 2020

*As of the date of this announcement, the executive Directors are Mr. Gui Pinghu, Ms. Zhang Yuan and Ms. Zhu Feifei; and the independent non-executive Directors are Mr. Zhang Jitong, Ms. Cai Tianchen and Mr. Wang Wei.*