四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.
四 環 醫 藥 控 股 集 團 有 限 公 司
(incorporated in Bermuda with limited liability)
(Stock Code: 0460)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHT

	For the year ended 31 December		Year-on-year
	2020	2019	**change**
	RMB'000	*RMB'000*	
Continuing Operations			
Key Income Statement Items			
Revenue	**2,464,226**	2,878,318	**(14.4)%**
Gross profit	**1,914,449**	2,289,331	**(16.4)%**
Research and development expenses	**729,157**	598,952	**21.7%**
Operating profit/(loss)	**787,125**	(2,406,225)	**N/A**
Profit/(loss) attributable to owners of the Company	**502,569**	(2,717,515)	**N/A**
Key Financial Indicators			
Gross profit margin	**77.7%**	79.5%	
Net profit/(loss) margin	**22.2%**	(94.3%)	
Earnings/(loss) per share – Basic (RMB cents)	**5.3**	(28.7)	
Trade receivables turnover ratio (days)	**50**	48	
Proposed final dividend per share (RMB cents)	**1.3**	1.3	

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020 (the "**Year**") together with the comparative figures for the previous year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,053,288**	2,731,010
Investment properties		**232,173**	232,802
Right-of-use assets		**787,973**	893,555
Goodwill		**12,312**	–
Intangible assets	*4*	**505,621**	480,008
Investments accounted for using the equity method	*5*	**1,070,387**	1,083,858
Financial assets at fair value through profit or loss	*6*	**196,153**	174,220
Other non-current assets		**367,869**	338,614
Deferred tax assets		**269,449**	332,222
Pledged deposits	*9*	**144,548**	–
Total non-current assets		**6,639,773**	6,266,289
CURRENT ASSETS			
Inventories		**495,889**	409,595
Trade and other receivables	*7*	**971,540**	630,073
Financial assets at fair value through profit or loss	*6*	**332,683**	148,336
Cash and cash equivalents		**4,604,041**	5,117,143
Total current assets		**6,404,153**	6,305,147
TOTAL ASSETS		**13,043,926**	12,571,436
EQUITY			
Equity attributable to owners of the Company			
Share capital	*8*	**78,186**	78,186
Share premium	*8*	**4,084,846**	4,084,846
Other reserves		**725,222**	192,674
Retained earnings		**4,302,088**	5,250,978
		9,190,342	9,606,684
Non-controlling interests		**758,383**	335,510
Total equity		**9,948,725**	9,942,194

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**225,688**	282,621
Interest-bearing bank borrowings	*9*	**331,173**	–
Lease liabilities		**2,510**	5,892
Contract liabilities		**–**	275
Other non-current liabilities	*10*	**92,744**	79,674
Total non-current liabilities		**652,115**	368,462
CURRENT LIABILITIES			
Trade and other payables	*11*	**1,830,161**	1,905,792
Interest-bearing bank borrowings	*9*	**387,930**	–
Contract liabilities		**186,629**	326,295
Income tax payable		**22,445**	14,033
Lease liabilities		**1,441**	4,058
Other current liabilities	*10*	**14,480**	10,602
Total current liabilities		**2,443,086**	2,260,780
TOTAL LIABILITIES		**3,095,201**	2,629,242
TOTAL EQUITY AND LIABILITIES		**13,043,926**	12,571,436

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CONTINUING OPERATIONS			
Revenue	12	**2,464,226**	2,878,318
Cost of sales	13	**(549,777)**	(588,987)
GROSS PROFIT		**1,914,449**	2,289,331
Other income	12	**172,560**	213,404
Other gains – net	12	**249,619**	402,177
Gain on derecognition of subsidiaries		**72,307**	–
Impairment losses on goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment	13	**–**	(3,971,503)
Distribution expenses	13	**(368,792)**	(245,384)
Administrative expenses	13	**(489,784)**	(471,567)
Research and development expenses	13	**(729,157)**	(598,952)
Other expenses	13	**(34,077)**	(23,731)
OPERATING PROFIT/(LOSS)		**787,125**	(2,406,225)
Finance expenses		**(8,217)**	(4,714)
Share of losses of investments accounted for using the equity method	5/15	**(13,064)**	(12,016)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**765,844**	(2,422,955)
Income tax expense	14	**(219,040)**	(290,388)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**546,804**	(2,713,343)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	15	**(34,917)**	(43,968)
PROFIT/(LOSS) FOR THE YEAR		**511,887**	(2,757,311)

	Notes	**2020** *RMB'000*	2019 *RMB'000*
Attributable to:			
Owners of the Company		**473,382**	(2,753,332)
Non-controlling interests		**38,505**	(3,979)
		511,887	(2,757,311)
PROFIT/(LOSS) FOR THE YEAR		**511,887**	(2,757,311)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		**511,887**	(2,757,311)
Attributable to:			
Owners of the Company		**473,382**	(2,753,332)
Non-controlling interests		**38,505**	(3,979)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		**511,887**	(2,757,311)
		RMB	*RMB*
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted earnings/(loss) per share	*16*		
For profit/(loss) for the year		**5.0 cents**	(29.1) cents
For profit/(loss) from continuing operations		**5.3 cents**	(28.7) cents

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		**441,344**	1,927,308
Income tax paid		**(214,213)**	(509,450)
Net cash flows from operating activities		**227,131**	1,417,858
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of/capital contribution to associates and a joint venture	*5*	**(105,291)**	(13,946)
Advances of loans to third parties		**(11,025)**	(15,000)
Advances of loans to an associate		**(71,055)**	(57,127)
Repayment of loans from third parties		**6,037**	1,029
Repayment of loans from associates		**15,000**	2,000
Acquisitions of subsidiaries	*19*	**1,508**	–
Disposals of subsidiaries	*20*	**117,571**	–
Purchases of items of property, plant and equipment		**(506,639)**	(500,793)
Purchases of intangible assets		**(73,975)**	(89,132)
Prepaid land lease payments		**–**	(55,638)
Purchases of financial assets at fair value through profit or loss		**(18,806,553)**	(19,510,723)
Proceeds from disposal of financial assets at fair value through profit or loss		**18,593,926**	20,625,351
Proceeds from disposal of items of property, plant and equipment		**5,512**	2,163
Increase in pledged deposits		**(144,548)**	–
Interest received		**54,755**	163,781
Net cash flows (used in)/from investing activities		**(924,777)**	551,965
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank borrowings		**(376,075)**	(107,300)
Proceeds from borrowings		**1,103,178**	19,000
Repurchase and cancellation of shares		**–**	(8,518)
Principal portion of lease payments		**(3,152)**	(3,592)
Acquisition of non-controlling interests	*19(b)*	**(10,000)**	–
Non-controlling interests arising in subsidiaries		**915,224**	132,112
Dividends paid		**(1,444,352)**	(198,805)
Interest paid		**(279)**	(422)
Net cash flows from/(used in) financing activities		**184,544**	(167,525)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(513,102)**	1,802,298
Cash and cash equivalents at beginning of year		**5,117,143**	3,314,845
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,604,041**	5,117,143

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

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

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

These consolidated financial statements have been approved for issue by the board of directors on 23 March 2021.

2. BASIS OF PREPARATION

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

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

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

Changes in accounting policies and disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*COVID-19 Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group as the Group does not have any lease payments reduced or waived by the lessors.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. SEGMENT INFORMATION

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

The executive directors of the board of the Company consider the business from product perspective. The Group is engaged in only one business segment, being the R&D, and the manufacture and sale of pharmaceutical products in the Mainland China. During the years ended 31 December 2020 and 2019, all sales were from distributors and there were no distributors of the Group with which the revenue generated therefrom amounted to 10% or more of the Group's revenue.

4. INTANGIBLE ASSETS

	Customer relationships *RMB'000*	**Deferred development costs** *RMB'000*	**Product development in progress** *RMB'000*	**Trademark and software** *RMB'000*	**Total** *RMB'000*
At 1 January 2019:					
Cost	433,932	1,434,879	350,767	49,124	2,268,702
Accumulated amortisation	(433,932)	(430,556)	–	(26,301)	(890,789)
Impairment	–	(2,032)	(123,630)	–	(125,662)
Net carrying amount	–	1,002,291	227,137	22,823	1,252,251
Cost at 1 January 2019, net of accumulated amortisation and impairment	–	1,002,291	227,137	22,823	1,252,251
Additions	–	43,952	34,595	5,840	84,387
Amortisation charge	–	(95,400)	–	(1,615)	(97,015)
Impairment (Note 13)	–	(756,066)	–	(3,549)	(759,615)
Net carrying amount at 31 December 2019	–	194,777	261,732	23,499	480,008
At 31 December 2019:					
Cost	433,932	1,478,831	385,362	54,964	2,353,089
Accumulated amortisation	(433,932)	(525,956)	–	(27,916)	(987,804)
Impairment	–	(758,098)	(123,630)	(3,549)	(885,277)
Net carrying amount	–	194,777	261,732	23,499	480,008
Cost at 1 January 2020, net of accumulated amortisation and impairment	**–**	**194,777**	**261,732**	**23,499**	**480,008**
Additions	**–**	**25,740**	**40,360**	**7,834**	**73,934**
Acquisitions of subsidiaries (Note 19)	**–**	**90**	**–**	**–**	**90**
Amortisation charge	**–**	**(25,906)**	**–**	**(2,836)**	**(28,742)**
Disposal	**–**	**–**	**–**	**(13,141)**	**(13,141)**
Disposals of subsidiaries (Note 20)	**–**	**–**	**–**	**(6,528)**	**(6,528)**
Net carrying amount at 31 December 2020	**–**	**194,701**	**302,092**	**8,828**	**505,621**
At 31 December 2020:					
Cost	**433,932**	**1,504,661**	**425,722**	**40,523**	**2,404,838**
Accumulated amortisation	**(433,932)**	**(551,862)**	**–**	**(28,146)**	**(1,013,940)**
Impairment	**–**	**(758,098)**	**(123,630)**	**(3,549)**	**(885,277)**
Net carrying amount	**–**	**194,701**	**302,092**	**8,828**	**505,621**

5. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2020	2019
	RMB'000	*RMB'000*
Opening balance at 1 January	**1,083,858**	1,168,623
Addition of associates (i)	**98,426**	–
Capital contribution to an existing associate	**–**	3,946
Capital contribution to an existing joint venture (ii)	**6,865**	10,000
Derecognition of associates (Note 20)	**(72,937)**	–
Derecognition of joint ventures (Note 20)	**(109,789)**	–
Gain on deemed disposal of interest in an associate (iii) (Note 12)	**80,488**	–
Impairment during the year (Note 13)	**–**	(91,521)
Share of post-tax profits and losses of associates and joint ventures	**(16,524)**	(7,190)
Closing balance at 31 December	**1,070,387**	1,083,858

(i) In May 2020, the Group acquired a 28.64% equity in Beijing ChemPion Biotechnology Co., Ltd. and a 30% equity in Zhongrui (Inner Mongolia) Pharmaceutical Co., Ltd. at considerations of RMB48,000,000 and RMB50,426,000, respectively.

(ii) The Group and Strides Pharma Global Pte Ltd. have established a joint venture in which the Group owned a 51% equity interest. As at 31 December 2020, total capital of USD979,200 (equivalent to approximately RMB6,865,000) by cash has been injected by the Group.

(iii) During the year, the Group's interest in an associate was diluted due to the capital injection by other equity holders of the respective associate. Following the capital injection, the Group continues to exercise significant influence over the respective associate and therefore it remains as an associate of the Group. The Group recorded a gain on deemed disposal of RMB80,488,000 in profit or loss.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Non-current			
Financial assets at fair value through profit or loss:			
Unlisted equity investments, at fair value		**196,153**	174,220
Total non-current	*(i)*	**196,153**	174,220
Current			
Financial assets at fair value through profit or loss:			
Wealth management products		**332,683**	148,336
Total current	*(ii)*	**332,683**	148,336
Total other financial assets		**528,836**	322,556

The above equity investments at 31 December 2020 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

(i) The amount represents equity investments in the unquoted equity shares of KBP Biosciences Holdings Limited, Lindeman Asia No. 12 Investment Fund, DJS Antibodies Limited and Ascendum Healthcare Fund. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify them at fair value through other comprehensive income.

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

7. TRADE AND OTHER RECEIVABLES

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Trade receivables – third parties	*(i)*	**272,514**	158,640
Notes receivable		**128,427**	137,166
Prepayments to suppliers		**150,618**	116,882
Loans to associates		**113,445**	79,326
Amount due from a joint venture		**675**	–
Amounts due from other related parties		**16,300**	9,600
Other receivables		**316,523**	132,065
		998,502	633,679
Provision of impairment on trade receivables	*(i)*	**(11,123)**	(3,606)
Provision of impairment on other receivables		**(15,839)**	–
		971,540	630,073

(i) An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**225,443**	135,426
3 to 6 months	**22,101**	13,114
6 months to 1 year	**8,602**	5,512
More than 1 year	**5,245**	982
	261,391	155,034

8. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares *Share'000*	Number of issued and fully paid ordinary shares *Share'000*	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
As at 1 January 2019	100,000,000	9,471,082	78,233	4,093,317	4,171,550
Movement for the year					
Repurchase and cancellation of shares (Note (i))	–	(5,400)	(47)	(8,471)	(8,518)
As at 31 December 2019, 1 January 2020 and 31 December 2020 (HK$0.01 per share)	**100,000,000**	**9,465,682**	**78,186**	**4,084,846**	**4,163,032**

(i) During the year of 2019, the Company repurchased 5,400,000 shares of its own shares on the Stock Exchange at a total consideration, including expenses, of HK$9,690,000 (equivalent to RMB8,518,000). As at 31 December 2019, these repurchased shares were cancelled.

9. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2020		
	Effective interest rate (%)	Maturity	*RMB'000*
Current			
Secured bank borrowings	**4.00–6.85**	**2021**	**108,640**
Unsecured bank borrowings	**2.05–4.30**	**2021**	**279,290**
			387,930
Non-Current			
Secured bank borrowings	**4.90**	**2035**	**131,193**
Secured bank borrowings	**4.00**	**2023**	**199,980**
			331,173
			719,103

	As at 31 December 2020 RMB'000
Analysed into:	
Bank borrowings:	
Within the first year	**387,930**
Within the second to fifth years	**199,980**
Beyond the fifth years	**131,193**
	719,103

Notes:

(a) Certain of the Group's bank borrowings are secured by:

(i) Mortgages over the Group's leasehold land, property, plant and equipments with an aggregate carrying value of RMB397,382,000;

(ii) The pledge of certain of the Group's time deposits amount to RMB144,548,000; and

(iii) Portion of equity interests in a subsidiary.

(b) All borrowings are denominated in RMB.

(c) The effective interest rates of the bank borrowings as at 31 December 2020 range from 2.05% to 6.85% (31 December 2019: Nil) per annum.

10. OTHER LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Deferred government grants (i)	**75,224**	81,276
Other borrowings (ii)	**32,000**	9,000
	107,224	90,276
Less: current portion		
Deferred government grants (i)	**10,480**	10,602
Other borrowings (ii)	**4,000**	–
	14,480	10,602
Non-current portion	**92,744**	79,674

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

(ii) It represents the borrowing amounting to RMB28,000,000 from non-controlling shareholders of the Group's a subsidiary, which is interest-bearing, unsecured and repayable in nine years, and a new borrowing amounting to RMB4,000,000 from a third party which is interest-bearing, unsecured and repayable in one year.

11. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables (i)	**106,201**	65,719
Costs of construction and purchase of equipment payables	**105,544**	49,197
Payable for acquisitions of subsidiaries	**346,500**	300,000
Deposit payables	**187,169**	223,469
Accrued reimbursement to distributors	**914,490**	1,152,308
Salaries payable	**64,142**	50,381
Interest payables	**7,454**	6,033
Dividends payable	**159**	112
Other payables	**98,502**	58,573
	1,830,161	1,905,792

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

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 6 months	**83,808**	55,407
6 months to 1 year	**6,805**	2,036
More than 1 year	**15,588**	8,276
	106,201	65,719

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

12. REVENUE, OTHER INCOME AND OTHER GAINS

	2020 *RMB'000*	2019 *RMB'000*
Revenue		
Sale of pharmaceutical products	**2,464,226**	2,878,318

	2020 *RMB'000*	2019 *RMB'000*
Other income		
Interest income	**135,728**	169,707
Sale of distribution rights (i)	**9,300**	13,348
R&D income (ii)	**13,386**	21,370
Gross rental income from investment property operating leases (iii)	**7,433**	6,662
Others	**6,713**	2,317
	172,560	213,404

(i) The geographical market of all the sale of distribution rights is Mainland China. The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Sale of distribution rights contracts is for periods of five years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	As at 31 December 2020 *RMB'000*	2019 *RMB'000*
Amounts expected to be recognised as other income:		
Within one year	**275**	9,300
After one year	**–**	275
	275	9,575

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:

	2020 *RMB'000*	2019 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of distribution rights	**9,300**	13,348

(ii) The geographical market of all the R&D income is Mainland China. The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing.

(iii) The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. An analysis of rental income is as follows:

	2020	2019
	RMB'000	*RMB'000*
Geographical markets		
Hong Kong	**6,597**	5,912
Mainland China	**836**	750
	7,433	6,662

Other gains – net

	2020	2019
	RMB'000	*RMB'000*
Government grants (i)	**156,228**	401,155
Gain on deemed disposal of interest in an associate (Note 5)	**80,488**	–
Exchange gains	**7,272**	19,629
Fair value gain/(loss) on financial assets at fair value through profit or loss	**2,683**	(18,599)
Gain on acquisition of a subsidiary (Note 19(a))	**2,830**	–
Others	**118**	(8)
	249,619	402,177

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

13. EXPENSES BY NATURE

	2020	2019
	RMB'000	*RMB'000*
Research expenses	**399,472**	322,356
External research expenses	**139,026**	44,748
Raw materials used	**368,255**	311,218
Changes in inventories of finished goods and work in progress	**68,044**	60,885
Depreciation of property, plant and equipment	**215,580**	223,149
Depreciation of right-of-use assets	**21,465**	23,160
Employee benefit expenses		
Wages and salaries	**501,370**	446,565
Welfares	**66,937**	108,442
Share-based payments	**23,176**	353
Amortisation of intangible assets	**28,180**	96,402
Impairment losses of goodwill	**–**	2,843,903
Impairment losses of intangible assets (Note 4)	**–**	759,615
Impairment losses of investment accounted for using the equity method (Note 5)	**–**	91,521
Impairment losses of property, plant and equipment	**–**	276,464
Professional fee	**86,622**	58,595
Office expenses	**57,514**	46,940
Tax surcharges	**66,089**	74,773
Travelling expenses	**16,706**	29,364
Transportation expenses	**28,970**	24,357
Utilities and property management fee	**8,822**	9,687
Rental expenses	**5,336**	255
Advertising and promotional expenses	**43,722**	14,736
Auditor's remuneration	**5,000**	5,500
Entertainment expenses	**10,793**	13,661
Bank charges	**1,267**	6,361
Others	**9,241**	7,114
Total cost of sales, distribution expenses, administrative expenses, research and development expenses, other expenses and impairment losses	**2,171,587**	5,900,124

14. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2020 and 2019 is analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Current tax:		
Provision for the year	**147,200**	485,812
Total current tax	**147,200**	485,812
Deferred tax:		
Origination and reversal of temporary differences	**71,840**	(340,424)
Provision for withholding tax	**–**	145,000
Total deferred tax	**71,840**	(195,424)
Income tax expense from continuing operations	**219,040**	290,388
Income tax expense from discontinued operations (Note 15)	**–**	–
	219,040	290,388

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

	2020	2019
	RMB'000	*RMB'000*
Profit/(loss) before tax	**730,927**	(2,466,923)
From continuing operations	**765,844**	(2,422,955)
From discontinued operations	**(34,917)**	(43,968)
Tax calculated at the PRC applicable statutory tax rate of 25% (2019: 25%)	**182,732**	(616,731)
Tax effects of:		
– Utilisation of previously unrecognised tax losses	**(24,858)**	(888)
– Effect of tax concessions and exemption	**(197,422)**	(177,036)
– Expenses not deductible for tax purposes	**16,029**	807,026
– Profits attributable to associates and joint ventures	**4,131**	1,798
– Income not subject to tax	**(7,750)**	–
– Tax losses for which no deferred tax asset was recognised	**246,178**	131,219
– Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**–**	145,000
Income tax expense	**219,040**	290,388

Bermuda profits tax

The Group was not subject to any taxation in this jurisdiction during the year (2019: Nil).

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

PRC corporate income tax ("PRC CIT")

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

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

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2020 and 2019 was provided at the rate of 15%.

PRC withholding tax on retained earnings

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

15. DISCONTINUED OPERATIONS

On 15 June 2020, the Company's resolution on disposals of Chonghui Investment Limited ("**Chonghui**") and Tengwei Investment Limited ("**Tengwei**") was duly passed. During the year, Chonghui and Tengwei were disposed of, and excluded from the annual financial statements of the Group.

The results of the discontinued operations for the year ended 31 December 2019 and the period from 1 January 2020 to the disposal date are presented below:

	The period from 1 January 2020 to the date of disposal *RMB'000*	2019 *RMB'000*
Revenue	**8,868**	8,661
Cost of sales	**(3,354)**	(3,065)
Expenses	**(36,971)**	(54,234)
Finance expenses	**–**	(156)
Share of profits and losses of investments accounted for using the equity method	**(3,460)**	4,826
Loss before tax	**(34,917)**	(43,968)
Income tax:		
Related to pre-tax profit	**–**	–
Loss for the period/year	**(34,917)**	(43,968)

The net cash flows incurred by the discontinued operations are as follows:

	The period from 1 January 2020 to the date of disposal *RMB'000*	2019 *RMB'000*
Operating activities	**9,390**	(8,199)
Investing activities	**(22,639)**	(12,257)
Financing activities	**145,800**	6,250
Net cash inflow/(outflow)	**132,551**	(14,206)
Basic and diluted loss per share from discontinued operations (RMB cents per share)	**(0.3)**	(0.4)

The calculations of basic and diluted loss per share from discontinued operations are based on:

	The period from 1 January 2020 to the date of disposal	2019
Loss attributable to ordinary equity holders of the Company (RMB'000)	**(29,187)**	(35,817)
Weighted average number of ordinary shares in issue during the period/year for basic and diluted loss per share calculation (thousands)	**9,465,682**	9,468,079

16. EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	2020	2019
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation (RMB'000)		
From continuing operations	**502,569**	(2,717,515)
From discontinued operations	**(29,187)**	(35,817)
Profit/(loss) attributable to ordinary equity holders of the Company (RMB'000)	**473,382**	(2,753,332)
Weighted average number of ordinary shares in issue for basic earnings/(loss) per share (thousands)	**9,465,682**	9,468,079
Basic earnings/(loss) per share (RMB cents per share)		
For profit/(loss) for the year	**5.0**	(29.1)
For profit/(loss) for the continuing operations	**5.3**	(28.7)

(b) Diluted

There was no dilution to earnings/(loss) per share for year 2020 and 2019 because there were no potential dilutive ordinary shares existing. The diluted earnings/(loss) per share amount equalled to the basic earnings/(loss) per share amount.

17. DIVIDENDS

The dividends paid in 2020 and 2019 were RMB1,419,852,000 and RMB160,987,000, respectively. A final cash dividend for the year ended 31 December 2020 of RMB123,054,000 was recommended by the Board and will be subject to approval at the forthcoming annual general meeting of the Company.

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

	2020	2019
	RMB'000	*RMB'000*
Final 2019 dividend of RMB1.3 (2018: RMB1.3) cents per ordinary share for the previous year, paid during the year	**123,054**	123,124
Special cash dividend of RMB10.6 (2019: Nil) cents per ordinary share	**1,003,362**	–
Interim dividend of RMB0.1 (2019: RMB0.4) cents per ordinary share, declared and paid during the year	**9,466**	37,863
Special cash dividend of RMB3.0 (2019: Nil) cents per ordinary share	**283,970**	–
	1,419,852	160,987

Dividends proposed by the Company for the year:

	2020	2019
	RMB'000	*RMB'000*
Proposed final cash dividend of RMB1.3 (2019: RMB1.3) cents per ordinary share	**123,054**	123,054

18. COMMITMENTS

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**650,478**	284,296
Intangible assets – product development in progress	**62,016**	94,790
	712,494	379,086

19. BUSINESS COMBINATION

(a) Acquisition of Beijing Lianben Technology Development Co., Ltd. and Beijing Lianben Pharmaceutical Chemical Technology Co., Ltd.

On 31 January 2020, the Group acquired a 100% equity interests in Beijing Lianben Technology Development Co., Ltd. ("**Lianben Technology**") and Beijing Lianben Pharmaceutical Chemical Technology Co., Ltd. ("**Lianben Chemical**"), two unlisted companies based in Mainland China that are specialised in the technology service of chemical materials, at a consideration of RMB46,500,000. The Group has acquired Lianben Technology and Lianben Chemical to expand the existing product portfolio, increase market share and enhance competitiveness. The total purchase consideration of RMB46,500,000 was to be settled in cash and remained outstanding at 31 December 2020.

The fair values of the identifiable assets and liabilities of Lianben Technology and Lianben Chemical as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	**6,917**
Intangible assets	**90**
Cash and cash equivalents	**7,499**
Trade and other receivables	**66,150**
Inventories	**7,223**
Trade and other payables	**(13,643)**
Contract liabilities (current)	**(9,746)**
Income tax payable	**(160)**
Interest-bearing bank borrowings	**(15,000)**
Total identifiable net assets at fair value	**49,330**
Gain on acquisition recognised in other gains (Note 12)	**(2,830)**
Satisfied by cash	**46,500**

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB66,150,000 being the same as their gross contractual amount.

An analysis of the cash flows in respect of the acquisition of Lianben Technology and Lianben Chemical is as follows:

	RMB'000
Cash and bank balance acquired	**7,499**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**7,499**

Since the acquisition, Lianben Technology and Lianben Chemical contributed RMB198,716,000 to the Group's revenue and RMB6,899,000 to the consolidated profit for the year ended 31 December 2020.

Had the acquisition taken place at the beginning of the year, the revenue and profit contributed to the continuing operations of the Group for the year ended 31 December 2020 would have been RMB214,224,000 and RMB8,474,000, respectively.

(b) Acquisition of Jilin Aotong Chemical Co., Ltd.

On 31 March 2020, the Group acquired a 60% equity interest in Jilin Aotong Chemical Co., Ltd. ("**Jilin Aotong**"), an unlisted company based in Mainland China that is specialised in the manufacture of chemical materials. The Group has acquired Jilin Aotong to expand the existing product portfolio, increase market share and enhance competitiveness. The purchase consideration of RMB16,800,000 for the acquisition was in form of capital injection to Jilin Aotong.

The fair values of the identifiable assets and liabilities of Jilin Aotong as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	**9,756**
Right-of-use assets	**14,551**
Cash and cash equivalents	**2**
Trade and other receivables	**20,719**
Inventories	**2,098**
Trade and other payables	**(22,954)**
Contract liabilities (current)	**(1,510)**
Income tax payable	**(9,263)**
Total identifiable net assets at fair value	**13,399**
Less: Non-controlling interests	**(5,360)**
Goodwill on acquisition	**8,761**
Satisfied by cash	**16,800**

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB20,719,000 being the same as their gross contractual amount.

The goodwill recognised is primarily attributed to the expected synergy and other benefits from combining the assets and activities of Jilin Aotong with those of the Group. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Jilin Aotong is as follows:

	RMB'000
Cash and bank balance acquired	**2**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**2**

Since the acquisition, Jilin Aotong contributed RMB560,000 to the Group's revenue and incurred RMB11,451,000 to the consolidated loss for the year ended 31 December 2020.

Had the acquisition taken place at the beginning of the year, revenue and loss added to the continuing operations of the Group for the year ended 31 December 2020 would have been RMB851,000 and RMB12,078,000, respectively.

During the year, the Group completed the remaining 40% of the equity acquisition of Jilin Aotong at a cash consideration of RMB10,000,000. As at 31 December 2020, the Group held 100% equity of Jilin Aotong.

(c) Acquisition of Jilin Jiahui Chemical Co., Ltd.

On 30 September 2020, the Group acquired a 60% equity interest in Jilin Jiahui Chemical Co., Ltd. ("**Jilin Jiahui**"), an unlisted company based in Mainland China that is specialised in the manufacture of chemical materials, at a consideration of RMB6,000,000. The Group has acquired Jilin Jiahui to expand the existing product portfolio, increase market share and enhance competitiveness. Total purchase consideration was fully paid in 2020.

The fair values of the identifiable assets and liabilities of Jilin Jiahui as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	**22,852**
Right-of-use assets	**6,284**
Cash and cash equivalents	**7**
Trade and other receivables	**10,376**
Inventories	**18,020**
Trade and other payables	**(25,492)**
Contract liabilities (current)	**(27,963)**
Income tax payable	**(2)**
Total identifiable net assets at fair value	**4,082**
Less: Non-controlling interests	**(1,633)**
Goodwill on acquisition	**3,551**
Satisfied by cash	**6,000**

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB10,376,000 being the same as their gross contractual amount.

The goodwill recognised is primarily attributed to the expected synergy and other benefits from combining the assets and activities of Jilin Jiahui with those of the Group. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Jilin Jiahui is as follows:

	RMB'000
Cash and bank balance acquired	**7**
Cash paid	**(6,000)**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(5,993)**

Since the acquisition, Jilin Jiahui incurred RMB1,977,000 to the consolidated loss for the year ended 31 December 2020.

Had the acquisition taken place at the beginning of the year, loss added to the continuing operations of the Group for the year ended 31 December 2020 would have been RMB4,277,000.

20. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) Disposal of Chonghui

During the year, the Group transferred its entire interest in Chonghui to a related party, CFS Development Holding Limited, which is wholly-owned by Dr. Che Fengsheng, for a consideration of RMB143,400,000. An analysis of the net gain and cash outflow in respect of the disposal of Chonghui is as follows:

	RMB'000
Property, plant and equipment	**40,060**
Right-of-use assets	**104,810**
Intangible assets	**6,528**
Other non-current assets	**5,106**
Financial assets at fair value through profit or loss (current)	**129**
Inventories	**6,370**
Investment accounted for using the equity method	**66,637**
Financial assets at fair value through profit or loss (non-current)	**5,500**
Trade and other receivables	**51,482**
Cash and cash equivalents	**155,329**
Lease liabilities	**(5,370)**
Other non-current liabilities	**(169,340)**
Trade and other payables	**(182,640)**
Non-controlling interests	**3,603**
Net assets derecognised	**88,204**
Consideration for disposal of Chonghui	**143,400**
Gain on derecognition of Chonghui	**55,196**
Analysis of cash flows in respect of the disposal of Chonghui:	
Cash consideration received	**143,400**
Cash and cash equivalents disposed of	**(155,329)**
Net cash flow on disposal	**(11,929)**

(b) Disposal of Tengwei

During the year, the Group transferred its entire interest in Tengwei to a related party, Weicheng Investment Holding Limited, which is wholly-owned by Dr. Guo Weicheng, for a consideration of RMB136,200,000. An analysis of the net gain and cash inflow in respect of the disposal of Tengwei is as follows:

	RMB'000
Investment accounted for using the equity method	**116,089**
Financial assets at fair value through profit or loss (non-current)	**3,000**
Net assets derecognised	**119,089**
Consideration for disposal of Tengwei	**136,200**
Gain on derecognition of Tengwei	**17,111**
Analysis of cash flows in respect of the disposal of Tengwei:	
Cash consideration received	**129,500**
Cash and cash equivalents disposed of	**–**
Net cash flow on disposal	**129,500**

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The year 2020 was a very challenging and stressful year for many industries, with the sudden onset of the COVID-19 pandemic leading to the greatest change that humanity has experienced in a century. The world pattern and the international system are undergoing profound adjustments, and all industries are undergoing profound changes. For the pharmaceutical industry, risks and opportunities coexist in 2020. The global healthcare system has been hit hard by the "black swan" of the COVID-19 pandemic and the healthcare industry in particular has been thrust into the limelight. And this is also why the pharmaceutical sector has once again become the target of capital pursuit.

In the rapid development of the pharmaceutical industry in 2020, the National Healthcare Security Administration has carried out a series of reforms such as the adjustment of the National Reimbursement Drug List ("**NRDL**") and the centralized procurement of generic drugs. These policies have caused tremendous changes in the industry structure, and the demand for upgrading and innovation transformation of the pharmaceutical industry is becoming increasingly urgent. Specifically as follows:

Change 1: the adjustment of the NRDL, and evidence-based medicine was valued. The drugs that have entered the NRDL this year involve the most extensive therapeutic areas. Except for all drugs listed in the COVID-19 diagnosis and treatment plan, domestic PD-1 monoclonal antibodies are all included in the new NRDL. After being included in the NRDL, the drug will be sold at a price-for-volume basis to advance the peak sales. The NRDL has become a battleground for pharmaceutical companies, and the access to the NRDL through evidence-based medicine has also received unprecedented attention.

Change 2: normalization of centralized procurement, consistency evaluation is imperative. Since the first batch of centralized procurement appeared in 2018, this year it has reached the fourth batch. After the implementation of this centralized procurement, the market for drugs with unclear clinical value and high-priced generic drugs has further shrunk. With the implementation of the reform of the National Healthcare Security Administration, the number of varieties through consistency evaluation has increased, and the range of products purchased in quantity has continued to expand. The adjustment of the national reimbursement drug list and centralized procurement will be normalized, and coverage will be gradually increased. Therefore, actively passing the consistency evaluation will become the consistent choice for pharmaceutical companies in future.

Change 3: high-quality innovation has become the main line of development. Under the background of continuous encouragement of innovation and high-end manufacturing at the national policy level, innovative pharmaceutical companies and innovative medical device companies have become the darlings of the times, and high-quality innovation has become the core line of the development of today's pharmaceutical companies. In response to the COVID-19 pandemic, the importance of pharmaceutical research and development ("**R&D**") and innovation has also been fully demonstrated. In 2020, innovative drug companies have thrived and have entered into capital market. Traditional pharmaceutical companies seek transformation, and to realize a more comprehensive and international transformation in innovative forms will become the main line of development.

Sihuan Pharmaceutical has been proactive and followed the trend since 2012 in the context of major changes in the industry, and today has been able to highlight the reforms and achieve innovative transformation. The Group continued to exert its strength in the pharmaceutical business, the innovative drug platform Xuanzhu Biopharmaceutical Co., Ltd (“**Xuanzhu Biopharm**”) ushered in an explosion, and innovation-driven continued to increase; the generic drug R&D platform continued to promote product cultivation speed, a number of products were approved, evidence-based medicine research continues to advance, helping products return to the NRDL; the comprehensive, professional and efficient academic marketing platform provides strong “monetization” capabilities after new product launch. In addition, a number of high-quality new businesses carefully incubated by the Group will simultaneously lead in multiple fields. The blockbuster product exclusively distributed by the Group’s medical aesthetic platform Beijing MeiYan KongJian Technology Co., Ltd (“**MeiYan KongJian**”), the South Korea’s No. 1 botulinum toxin product “Letybo®”, was officially approved for launch in China at the end of 2020. Sihuan medical aesthetic business has thus become one of the first-tier medical aesthetic platform in China. At the same time, the Group’s medical aesthetic business will become a super accelerator for Sihuan Pharmaceutical’s future business growth and corporate value enhancement. Subsidiary Jilin Kangtong Pharmaceutical Group Co., Ltd (“**Jilin Kangtong**”) Active Pharmaceutical Ingredients (“**API**”) platform will give full play to Sihuan Pharmaceutical’s advantages in the entire chemical generic drug industry chain and the integrated strategy of “API + contract development and manufacturing organization (“**CDMO**”) + preparations”, and is committed to becoming a pharmaceutical intermediate and an integrated CDMO leader in the fields of APIs and high-end preparations. Subsidiary Jilin Sihuan Aokang Pharmaceutical Co., Ltd. (“**Aokang Yaoye**”) has obtained the only high-content cannabidiol (“**CBD**”) scientific research planting qualification for industrial hemp in Jilin Province, and will continue to make efforts in the field of high-quality modern Chinese medicine.

Group Performance

In 2020, the Group actively responded to policy changes and market challenges, promoted the implementation of innovation and transformation strategies, continued to increase R&D investment and investment in new business incubation with the medical aesthetic business as the core, actively promoted industrial mergers and acquisitions, and overseas business expansion, improved industrial layout and product structure, and optimized corporate operations and control levels, and has achieved many good results, especially the outstanding achievements in the new business incubation with medical aesthetic business as the core and the innovation and transformation with Xuanzhu Biopharmaceutical as the core. In the future, the Group will adhere to the two-wheel drive strategy of accelerating the development of independent innovation R&D and high-growth new medical aesthetics business, to accelerate the Group’s innovative transformation and development, and build a new pattern of international biopharmaceutical technology enterprise.

In the context of intensified external challenges, the Group’s operating scale reached RMB2,464.2 million in 2020, although its growth rate has slowed slightly due to comprehensive factors such as industry policies and the impact of the COVID-19 pandemic.

For the year ended 31 December 2020 (the “**Year**”), the Group recorded a total revenue of RMB2,464.2 million, a decrease of 14.4% from the total revenue of RMB2,878.3 million in 2019. Among them, the Group’s products not under the National Key Drug List for Monitoring and Prescription Control (Chemical and Biological Products) (“**Key Monitoring List**”) recorded a revenue of RMB1,799.1 million, which was increased significantly by 108.2% as compared to that in 2019, accounting for 73.0% of the Group’s annual total revenue in 2020, representing a significant increase of 43.0 percentage points from the 30.0% in 2019. This once again proved the strong market demand for the Group’s products under non-key monitoring list and the Group’s superior sales capabilities and strength.

During the Year, the Group achieved a gross profit of RMB1,914.4 million, a decrease of 16.4% from the gross profit of RMB2,289.3 million in 2019; the overall gross profit margin was 77.7%, which was a slight decrease of 1.8 percentage points compared with the 79.5% gross profit in 2019. This was mainly due to the sharp decline in the sales of drugs in the original key-monitored drug lists during the year, and the gross profit margin of these drugs are relatively high.

During the Year, the Group achieved a profit for the Year from continuing operations of RMB546.8 million, a significant increase from the loss for the Year from continuing operations of RMB2,713.3 million in 2019; the overall net profit rate was 22.2%, a significant increase compared with the net loss rate of 94.3% in 2019, mainly due to the significant provision made by the Group for impairment losses on goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment in 2019.

During the Year, the Group's R&D expenses were RMB729.2 million, an increase of 21.7% compared to the R&D expenses of RMB599.0 million in 2019. R&D expenses accounted for 29.6% of the Group's total revenue.

During the Year, the Group's R&D investment in new business incubations (including Sihuan Pharmaceutical's medical aesthetic business, raw materials and CDMO, industrial hemp and Chinese medicine) increased nearly 65% comparing to 2019. The new businesses incubated by the Group will have the opportunity to bring significant investment returns to the Group in the next 3 to 5 years.

During the Year, the Group achieved a profit attributable to owners of the Company of RMB473.4 million, which was a significant increase from the loss attributable to owners of the Company of RMB2,753.3 million in 2019 (The same reason as the increase in profit for the Year from continuing operations above). In 2020, basic earnings per share were RMB5.0 cents (loss per share was RMB29.1 cents in 2019), and the Board has recommended a final dividend of RMB1.3 cents per share.

As of 31 December 2020, the Group had cash and cash equivalents of approximately RMB4,604.0 million, a decrease of about RMB513.1 million compared to 2019, mainly due to the dividends paid of RMB1,444.4 million, an increase of RMB1,245.6 million comparing to 2019. The debt-to-equity ratio (that is, a percentage of borrowings over equity attributable to the owners of the Company) is 8.2%, which continues to remain low. The financial situation of the Group remains stable and healthy.

Business Review

Pharmaceutical business: adhere to independent innovation and build an international research, production and sales platform

Being led by innovation, the Group adheres to the core philosophy driven by both innovation and generics, and continuously enriches its high-quality self-developed product pipeline to achieve coverage in multiple major therapeutic areas.

Relying on the Group's high-efficiency and low-cost production platform, the Group can not only benefit from the reduction in sales cost and increase in sales volume brought about by centralized procurement, but also effectively cope with the price reduction brought by centralized procurement, with unique anti-risk capabilities and stability.

The comprehensive coverage of the sales network drives the sustainable growth of the Group's performance, in order to maintain a stable financial position and obtain sufficient cash flow. The Group is developing in a healthy and sound manner, which is a bright investment spot.

1. The pharmaceutical business continues to exert strength and adheres to the core philosophy driven by both innovation and generic

1.1 Innovative drug: Xuanzhu Biopharm ushered in an outbreak, innovation drive continues to ramp up

Innovative R&D has always been the most important development driver of the Group. Unlike other emerging biotechnology and pharmaceutical companies, the Group has chosen a more comprehensive development path with platform advantages. While possessing a rich and high-quality pipeline of self-developed products, Xuanzhu Biopharm, a subsidiary of the Group, also integrates R&D, clinical development, production and sales, and is a leading international innovative drug company.

Xuanzhu Biopharm has 14 innovative products projects under R&D, with a pipeline covering a wide range of therapeutic areas including oncology, metabolic disease and anti-infection, many of which are in late stage clinical trials. The core product, Birociclib, a CDK 4/6 inhibitor used for the treatment of advanced breast cancer, has enter into clinical trials on three indications. Among, the single drug end-line treatment is in phase II clinical trial, and is planned to file for registration based on the result of the single-drug single-arm phase II clinical trials, which could be marketed if approved by Center for Drug Evaluation ("**CDE**"). The blockbuster product plazomicin is in phase III clinical trial. Plazomicin is a new generation of semi-synthetic aminoglycoside antibiotics (a new generation of super antibiotics) developed by Achaogen. Clinical applications have demonstrated that the risk of nephrotoxicity of plazomicin is significantly lower than that of previous generations of aminoglycoside drugs. The self-developed new generation of digestive disease drug anaprazole sodium has completed patient enrollment of phase III clinical trial, and entered the stage of data cleaning, locking and unblinding. Anaprazole sodium is the only proton-pump inhibitors ("**PPIs**") independently developed in China, and its drug safety and symptom relief are better than similar products. Benapenem for the treatment of complicated urinary tract infections has entered phase II clinical trials. Benapenem is independently developed by Xuanzhu Biopharm and owns independent intellectual property rights. It is the only class 1.1 carbapenem antibiotic in China. In early 2021, XZP-5610, the 14th innovative small molecule drug independently designed and developed by Xuanzhu Biopharm, has successfully obtained CDE approval for clinical trials. The target indication of the drug is non-alcoholic steatohepatitis (NASH).

Behind the pipeline of more than a dozen innovative drugs under development, Xuanzhu Biopharm's innovative drug R&D processes are supported by advanced hardware capabilities, a complete small molecule new drug R&D platform and a complete clinical research team.

The team of scientists at Xuanzhu Biopharm has an average of 20 to 30 years of experience in overseas multinational pharmaceutical companies, covering therapeutic areas including biology, chemistry, organic chemistry, macromolecules, and pharmaceutical production. At the same time, the two business development officers of Xuanzhu Biopharm in the United States are closely monitoring and contacting the active new drug market in Europe and the United States, which is intending to integrate high-quality global resources and accelerate business development. Xuanzhu Biopharm's clinical cooperation expert team guiding the company's clinical development is of first-class level domestically. The clinical development team consists of more than 230 people, including over 90 doctors, masters, and returnees, covering all key links from clinical development to new drug registration.

As the world's second-largest and rapidly growing pharmaceutical market, China is transforming from "generic drugs-based" to "innovation-driven" with the support of strong national policies. Benchmarking the world's best molecular structure, possessing global intellectual property rights, independent pricing power, and not relying on contract research organization ("**CRO**") are the unique advantages of Xuanzhu Biopharm. The products developed by Xuanzhu Biopharm have been proven to have high efficacy, effectiveness and safety.

In 2020, Xuanzhu Biopharm successfully acquired all rights and intellectual property rights in the Greater China Region (including China, Hong Kong Special Administrative Region of China, Macau Special Administrative Region of China, and Taiwan of China) of a new generation of aminoglycoside antibiotic plazomicin (a new generation of super antibiotics) developed by Achaogen Inc., a company incorporated in the State of Delaware. Plazomicin, administered by intravenous injection which is an aminoglycoside antibiotic approved by the US Food and Drug Administration for the treatment of complex urinary infections. Plazomicin will be a valuable new treatment option for patients with severe bacterial infections. Xuanzhu Biopharm will continue to improve and optimize its asset structure though this acquisition.

In August 2020, Xuanzhu Biopharm completed the first round of equity financing, and introduced domestic first-tier private equity funds including CMG-SDIC Capital Co., Ltd. ("**CMG-SDIC**") as the company's shareholders. The total amount of fund raised was RMB800 million, with follow-on investments of RMB160 million from additional follow-on investors, bringing the total fund raised to RMB960 million, and the post-investment valuation reached RMB4.5 billion. In the future, the two parties will conduct comprehensive strategic cooperation in the introduction and R&D of innovative drugs. At the same time, Xuanzhu Biopharm has successfully implemented the management equity incentive plan to further increase the layout of innovative R&D.

In early 2021, Xuanzhu Biopharm completed the signing of a framework agreement to acquire Combio Pharmaceutical. Combio Pharmaceutical is an innovation-driven biological company dedicated to the R&D of multifunctional antibody drugs such as innovative bispecific antibodies and bispecific antibody drug conjugates ("**ADC**"). The company has two antibody technology platforms, "Mab Edit" (antibody editing) and "Mebs-Ig" (antibody editing bispecific antibodies), focusing on the R&D of innovative antibody drugs such as major malignant tumors, autoimmune diseases, and infectious diseases. The research and development of multifunctional antibody drugs such as bispecific antibodies and ADCs can be carried out at the same time.

Combio Pharmaceutical focuses on biological macromolecules, and owns 12 pipeline products, half of which are bispecific antibodies. The key product, KM257, is an anti-tumor drug targeting overexpress HER-2, which is the world's first fucose-removed common light chain antibody drug. It has now entered the primate safety evaluation and IND stage. In addition, the KMD254-ADC developed by Combio Pharmaceutical is the best-in-class bispecific ADC drug in China and overseas, which targets cancers with low expression of HER-2, such as gastric cancer, breast cancer and lung cancer. Combio Pharmaceutical's HER-2 bispecific antibody and bispecific ADC can be jointly developed with the Xuanzhu Biopharm's existing breast cancer drugs, etc.. Leveraging the attributes of small molecules and biologics can bring a strong biomedicine R&D pipeline to the innovative R&D of Xuanzhu Biopharm.

The management team and R&D team of Combio Pharmaceutical have rich experience in biopharmaceutical R&D. The team has a total of more than 20 employees, including 4 PhDs, 2 of whom were selected in the Beijing Thousand Talents Project. Its technical management team has more than 15 to 20 years of biopharmaceutical development experience, and the projects participated and presided over have obtained more than 15 clinical approvals, such as China's Nimotuzumab and the popular Amgen's Blinatumomab, which the team also participated in and even hosted the project. The advisory team also includes academicians of the Chinese Academy of Sciences, researchers, and some R&D directors and chief scientists from multinational pharmaceutical United States companies.

With the completion of the acquisition, Xuanzhu Biopharm's innovation driving force has been further enhanced, and it will become a domestic biomedical company with comprehensive innovative drug development capabilities in the fields of small molecules and macromolecules. It is believed that the acquisition will be a milestone event in the Group's macromolecular sector, and it may play an important role in amplifying the value of Xuanzhu Biopharm's future financing and development.

1.2 Generic drugs: Evidence-based medicine helps return to reimbursement drug list, the consistency evaluation lays the foundation for future victory

Apart from innovative drugs, the Group also adheres to the development mode of simultaneous imitation and innovation, and continuously expands the Group's advantages in generic drugs through business collaboration and resource integration. Recently, the Group's generic drug R&D pipeline includes 53 generic drugs with high-tech barriers. The technical barriers have been increased, product cultivation has been accelerated and the coverage of existing product lines has been effectively expanded through mergers and acquisitions and cooperation.

During the Year, a number of products of the Group obtained drug production approvals issued by the National Medical Products Administration ("**NMPA**"), including rivastigmine hydrogen tartrate capsule (1.5mg and 3.0mg), levetiracetam tablet (0.25g and 0.5g), and gabapentin capsule, pediatric compound amino acid injection (18AA-II) and levetiracetam injection concentrated solution (5ml: 0.5g). The Group's listed drug-monoammonium glycyrrhizinate and cysteine and sodium chloride injection (Huineng®) has also officially entered the class B scope of the NRDL.

Cinepazide maleate injection (Kelinao® 2ml: 80mg/bottle) is a new indication for the treatment of acute ischemic stroke. It was approved by the National Medical Products Administration in October 2020. It is currently the only approved drug in the field of stroke treatment since the commencement of the domestic post-marketing clinical study for drugs, which proves its clinical value as a clear therapeutic drug for cerebrovascular diseases. In response to industry changes, the blockbuster product, Kelinao may be able to be included in national reimbursement drug list again in the future, achieving a substantial rebound in sales.

The "non-PVC solid-liquid double-chamber infusion soft bag" (the "**Solid-liquid Double Chamber Bag**") products developed by associated company Beijing Ruiye Drugs Manufacture Co, Ltd. ("**Beijing Ruiye**"), including "non-PVC solid-liquid double chamber bag for ceftazidime/sodium chloride injection", "Non-PVC Solid-Liquid Double Chamber Bag for Cefodizime Sodium/5% Glucose Injection" and "Non-PVC Solid-Liquid Double Chamber Bag for Cefodizime Sodium/Sodium Chloride Injection", as well as "Non-PVC Solid-Liquid Double Chamber Bag for Cefuroxime Sodium/Sodium Chloride Injection", have obtained drug registration approval, and it is the first and only drug manufacturer in China that has been granted drug registration approval for the Solid-liquid Double Chamber Bag of the series drugs by the NMPA.

At the beginning of 2021, pantoprazole sodium injection (Panzuoer® 40mg per unit) was approved by the National Medical Products Administration to pass the quality and efficacy consistency evaluation, and was compared with ibuprofen injection (falanfen® 4ml: 0.4g, tenaan® 8ml: 0.8g) was successfully selected in the fourth batch of national drug centralized procurement. Octreotide acetate injection (1ml: 0.05mg and 1ml: 0.1mg) was approved as it passed the consistency evaluation on quality and efficiency, which is the first enterprise passing the consistency evaluation for this type of drug. The Group believes that the new developments in the above generic drug business will have a positive impact on the Group's operating results.

1.3 *Sales: A comprehensive, professional and efficient academic marketing platform with a strong "monetization" ability of new products on the market*

After years of development, the Group already has a strong sales team, a unique and excellent marketing model to facilitate the commercialization of products. Relying on a professional sales team and market network with rich experience, high performance and comprehensive hospital coverage, the Group has a strong "monetization" ability for new products to be launched.

As of the end of 2020, the Group has a professional marketing team of more than 1,000 people, more than 3,000 distributors and more than 20,000 sales managers, nearly 40% of whom are solely responsible for selling Sihuan products. The Group's sales network covers 14,460 hospitals, including 2,000 Class III hospitals, 5,941 Class II hospitals, and 6,969 hospitals below Class II. The breadth and depth of coverage are in line with the Group's international positioning. The proportion of provinces being covered is 100%.

The sales staff of the Group have extremely professional qualities, most of the relevant practitioners have a master's degree or above in medicine. Through the division of labor and collaboration between the marketing team, distributors and sales managers, the marketing network operates efficiently with high output and cost efficiency, and can promote innovative products, also rapidly develop and penetrate on the market through the establishment of a dedicated and large-scale direct sales team.

1.4 *Investment in mergers and acquisitions and international cooperation to accelerate the pace of product innovation and international transformation*

While arranging its own business, the Group has not neglected to carry out extensive development from capital investment, equity investment, international cooperation, import and export business layout, etc., so as to accelerate the pace of product innovation and international transformation.

In October 2020, the Group announced its participation in an investment of no more than US$10 million in Phase I Fund of Ascendum Capital Life Technology. The Group looks forward to expanding its resources in the development of innovative drugs and accelerate the introduction of overseas innovative drugs in China, strengthen its resources and develop its international product pipeline and accelerate its product innovation and internationalization.

In August 2020, Beijing Ruiye, an associate of the Group, has introduced Guangdong Guanrun Equity Investment Partnership and Nanjing Huiji Equity Investment Partnership as investors for capital injection of RMB200 million. After the capital injection, the overall valuation of Beijing Ruiye is RMB2.9 billion. The current utilization rate of non-PVC infusion soft bag products in China only accounts for 20%. In the future, if promotion of the use of non-PVC products from the environmental protection aspect occurs or initiation of mass procurement from the perspective of drug stability, Beijing Ruiye will be the first and only company in China to obtain the Solid-liquid Double Chamber Bag register approvals, which has great policy advantages. The Group is also expected to further consolidate and strengthen its leading position in the field of antibiotic double-chamber bags in the coming year.

In February 2020, the Group and Hetero Labs Limited, a company registered under the laws of India, reached a cooperation framework agreement in the pharmaceutical manufacturing area. Under the terms of the cooperation framework agreement, the cooperation includes R&D, product registration, technology transfer, raw materials supply and local manufacturing and commercialization of drugs in the fields of cardiovascular, cerebrovascular, neurology and anti-infectives including novel coronavirus (2019-nCoV), etc. The signing of the cooperation framework agreement will achieve a win-win situation in which both parties complement each other's advantages and accelerate development together.

2. Incubate new business and lead in multiple fields

2.1 Sihuan Medical Aesthetic: a super accelerator for future business growth and enterprise value enhancement

In recent years, the beauty economy has become dominant. With the rise of income level and the changing concept of medical aesthetic, more and more people are using medical aesthetic technology to stay young and beautiful. With the huge demand for medical aesthetic services, the medical aesthetic industry is developing rapidly. As early as 2014, the Group has already started the layout of the medical aesthetic track and established a cooperative relationship with Hugel Inc. ("**Hugel**"), a leading biopharmaceutical company in South Korea.

In October 2020, type A botulinum toxin for injection (Letybo® 100U, trade name: Letybo®), a product exclusively distributed by the Group and produced by Korean biopharmaceutical company Hugel, has officially received the marketing approval from the NMPA of China. Letybo® becomes the fourth type A botulinum toxin products approved for launch in the market of China and the first of its kind from Korea. In the first quarter of 2021, the Chinese AI press conference was held for the product and start to sell in mainland China.

Letybo® 100U (trade name: Letybo®) has 99.5% of 900kDa active protein content for 900kDa complex, which is much higher than the industry purity requirement (the requirement of KFDA is more than 95% of active protein content for 900kDa complex). In terms of efficacy, Letybo® 100U (trade name: Letybo®) has the same efficacy and safety as Allergan's Botox. In terms of quality, Letybo® 100U (trade name: Letybo®) is produced under more stringent production standards and features a uniform and stable-efficacy product under stricter management standards, which makes it hard to find competitors at the same level in the domestic market.

The market size of botulinum toxin products in China was approximately US$600 million (approximately HK$4.66 billion) in 2019. With a penetration rate of less than 2% of the overall medical aesthetic market in China, there is still a large unmet market demand. With the continuous increase in the number of beauty-loving people in China and the continuous rise in spending power and consumption willingness of consumers, coupled by a high acceptance of foreign medical aesthetic technologies and products, especially those from South Korea, there exists a huge market potential. It is expected that the sales of botulinum toxin products in China will surge in the next five years, and sales will reach US$1.8 billion (about HK$13.5 billion) in 2025. China will become one of the three largest markets of botulinum toxin products globally, along with the United States and the European Union. The Group's goal is to shape Letybo® into the No. 1 botulinum toxin brand in China and to achieve a market share of over 30% in China within three years.

In the layout of the sales of Letybo®, the Group has started the preliminary work to make full preparations for the official launch of Letybo® within this year. The core management of Sihuan Pharmaceutical's medical aesthetic platform MeiYan KongJian, have extensive industry experience. They previously held key marketing and training positions in multinational pharmaceutical and medical aesthetic companies such as Pfizer and Allergan, and have more than 10 years of experience in the industry. In addition, relying on the Group's sales network covering more than 200 cities in China and more than 800 cooperatives institutions, Sihuan Pharmaceutical's medical aesthetic platform aims to reach more than 3,000 cooperatives institutions.

As Chinese medical aesthetic product market is gradually expanding, Sihuan Pharmaceutical's medical aesthetic platform will layout more medical aesthetic products. In the future, the Group will continue to work with Hugel and other international medical aesthetic products manufacturing enterprises more closely and to form in-depth strategic cooperation, while products such as Sculptra and Ellance which is under R&D will be launched. In addition, through Meiyen Laboratory Inc established in Los Angeles, the United States, the Group will transform overseas high-quality new medical aesthetic technologies with high technical barriers in our Group's laboratory, and to produce in mainland China, in order to build up Sihuan Pharmaceutical's medical aesthetic platform's product line of high quality. It is believe that Sihuan Pharmaceutical's medical aesthetic platform will become the super accelerator of the Group's business growth and enterprise value enhancement.

2.2 *Build industrial hemp and modern Chinese medicine industry chain base*

Starting in 2018, as Jilin province is expected to become the third province in China to liberalize the cultivation of industrial hemp, Aokang Yaoye, a subsidiary of the Group, officially entered and gradually developed the industrial projects of industrial hemp. Aokang Yaoye aims at the R&D and industrialization of high-content CBD medicinal and medical materials. With the goal of opening up the whole industrial chain of hemp, Aokang Yaoye develops cannabinoids such as CBD for medicinal use, great health care, medical aesthetic and food additives from the aspects of variety, planting and extraction. It also considers the development of biomass products such as hemp seed and fiber.

Industrial hemp in China has a promising future and continues to be strengthened in terms of R&D, breeding, cultivation, extraction technology and application. According to Guotai Junan Research Institute, the total production of industrial hemp in China is expected to exceed 100,000 tonnes in 2024, and the market size of CBD in China is expected to reach RMB1.8 billion in 2024. Aokang Yaoye is currently the only enterprise in Jilin province that has obtained the qualification to grow industrial hemp with high CBD content. In addition, Aokang Yaoye also has a strategic cooperation with the Institute of Bast Fibre Crops of the Chinese Academy of Agricultural Sciences ("**IBFC-CAAS**"), and jointly establish the "Northern Industrial Hemp Research Center". The center will leverage on IBFC-CAAS's full range of seed resources and technical support, as well as Aokang Yaoye's professional modernized Chinese medicine extraction, production, inspection and testing capabilities, and high standard quality management system, to start full cooperation and to increase R&D investment in areas of pharmaceutical, medical aesthetic and foods for special medical purpose. In addition, Aokang Yaoye has also collaborated with 7 domestic and international R&D institutions to further develop R&D projects for industrial hemp extraction and downstream applications.

In addition, Aokang Yaoye also has 164 production varieties with approval numbers, of which 128 varieties are national medical insurance varieties, and 4 national exclusive varieties are "Haitianyishen Capsule", "Niuhuang Qingnao Kaiqiao Pills", "Caoxian Hepatitis B Capsule" and "Gandan Shuangqing Granules".

Aokang Yaoye will continue to benchmark international trends and progress in the R&D of industrial hemp applications, positioning itself in the R&D and industrialization of high-content CBD medicinal and medical materials, and making every effort to build a platform for the whole industry chain from source to patient use in a safe and compliant manner with independent intellectual property rights. With the future approval of the industrialization certificate, Aokang Yaoye is aiming to become the number one platform for research, production and marketing of industrial hemp in north China.

2.3 Accelerate the "transformation" of generic drug API supply business to CDMO and break through the growth ceiling

At present, the competition among domestic pharmaceutical enterprises is fierce, so the capacity optimization, industry integration and structural upgrading of Chinese pharmaceutical enterprises will be more and more important. Benefited from global capacity transfer and domestic policy dividends, China's CDMO market is expected to reach US$52.6 billion in 2024, and is expected to reach US$100 billion in the future.

During the Year, the Group integrated the business of some of its subsidiaries and established Jilin Kangtong. Relying on the Group's strengths in R&D and industrialization of pharmaceutical intermediates and APIs, leveraging the strengths of the whole industry chain of chemical generic drugs and implementing the integrated strategy of "API + CDMO + Pharmaceuticals", the Group aims to cultivate a strong presence in antiviral, anticoagulant and antifungal drugs and form series of outstanding product features and core competitiveness. The Group is committed to the strategic deployment of the whole industry chain of APIs and the construction of a CDMO/CMO platform to open up the ceiling of growth. The Group aims to become a leading integrated CDMO company in the field of pharmaceutical intermediates and APIs.

In addition, the Group has completed the equity acquisition of Jilin Aotong Chemical Co., Ltd. ("**Jilin Aotong**") and Jilin Jiahui Chemical Co., Ltd. ("**Jilin Jiahui**") through Jilin Shengtong, a subsidiary of the Company. Upon completion of the acquisition, the Group shall hold 100% equity interest in Jilin Aotong and 60% equity interest in Jilin Jiahui, respectively. The acquisition will be taken as the key link in Group's entire industry chain layout.

The Group has been operating in the production field for many years and has a first-class production management and operation system in the industry, including raw material R&D, production and supply, production equipment, production process quality control, etc., forming a highly efficient, high quality, multi-dose and large-scale production platform with the capability of R&D and production of APIs, advanced intermediates, key starting materials/starting materials (**KSM/SM**) and raw materials for healthcare products. In the advanced intermediates segment, the Group has several mature projects and has a good market base in Japan, Korea, Europe and India, etc. Several of the top 10 pharmaceutical companies in the respective markets are long-term and stable customers to the Group. With a highly efficient and low-cost production platform and the advantage of a full industrial chain, the Group not only ensures the safe and stable supply chain of API products, but also greatly reduces the cost of raw materials, and possesses unique risk resistance and stability of business growth, making it more competitive in the API market.

During the Year, the Group also completed equity investments in Beijing ChemPion Biotechnology Co., Ltd. ("**Beijing ChemPion Biotechnology**") and Zhongrui (Inner Mongolia) Pharmaceutical Co., Ltd ("**Zhongrui** (**Inner Mongolia**)"). Beijing ChemPion Biotechnology is a leading innovator of Green safety GMP API production. Through its continuous flow and synthetic biology technologies, it is essential to address the safety and environmental friendliness of GMP API manufacturing, while effectively improving land utilization and automation, helping the Group to lead the upgrading of the API industry made in China.

Zhongrui (Inner Mongolia) has been deeply engaged in the API industry for more than 20 years, and its brand is in the leading position in the industry. Its products cover more than 20 kinds of nicotinic acid, nicotinamide and inositol nicotinate, which complement the products of the Group to further increase the capacity of the Group's API and ensure the stable supply of the Group's related pharmaceutical varieties of API. At the same time, the production base and subsidiaries of Zhongrui (Inner Mongolia) will further supplement Jilin Kangtong's production capacity in API and the development of international market business.

Prospects and Future Growth Strategies

Multi-dimensional growth logic under innovation transformation

From the perspective of the Group's development strategy, the Group's future growth logic after innovation and transformation is very clear, no matter whether it is the pharmaceutical business segment that adheres to innovation-led and generic, or the new business segment that is incubating and will become a financial performance accelerator. Each sector not only has its own growth logic and motivation, but can also complement and connect with each other to support the sustainable growth of the Group.

In the short term, in the pharmaceutical business, it is expected that a number of key products will successively be approved by the NMPA to be listed or pass consistency evaluations to improve the Group's product pipeline in the high-growth therapeutic areas. At the same time, the Group will continue to improve the evidence-based medicine system and promote key products to be included in the diagnosis and treatment guidelines through evidence-based research. Among them, the product Kelinao® is expected to improve its market position through evidence-based medicine and to be included in the NRDL, which will further contribute to the group's revenue growth.

In terms of new business, the medical aesthetic business itself has the characteristics of scarcity of domestic products, large market space, and low penetration rate. At present, the Group's approved botulinum toxin, Letybo®, is the fourth approved and internationally competitive blockbuster medical aesthetic product. It is expected to rapidly increase its volume with the help of the professional and strong medical aesthetics sales team of the Group.

In the medium and long term, in the pharmaceutical business, the CDK4/6 inhibitor Birociclib for the treatment of advanced breast cancer in the innovative drug sector, the self-developed digestive system innovative patent drug Anaprozole sodium and the new generation of super antibiotic plazomicin, which have entered the late clinical stage, is about to go on sale, and will soon enter the harvest period. In the generic drugs sector, 53 generic drugs with high-tech barriers have completed trials and started to apply for approval, and will continue to be launched onto the market in the future, continuing the current sales growth momentum and bringing sustained strong cash flow to the Group. At the same time, the global business development centre established by the group in the United States will continue to be responsible for the expansion and management of business projects in Mainland China and abroad to accelerate the introduction and deployment of international projects.

In terms of new business, the medical aesthetics field is a new business with potential. On the one hand, the market is expected to explode in the Chinese botulinum toxin market, and the sales of Letybo®, which the Group distributes, are expected to grow rapidly; on the other hand, the Group is expected to launch hyaluronic acid and PLLA filler products to further supplement the Group's product layout in the medical aesthetics industry and continue to strengthen the value that Letybo® may create. At the same time, with the gradual implementation of Sihuan Pharmaceutical's "API + CDMO + preparation" integrated strategy, the Group will gain new growth momentum and high profitability in the integrated CDMO business in the field of pharmaceutical intermediates and APIs.

Conclusion

In 2020, Sihuan Pharmaceutical took innovation as the lead and accelerate the development of independent innovation R&D and high-growth new business of medical aesthetics as the core of the two-wheel drive strategy, and successfully realized the initial strategic transformation to an international biopharmaceutical technology company and a leading company in the Chinese medical aesthetic industry. The Group's innovative drug platform, medical aesthetic platform, industrial hemp and modern Chinese medicine platform, API/CDMO platform and other highly competitive business platforms have been rolled out. With the advantage of its R&D, production and marketing platform, the Group has developed China's leading integrated pharmaceutical group of production, marketing and R&D, with a leading independent R&D technology platform, a rich pipeline of R&D products, advanced and powerful production facilities and intelligent manufacturing capabilities, and a mature and outstanding sales system.

In 2021, the Group's layout is expected to blossom in more areas, and a powerful growth engine to become an international innovative biopharmaceutical technology company is expected to start. In addition, the Group's strategic investment and mergers and acquisitions will gradually enter a mature period. If the group of independently operated subsidiaries generated by investment, mergers, incubation, holdings, spin-offs and other methods can successfully land in the capital market, it will bring huge boost to the Group's corporate value, and also bring more and better investment returns to the respected shareholders and investors who have always believed in us and be supportive to us.

FINANCIAL REVIEW

Revenue

Under the influence of industry policies and COVID-19 during the Year, revenue of the Group for the Year has decreased by 14.4% to approximately RMB2,464.2 million (2019: RMB2,878.3 million). Among it, income from sales of CCV drugs, which contributed to 56.4% of total revenue, was approximately RMB1,390.2 million (2019: RMB2,342.7 million). It has significantly decreased by 40.7%, approximately RMB952.5 million, whereas the remaining revenue from sales of non-CCV drugs has sharply increased by 100.5% to approximately RMB1,074.0 million (2019: RMB535.6 million). The decreased sales of CCV drug was mainly attributable to the drop in patient flow in hospital during the COVID-19 pandemic and products exclusion from NRDL starting from the second half of last year. For non-CCV drugs, due to strong sales platform, hospital coverage of the drugs has sharply increased.

Cost of sales

Cost of sales of the Group for the Year amounted to approximately RMB549.8 million (2019: RMB589.0 million), accounting for approximately 22.3% of the total revenue.

Gross profit

Gross profit for the Year amounted to approximately RMB1,914.4 million (2019: RMB2,289.3 million). It decreased by approximately RMB374.9 million. Overall gross profit margin slightly decreased from 79.5% for last year to 77.7% for the Year. The lower gross profit margin was resulted from decreased sales of drugs which had better profit margins but were captured in the key-monitored drug lists.

Other gains – net

Other gains – net for the Year decreased by approximately RMB152.6 million to approximately RMB249.6 million (2019: RMB402.2 million). It was mainly due to a decrease in government grants compared with last year.

Gain on derecognition of subsidiaries

Gain on derecognition of subsidiaries for the Year amounted to approximately RMB72.3 million (2019: Nil). The gain was related to disposals of Chonghui Investment Limited ("**Chonghui**") and Tengwei Investment Limited ("**Tengwei**"). For further details, please refer to section headed "Material acquisitions and disposals" below.

Impairment losses on non-current assets

The Group performed impairment testing on assets annually or more frequently if events or change in circumstances indicate that the carrying amount may be impaired. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and value-in-use. During the Year, no impairment on non-current assets was required (2019: RMB3,971.5 million).

Distribution expenses

Distribution expenses for the Year amounted to approximately RMB368.8 million (2019: RMB245.4 million). The increase of approximately RMB123.4 million compared with last year was mainly due to continuing efforts in expanding and developing the market share.

Administrative expenses

Administrative expenses for the Year have increased by 3.9% to approximately RMB489.8 million (2019: RMB471.6 million) as a result of a increase in overheads and activities of the Group.

R&D expenses

R&D expenses for the Year amounted to approximately RMB729.2 million (2019: RMB599.0 million) which represented an increase of 21.7%. It was mainly attributable to more efforts in R&D activities.

Other expenses

Other expenses for the Year amounted to approximately RMB34.1 million (2019: RMB23.7 million). The increase was mainly attributable to donations contributed.

Profit before tax from continuing operations

Profit before tax from continuing operations of the Group for the Year amounted to approximately RMB765.8 million (2019: RMB2,423.0 million of loss).

Income tax expense

Income tax expense of the Group for the Year decreased by 24.6% to approximately RMB219.0 million (2019: RMB290.4 million). The significant decrease was mainly attributable to lower taxable profits generated compared with last year.

Loss for the Year from discontinued operations

Loss for the Year from discontinued operations amounted to approximately RMB34.9 million (2019: RMB44.0 million). It was related to disposals of Chonghui and Tengwei. For further details, please refer to note 15 to the financial statements.

Profit for the Year

Due to the aforesaid, profit for the Year amounted to approximately RMB511.9 million (2019: RMB2,757.3 million of loss).

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the Year amounted to approximately RMB473.4 million (2019: RMB2,753.3 million of loss). In last year, the Group recognised impairment losses on long-term assets, including goodwill, intangible assets, investments accounted for using the equity method and property, plant and equipment.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests for the Year amounted to approximately RMB38.5 million (2019: RMB4.0 million of loss).

Liquidity and financial resources

The Group maintained strong financial position. As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately RMB4,604.0 million (31 December 2019: RMB5,117.1 million). As at the same date, bank borrowings of the Group amounted to approximately RMB719.1 million (31 December 2019: Nil) and borrowings from a non-controlling shareholder of a subsidiary of the Group and a third party amounted to approximately RMB32.0 million (31 December 2019: RMB9.0 million). Accordingly, the Group maintained net cash of over approximately RMB3,852.9 million (31 December 2019: RMB5,108.1 million). The debt-to-equity ratio (that is, a percentage of borrowings over equity attributable to the owners of the Company) is 8.2%.

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short-term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus fund investment. According to the terms of the agreements signed, the total amount of investment conducted by the Group for the Year was approximately RMB18,806.6 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the abovementioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. As at 31 December 2020, the Group recognised total financial assets at fair value through profit or loss of approximately RMB332.7 million, comprising principal of investment of approximately RMB330.0 million and approximately RMB2.7 million of interest income, in the consolidated statement of financial position. As at the date of this announcement, total amount of sold/redeemed investment principal amounted to approximately RMB110.0 million.

The Group had sufficient cash as at 31 December 2020. The Directors are of the opinion that the Group does not have any significant capital risk.

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**4,604,041**	5,117,143

Inventories

As at 31 December 2020, inventories amounted to approximately RMB495.9 million (31 December 2019: RMB409.6 million). The inventory turnover period for the Year was 296 days (31 December 2019: 217 days). The increase was attributable to more pharmaceutical ingredients kept for internal production demand.

Trade and other receivables

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Other receivables of the Group mainly consist of prepayments to suppliers and amounts due from related parties. As at 31 December 2020, the Group's trade and other receivables were approximately RMB971.5 million (31 December 2019: RMB630.1 million). The increase was mainly due to amounts due from third parties.

Property, plant and equipment

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 31 December 2020, the net book value of the property, plant and equipment was approximately RMB3,053.3 million (31 December 2019: RMB2,731.0 million). The increase was mainly attributable to expansion of existing factories and purchase of new equipment.

Goodwill

The Group's goodwill arose from the acquisitions of subsidiaries. As at 31 December 2020, the net carrying amount of goodwill was approximately RMB12.3 million (31 December 2019: Nil).

Intangible assets

The Group's intangible assets mainly comprise customer relationship, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-development of R&D projects. As at 31 December 2020, net intangible assets amounted to approximately RMB505.6 million (31 December 2019: RMB480.0 million).

Trade and other payables

The Group's trade and other payables mainly consist of trade payables, deposit payables, accrued expenses and other payables. As at 31 December 2020, trade and other payables amounted to approximately RMB1,830.2 million (31 December 2019: RMB1,905.8 million). The decrease of approximately RMB75.6 million was mainly attributable to a significant reduction in accrued reimbursement to distributors, netting off increase in payables for both inventory procurement suppliers and acquisitions of subsidiaries.

Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

Off-balance sheet commitments and arrangements

As at 31 December 2020, the Group had neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations with any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

Capital commitment

As at 31 December 2020, the Group's total capital commitment was approximately RMB712.5 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

Credit risk

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

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

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

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

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

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

Foreign exchange risk

The Group's functional currency is RMB and financial instruments are mainly denominated in RMB. The Group mainly operates in the Hong Kong and Mainland China. The Group has no significant foreign exchange risk due to limited foreign currency transactions other than the functional currencies of respective entities. The Group would closely monitor this risk exposure from time to time.

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

Treasury policy

The Group finances its ordinary operations mainly with internally generated resources.

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

Capital expenditure

The Group's capital expenditure mainly includes purchase of property, plant and equipment, prepaid land lease payments and intangible assets. For the Year, the Group's capital expenditure amounted to approximately RMB580.6 million, of which approximately RMB506.6 million and RMB74.0 million were spent on property, plant and equipment and purchase or in-house development of intangible assets, respectively. For the Year, the Group's investment in capital expenditure for R&D amounted to approximately RMB280.8 million, of which approximately RMB214.6 million was spent on property, plant and equipment. The remaining approximately RMB66.2 million related to, the purchase of, and self-development of intangible assets.

Material acquisitions and disposals

(a) During the Year, the Group acquired 100% equity interest in both Beijing Lianben Technology Development Co., Ltd. and Beijing Lianben Pharmaceutical Chemical Technology Co., Ltd., 100% equity interest in Jilin Aotong Chemical Co., Ltd. and 60% equity interest in Jilin Jiahui Chemical Co., Ltd. for a total consideration of RMB79.3 million. For further details, please refer to note 19 to the financial statements.

(b) On 3 May 2020, Sun Moral International (HK) Limited entered into sale and purchase agreements with connected parties to dispose of Chonghui and Tengwei. The disposals were announced by the Company on 3 May 2020, with a circular published on 29 May 2020 and approved by the independent shareholders of the Company on 15 June 2020, respectively. The consideration, excluding shareholder's loan, is approximately HK$306.7 million (equivalent to RMB279.6 million). For further details, please refer to note 20 to the financial statements.

Pledge of assets

As at 31 December 2020, the Group pledged certain assets to secure banking facilities granted to subsidiaries. For further details, please refer to note 9 to the financial statements.

Human resources and remuneration of employees

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

As at 31 December 2020, the Group had 4,354 employees. For the Year, the Group's total salary and related costs was approximately RMB591.5 million (2019: RMB555.4 million).

PRE-EMPTIVE RIGHTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

PUBLIC FLOAT

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

AUDIT COMMITTEE

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

The annual results of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting will be published on the website of the Company and the Stock Exchange and sent to the Shareholders in due course.

INFORMATION ON FINAL CASH DIVIDEND

The Board recommended the declaration and payment of a final cash dividend of RMB1.3 cents per share (equivalent to HK$1.6 cents per share) for the year ended 31 December 2020 in return for Shareholders' support. The proposed dividend is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company. Together with an interim cash dividend of RMB0.1 cents per share and two special cash dividends of RMB10.6 cents per share and RMB3.0 cents per share, respectively, the total cash dividend for the year ended 31 December 2020 will be RMB15.0 cents per share.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2020 will be dispatched to Shareholders and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 23 March 2021

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