CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue by business units:			
Finished drugs	**17,937,001**	13,503,386	+32.8%
Vitamin C	**1,921,704**	1,783,510	+7.7%
Antibiotics	**878,921**	1,086,725	-19.1%
Others	**1,365,566**	1,342,919	+1.7%
Total revenue	**22,103,192**	17,716,540	+24.8%
Gross profit	**15,910,981**	11,737,353	+35.6%
Operating profit	**4,600,181**	3,822,962	+20.3%
Profit attributable to shareholders	**3,714,106**	3,080,802	+20.6%
Basic earnings per share	**RMB59.65 cents**	RMB49.36 cents	+20.8%
Final dividend per share	**HK20 cents**	HK18 cents	+11.1%

The Board has also proposed a bonus issue of one new share for every five existing shares held by shareholders of the Company, which is subject to shareholders' approval at the forthcoming annual general meeting of the Company.

RESULTS

For the year ended 31 December 2019, the Group achieved a revenue of RMB22,103 million, which was 24.8% higher than last year; and a profit attributable to shareholders of RMB3,714 million, which was 20.6% higher than last year. Basic earnings per share amounted to RMB59.65 cents.

DIVIDEND

The Board of Directors of the Company has recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2019 (2018: HK18 cents per share). Subject to approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 3 July 2020 to shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020.

BONUS ISSUE OF SHARES

The Board has also proposed a bonus issue of one new share for every five existing shares held by shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020, which is subject to shareholders' approval at the forthcoming annual general meeting of the Company. Details of this bonus issue will be disclosed in the circular to be published by the Company in due course.

INDUSTRY REVIEW

The year 2019 has witnessed the continuous progress of national healthcare reform and the promulgation of a number of policies regulating the development of the pharmaceutical industry. The implementation of various important measures, including nationwide centralised procurement of medicines, national reimbursement drug list negotiation, key drugs for monitoring and prescription control, accelerating review of innovative drugs, consistency evaluations of generic drugs and pilot trial of Diagnosis Related Groups (DRGs), has profound impact on the development of the pharmaceutical industry. Under such policy environment, Chinese pharmaceutical enterprises will accelerate the transformation of development focus from generic drugs to innovative drugs. With the strong R&D capability of innovation, rich pipeline of products, outstanding commercialization capability and comprehensive productivity, the Group has fully grasped the opportunities brought by the healthcare reform, further consolidated its competitive advantages and enhanced its market position.

BUSINESS REVIEW

In 2019, the Group's innovative drug products continued to maintain rapid growth. Key products such as NBP, Duomeisu, Jinyouli and Keaili recorded remarkable sales results once again. The new inclusion into 4 guidelines and conducting of more than 100 medical research projects cumulatively

provided NBP with strong support for market penetration and continuous growth. The oncology drugs further enhanced their market coverage over target hospitals with the continuous increase in investment in academic-based promotion and expansion of professional sales force. Keaili has taken less than 2 years to build its sales team to nearly 1,000 people covering nearly 1,500 hospitals, and achieved a breakthrough in sales growth. For common generic drug products, Encun (clopidogrel bisulfate tablets) won the first place at the nationwide expansion tender of the "4+7" centralised procurement and rapidly entered the hospital market, demonstrating the development advantages of the Group's common generic drug products under the policy of nationwide centralised procurement of medicines. During the year, the Group's Qixiao (arbidol hydrochloride tablets) was relaunched. Its efficacy was quickly confirmed during the novel coronavirus epidemic, and was included into the national "Guidelines for Diagnosis and Treatment of Influenza" and "Guidelines for Diagnosis and Treatment of Novel Coronavirus Pneumonia".

Since the beginning of 2019, a total of 10 products have been granted drug registration approval in China, 16 products granted clinical trial approval and 17 products have passed the consistency evaluation of generic drugs. In addition, Xuanning was granted marketing approval by the U.S. Food and Drug Administration (FDA) during the year, making it the first Chinese innovative drug granted full approval by U.S. FDA. Key product Amphotericin B Cholesteryl Sulfate Complex has been qualified for priority review and is expected to be approved for launch in 2020; Mitoxantrone Liposome has completed enrolment for pivotal clinical trial and submitted the application for pre-NDA meeting; Duvelisib Capsules and JMT103 (RANKL target) have entered the pivotal clinical trial stage, being the fastest in China; ALMB-0166 and ALMB-0168 have been granted approval to commence clinical trials in Australia. The clinical development of products and indications has made good progress during 2019.

OUTLOOK

In addition to maintaining stable growth of its existing products, the Group will enhance its R&D efficiency and expedite the launch of new drugs with high potentials. The Group will also formulate effective sales strategies in response to the market environment and product advantages, so as to improve product mix and enhance its comprehensive competitiveness. The existing key products such as NBP, Duomeisu, Jinyouli, Keaili and Xuanning have their own competitive edges in terms of market and brand. The Group will continue to adopt the sales strategy of academic-based promotion and market penetration or development to achieve sustained rapid growth of these products. Newly launched products will become new growth drivers. Most of these products, including Daxinning (dronedarone hydrochloride tablets), Shuanling (pentoxifylline injections/tablets), Meiluolin (ticagrelor tablets), Gubangjia (alendronate sodium-vitamin D3 tablets), Gaoshunsong (acemetacin extended-release capsules), Qixiao (arbidol hydrochloride tablets), Luoruite (erlotinib hydrochloride tablets), Enxi (pramipexole hydrochloride tablets), montelukast sodium tablets/chewable tablets, sitagliptin phosphate tablets and nintedanib esilate soft capsules, are exclusive or first-to-market products in China. With strong clinical demands, the market potential is expected to reach between RMB1 billion and RMB3 billion for a single product. The Group will also actively participate in the nationwide centralised procurement of medicines to leverage the opportunity provided by the policy, in order to facilitate generic drugs to rapidly occupy the hospital market.

The Group has a leading R&D team in China with R&D centres located in Shijiazhuang, Shanghai and Suzhou, as well as California and New Jersey in the U.S.. It has a comprehensive layout for small molecule and macromolecule innovative drugs and new preparations covering major therapeutic areas, with more than 300 products under development. The Group will adhere to innovative R&D strategies and continue to increase R&D investment to ensure a stable growth.

APPRECIATION

I would like to take this opportunity to express my gratitude to all staff for their dedication and hard work, and to all our shareholders and customers for their continued support.

CAI Dongchen
Chairman

Hong Kong, 30 March 2020

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000* (Restated)
Revenue	*3*	**22,103,192**	17,716,540
Cost of sales		**(6,192,211)**	(5,979,187)
Gross profit		**15,910,981**	11,737,353
Other income		**243,783**	139,742
Other gains or losses		**48,450**	155,195
Selling and distribution expenses		**(8,712,083)**	(6,184,505)
Administrative expenses		**(748,509)**	(656,597)
Research and development expenses		**(2,000,426)**	(1,342,101)
Other expenses		**(142,015)**	(26,125)
Operating profit		**4,600,181**	3,822,962
Finance costs		**(32,426)**	(74,337)
Share of results of joint ventures		**58,407**	43,554
Profit before tax		**4,626,162**	3,792,179
Income tax expense	*5*	**(892,810)**	(733,760)
Profit for the year	*4*	**3,733,352**	3,058,419
Profit (loss) for the year attributable to:			
Owners of the Company		**3,714,106**	3,080,802
Non-controlling interests		**19,246**	(22,383)
		3,733,352	3,058,419
		RMB cents	*RMB cents* (Restated)
Earnings per share			
Basic	*6*	**59.65**	49.36
Diluted	*6*	**59.64**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**3,733,352**	3,058,419
Other comprehensive income (expense):		
Item that will not be reclassified to profit or loss:		
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**184,227**	51,765
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(24,503)**	(2,463)
Other comprehensive income for the year, net of income tax	**159,724**	49,302
Total comprehensive income for the year	**3,893,076**	3,107,721
Total comprehensive income for the year attributable to:		
Owners of the Company	**3,873,830**	3,130,104
Non-controlling interests	**19,246**	(22,383)
	3,893,076	3,107,721

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**As at 31 December 2019** ***RMB'000***	As at 31 December 2018 *RMB'000* (Restated)	As at 1 January 2018 *RMB'000* (Restated)
Non-current assets				
Property, plant and equipment		**8,459,176**	6,692,220	5,548,993
Right-of-use assets		**823,202**	—	—
Prepaid lease payments		**—**	526,903	479,095
Goodwill		**188,964**	140,752	101,771
Other intangible assets		**1,135,662**	806,986	86,254
Interest in an associate		**231,135**	—	—
Interests in joint ventures		**176,639**	126,279	91,942
Financial assets measured at fair value through other comprehensive income		**1,077,932**	672,263	264,796
Amount due from a joint venture		**150,432**	—	—
Deferred tax assets		**34,843**	18,946	17,323
Deposits and prepayments	*9*	**343,380**	329,000	—
Bank deposits		**—**	100,000	—
		12,621,365	9,413,349	6,590,174
Current assets				
Inventories		**2,535,743**	3,045,318	2,425,053
Trade receivables	*8*	**2,258,844**	2,064,925	1,546,942
Deposits, prepayments and other receivables	*9*	**567,252**	481,087	404,516
Bills receivables	*10*	**1,993,083**	1,296,364	1,234,773
Trade receivables due from related companies	*11*	**140,183**	63,443	58,132
Amounts due from joint ventures		**58,628**	204,450	231,430
Prepaid lease payments		**—**	16,570	15,268
Other financial assets		**536**	443	612
Structured bank deposits		**1,838,159**	2,292,366	1,100,000
Restricted bank deposits		**186,293**	2,909	2,909
Bank balances and cash		**4,118,236**	4,335,613	4,378,996
		13,696,957	13,803,488	11,398,631

	Notes	**As at 31 December 2019** ***RMB'000***	As at 31 December 2018 *RMB'000* (Restated)	As at 1 January 2018 *RMB'000* (Restated)
Current liabilities				
Trade payables	*12*	**1,110,883**	1,619,356	1,241,765
Other payables	*13*	**3,691,652**	2,920,262	2,531,423
Contract liabilities		**503,755**	700,075	—
Bills payables	*14*	**316,137**	1,654,470	50,000
Contingent consideration payable		**18,130**	12,375	—
Amount due to a joint venture		**104,678**	—	7,791
Amounts due to related companies		**10,854**	28,425	36,298
Amount due to an associate		**124,627**	—	—
Lease liabilities		**74,235**	—	—
Tax liabilities		**258,823**	241,465	172,789
Borrowings		**23,000**	70,589	775,208
		6,236,774	7,247,017	4,815,274
Net current assets		**7,460,183**	6,556,471	6,583,357
Total assets less current liabilities		**20,081,548**	15,969,820	13,173,531
Non-current liabilities				
Other payables	*13*	**154,733**	182,404	153,804
Contingent consideration payable		**13,923**	19,899	—
Lease liabilities		**90,300**	—	—
Deferred tax liabilities		**304,427**	237,917	110,019
Borrowings		**—**	—	50,000
		563,383	440,220	313,823
Net assets		**19,518,165**	15,529,600	12,859,708
Capital and reserves				
Share capital		**10,899,412**	10,899,412	10,899,412
Reserves		**7,562,311**	4,152,848	1,889,243
Equity attributable to owners of the Company		**18,461,723**	15,052,260	12,788,655
Non-controlling interests		**1,056,442**	477,340	71,053
Total equity		**19,518,165**	15,529,600	12,859,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and on the historical cost basis except for certain financial instruments that are measured at fair value at the end of the reporting period.

The financial information relating to the years ended 31 December 2019 and 2018 included in this preliminary announcement of annual results 2019 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2019 in due course.

- The Company's auditor has reported on the financial statements of the Group for the years ended 31 December 2019 and 2018. The auditor's reports for both years were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The functional currency of the Company is Renminbi ("RMB"). The presentation currency of the consolidated financial statements in prior financial years was Hong Kong dollars ("HK$"). In view of the fact that the Group's operation is mainly located in the PRC with transactions mainly denominated in RMB, the directors of the Company (the "Directors") consider that it is more appropriate to use RMB as the presentation currency in presenting the financial performance and financial positions of the Group effective from 1 January 2019, and the comparative information has been restated to reflect the change in presentation currency to RMB accordingly.

2. Application of New and Amendments to HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition and comparative information has not be restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.35%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018 (Restated)	213,907
Less: Commitment of lease which commenced after 1 January 2019	(9,584)
	204,323
Lease liabilities discounted at relevant incremental borrowing rates	189,659
Less: Recognition exemption — short-term leases	(9,155)
Lease liabilities as at 1 January 2019	180,504
Analysed as	
Current	55,850
Non-current	124,654
	180,504

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		180,504
Reclassified from prepaid lease payments	*(a)*	543,473
		723,977

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2018 *RMB'000* (Restated)	Adjustments *RMB'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *RMB'000*
Non-current Assets				
Prepaid lease payments	*(a)*	526,903	(526,903)	—
Right-of-use assets		—	723,977	723,977
Current Assets				
Prepaid lease payments	*(a)*	16,570	(16,570)	—
Current Liabilities				
Lease liabilities		—	(55,850)	(55,850)
Non-current liabilities				
Lease liabilities		—	(124,654)	(124,654)

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments, amounting to RMB16,570,000 and RMB526,903,000 respectively, were reclassified to right-of-use assets.

(b) For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

3. Revenue and Segment Information

	2019 ***RMB'000***	2018 *RMB'000* (Restated)
Sale of goods	**22,103,192**	17,716,540

Information reported to executive directors, being collectively the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs — research and development, manufacture and sale of pharmaceutical products;

(b) Vitamin C — manufacture and sale of vitamin C products in bulk form;

(c) Antibiotics — manufacture and sale of antibiotic products in bulk form; and

(d) Others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), glucose products and provision of healthcare services

Vitamin supplements are included as functional food products in the segment of others for the current year, while they were included in the segment of finished drugs in prior years. The comparative information has been restated to conform with current year presentation.

Revenue is recognised at a point of time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

As at 31 December 2019, all outstanding sales contracts are expected to be fulfilled within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2019:

	Finished drugs *RMB'000*	Vitamin C *RMB'000*	Antibiotics *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
SEGMENT REVENUE							
External sales	**17,937,001**	**1,921,704**	**878,921**	**1,365,566**	**22,103,192**	**—**	**22,103,192**
Inter-segment sales	**—**	**5,446**	**119,483**	**7,051**	**131,980**	**(131,980)**	**—**
TOTAL REVENUE	**17,937,001**	**1,927,150**	**998,404**	**1,372,617**	**22,235,172**	**(131,980)**	**22,103,192**
SEGMENT PROFIT	**3,943,808**	**391,271**	**4,103**	**263,991**	**4,603,173**		**4,603,173**
Unallocated income							**150,723**
Unallocated expenses							**(153,715)**
Operating profit							**4,600,181**
Finance costs							**(32,426)**
Share of results of joint ventures							**58,407**
Profit before tax							**4,626,162**

For the year ended 31 December 2018 (Restated):

	Finished drugs *RMB'000*	Vitamin C *RMB'000*	Antibiotics *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
SEGMENT REVENUE							
External sales	13,503,386	1,783,510	1,086,725	1,342,919	17,716,540	—	17,716,540
Inter-segment sales	—	11,775	90,574	6,486	108,835	(108,835)	—
TOTAL REVENUE	13,503,386	1,795,285	1,177,299	1,349,405	17,825,375	(108,835)	17,716,540
SEGMENT PROFIT	2,815,148	679,928	32,593	267,791	3,795,460		3,795,460
Unallocated income							198,122
Unallocated expenses							(170,620)
Operating profit							3,822,962
Finance costs							(74,337)
Share of results of joint ventures							43,554
Profit before tax							3,792,179

Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities are not regularly provided to the CODM for review.

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2019 ***RMB'000***	2018 *RMB'000* (Restated)
The People's Republic of China (the "PRC") (country of domicile)	**18,897,453**	14,682,452
Other Asian regions	**1,045,038**	1,264,785
Americas	**974,937**	783,175
Europe	**1,093,405**	817,993
Others	**92,359**	168,135
	22,103,192	17,716,540

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

4. Profit For The Year

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration		
— salaries, wages and other benefits	**1,912,253**	1,305,860
— contribution to retirement benefit schemes	**142,693**	127,416
— shared-based payment expense	**6,721**	—
Total staff costs	**2,061,667**	1,433,276
Amortisation of other intangible assets	**17,954**	20,142
Depreciation of right-of-use assets	**85,749**	—
Depreciation of property, plant and equipment	**587,892**	594,006
Total depreciation and amortisation	**691,595**	614,148
Release of prepaid lease payments	**—**	15,700
Auditor's remuneration	**3,872**	3,427
Fair value changes on structured bank deposits (included in other gains or losses)	**(84,371)**	(112,440)
Government grant income (included in other income)	**(135,748)**	(29,107)
Interest income on bank balances (included in other income)	**(64,740)**	(53,070)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**15,161**	16,020
Net foreign exchange gain (included in other gains or losses)	**(18,563)**	(59,752)
Impairment of prepayment for acquisition of intangible assets (included in other expenses)	**100,000**	—
Loss on deemed disposal of partial interest in a joint venture (included in other gains or losses)	**17,235**	—
Fair value change on contingent consideration payables (included in other gains or losses)	**12,728**	—

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss for the years ended 31 December 2019 and 2018.

5. Income Tax Expense

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Current taxation:		
— PRC Enterprise Income Tax	**786,220**	628,345
— PRC withholding tax on dividends distributed by subsidiaries	**94,815**	67,535
— United States of America ("USA") Federal and State Income tax	**3,148**	8,870
	884,183	704,750
Deferred taxation	**8,627**	29,010
	892,810	733,760

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

6. Earnings Per Share

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

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**3,714,106**	3,080,802

Number of shares	**2019**	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,226,545**	6,242,083
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**917**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,227,462**	N/A

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculation of basic earnings per share has been adjusted for the effect of shares held by the Trustee pursuant to the share award scheme.

No diluted earnings per share is presented for the year ended 31 December 2018 as there was no potential ordinary shares in issue during the year.

7. Dividends

	2019	2018
	RMB'000	*RMB'000* (Restated)
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Final, paid — HK18 cents (equivalent to approximately RMB15.5 cents) (2018: 2017 Final, paid — HK15 cents (equivalent to approximately RMB12.5 cents)) per share	**965,385**	782,875

8. Trade Receivables

	2019	2018
	RMB'000	*RMB'000* (Restated)
Trade receivables	**2,273,530**	2,076,986
Less: allowance for impairment	**(14,686)**	(12,061)
	2,258,844	2,064,925

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,546,942,000.

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
0 to 90 days	**2,124,588**	1,861,714
91 to 180 days	**125,010**	188,303
181 to 365 days	**2,830**	7,880
More than 365 days	**6,416**	7,028
	2,258,844	2,064,925

Trade receivables with aggregate carrying amount of RMB134,256,000 (2018: RMB203,211,000) are past due as at the reporting date. The amounts are not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

9. Deposits, Prepayments and Other Receivables

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Prepayments for purchase of raw materials	**176,471**	143,067
Prepaid research and development expenses	**4,459**	44,464
Prepayment for acquisition of intangible assets *(Note)*	**—**	100,000
Deposits paid for right-of-use assets/prepaid lease payments	**333,380**	229,000
Deposits and prepayments for utilities	**51,646**	35,400
Other taxes recoverable	**114,453**	70,756
Others	**230,223**	187,400
	910,632	810,087
Analysed as:		
Current	**567,252**	481,087
Non-current	**343,380**	329,000
	910,632	810,087

Note: During the year ended 31 December 2018, the Group entered into a collaboration agreement with a third party and paid upfront payment of RMB100 million for acquiring the exclusive commercialisation right of a pharmaceutical product undergoing clinical trials in the PRC. During the year, the collaboration was terminated and an impairment provision of RMB100,000,000 in respect of upfront payment was recognised.

10. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2018: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

During the year ended 31 December 2018, bills receivables issued by group companies for settlement of intragroup transactions were discounted to bank without recourse for proceeds of RMB1,504,583,000, and the related liabilities were included in bills payables as at 31 December 2018.

11. Trade Receivables Due from Related Companies

The Group generally allows a trade credit period of 90 days (2018: 90 days) to its related companies. The following is an aged analysis of trade receivables due from related companies at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
0 to 90 days	**140,183**	63,443

12. Trade Payables

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
0 to 90 days	**941,700**	1,455,498
91 to 180 days	**34,626**	60,093
More than 180 days	**134,557**	103,765
	1,110,883	1,619,356

The general credit period on purchases of goods is up to 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. Other Payables

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Customers' deposits	**238,748**	340,811
Other taxes payable	**126,489**	206,275
Selling expense payable and other accrual charges	**1,512,130**	950,798
Payables arising from construction cost and acquisition of property, plant and equipment	**1,157,020**	845,308
Government grants	**359,841**	360,375
Staff welfare payable	**244,848**	239,559
Others	**207,309**	159,540
	3,846,385	3,102,666

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Analysed as:		
Current	**3,691,652**	2,920,262
Non-current	**154,733**	182,404
	3,846,385	3,102,666

14. Bills Payables

All bills payables of the Group are aged within 365 days (2018: 365 days) and not yet due at the end of the reporting period. As at 31 December 2019, bills payables of RMB198,648,600 (2018: RMB1,504,583,000) are secured by certain bank deposits and structured bank deposits.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2019 with sales revenue reaching RMB17,937 million, 32.8% higher than the previous year.

(i) Innovative Drug Products

During the year, the Group continued to expand the dedicated sales force, accelerate market expansion in major cities and hospitals, and adopt different sales strategies based on the market positions and competitive landscape of the products, including i) stepping up market penetration into county-level hospitals and community medical institutions; ii) rapidly establishing strong sales teams for new products and actively developing the market of major hospitals; iii) striving for market share gain through emphasis on the competitive edge from product differentiation; and iv) strengthening market expansion in different indications through professional academic-based promotion. Leveraging the market competitiveness of the products and the effective sales strategies, innovative drug products maintained a strong growth momentum and achieved sales of RMB12,975 million in 2019, representing a 48.4% growth. In particular, the sales of NBP increased by 35.8% and the sales of oncology drugs increased by 148.8%, becoming the dual engines of the Group's growth.

The following are the Group's major innovative drug products:

NBP (恩必普) (butylphthalide soft capsule and injection)

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. NBP has been listed as one of the recommended drugs in previous editions of "Guidelines for Acute Ischemic Stroke Treatment in China". It has also been listed on more than ten guidelines and consensuses, including the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke of China", "Guidelines for the Assessment and Intervention of Cerebral Collateral Circulation in Ischemic Stroke in China (2017)", "Guidelines for the Diagnosis and Treatment of Cerebral Infarction with Chinese and Western Medicines in China (2017)", "Guidelines for the Reasonable Medication for Stroke in China (2019)" and "Guidelines for Clinical Management of Cerebrovascular Diseases in China (2019)". These serve to recognise the clinical efficacy of NBP for treating acute ischemic stroke and provide strong academic evidence for its academic-based promotion. The inclusion of both formulations of NBP into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsule for recovery use).

For the exploration of new therapeutic areas, 134 research projects in respect of butylphthalide are in progress, including 69 fundamental and 65 clinical projects. In particular, butylphthalide soft capsule for the treatment of vascular dementia has been approved to commence phase III clinical trial directly, accelerating the expected launch for the new indication. In addition, NBP has also participated in seven national studies under the "13th Five Year Plan", including efficacy and safety studies of butylphthalide for new treatment areas such as cerebral small vessel diseases, aortic atherosclerotic cerebral infarction and intravenous thrombolysis or endovascular treatment for acute ischemic stroke. Of which the research of butylphthalide for the treatment of hemorrhagic stroke led by Beijing Tiantan Hospital was a new study in 2019. The phase II clinical trial of butylphthalide soft capsule in the U.S. has enrolled 112 patients. The development of new indications and markets will be able to bring new growth opportunities to NBP.

During the year, the Group further expanded its dedicated sales force of NBP and gradually developed the primary medical market of county level and community health centres. The number of hospitals with sales coverage increased rapidly with sales maintaining a high rate of growth. Currently, the coverage of NBP in the county-level market is still relatively low, and the growth potential for sequential treatment is promising. The Group believes that NBP will continue to enjoy a steady growth.

Oulaining (歐來寧) (oxiracetam capsule and lyophilised powder injection)

Oulaining is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. During the year, policies such as the review and uniform implementation of the national reimbursement drug list throughout the country, and introduction of the National Key Drug List for Monitoring and Prescription Control had a significant impact on the sales of Oulaining, resulting in a sales decline. Nevertheless, Oulaining has been marketed in China for over 16 years and has also been included into various guidelines such as the "Guidelines for the Diagnosis and Treatment of Cognitive Impairment of Cerebral Small Vessel Diseases 2019" and "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China 2015", and has become a basic drug commonly used in clinical practice with a relatively large user base of doctors and patients. In addition, a number of fundamental and clinical studies of oxiracetam led by authoritative neurology experts in China have been initiated, the results of which are believed to provide a strong support for the academic-based promotion of Oulaining.

During the year, Oulaining has basically achieved a complete transformation of its sales model to direct sales. The strengthening of control over each level of end-user market and the increased efforts in academic-based promotion will bolster growth within its reasonable scope of use.

Xuanning (玄寧) (maleate levamlodipine tablet and dispersible tablet)

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina. In December 2019, Xuanning received marketing approval from the U.S. Food and Drug Administration (FDA), becoming the first Chinese innovative drug granted full approval by the U.S. FDA. Levamlodipine is not the same chemical substance as amlodipine and has no reference drug. It is not expected to be included in the national centralised procurement in the near future. With the vigorous implementation of the national essential drugs policy, Xuanning will find better development opportunities.

During the year, the Group has commenced to establish direct sales team for Xuanning and stepped up the efforts in building customer network and managing the primary market of county level and below, resulting in a stable increase of sales. The Group will strengthen its efforts in the establishment of the OTC team, participate in the differentiated competition with competing products based on product distinctiveness and effectively implement its strategies in prescription conversion and brand building.

Jinyouli (津優力) (PEG-rhGCSF injection)

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection and pyrexia due to low neutrophil count in patients during chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. Jinyouli is well supported by clinical evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte stimulating factor in China, covering lung cancer, breast cancer, lymphoma, ovarian cancer, colorectal cancer, gastric cancer and nasopharyngeal carcinoma, earning unanimous recommendations from domestic and foreign guidelines.

During the year, the Group launched the prefilled syringe of Jinyouli, with an enhanced accuracy of drug administration and dosage utilization rate. The needs of different markets are also met more effectively with dual dosage forms. Meanwhile, the Group accelerated the development of Jinyouli in prefecture-level and county-level hospitals and pursued strategic cooperation with a number of key hospitals, achieving rapid sales growth during the year. The Group will explore the application opportunities in immunotherapy and target therapy, and further extend the therapeutic areas to haematological and bone cancers, expanding the market potential for Jinyouli.

Duomeisu (多美素) (doxorubicin hydrochloride liposome injection)

Duomeisu was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group and supported by the "Major New Drug Development" projects in China, and for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi sarcoma. Duomeisu has considerable advantages in terms of efficacy and safety (especially cardiac safety of patients) as compared to traditional anthracyclines.

After years of academic-based promotion, hospital development and marketing efforts, Duomeisu has become a leading brand in the domestic doxorubicin liposomal market. In addition, Duomeisu has started the consistency evaluation in 2019, which will further enhance its brand advantage and provide strong support for market share expansion.

During the year, the sales of Duomeisu have maintained a rapid growth. The Group will continue to build on its competitive resources to strengthen academic-based promotion, cooperate with professional academies and experts, and carry out new clinical studies in order to enhance the market recognition and acceptance. Moreover, apart from strengthening the existing sales areas such as haematological cancer, breast cancer, gynecologic cancer and bone cancer, the Group will continue to explore new areas such as leukemia, liver cancer, bladder cancer, lung cancer and gastric cancer, with an aim of sustaining a steady sales growth of Duomeisu.

Keaili (克艾力) (paclitaxel for injection (albumin-bound))

Keaili is the first-to-market generic of new generation of paclitaxel chemotherapy drug in China with the passing of consistency evaluation. It is made of stable nanoparticles formed by the integration of paclitaxel and human serum albumin (endogenous). The product has the distinctive features of convenience, high efficacy and safety. It can enhance the efficacy of paclitaxel drugs and is convenient to use. Toxic solvents and pre-treatment are not required and the administration only takes 30 minutes.

Since the launch of Keaili, the Group has continuously increased investment in clinical trials and related medical projects, with 145 medical projects initiated to cover 13 areas of oncology including breast cancer, gynecologic cancer, gastric cancer, lung cancer and pancreatic cancer. Meanwhile, the Group has persevered with professional academic-based promotion and has organised more than 1,000 academic activities.

During the year, Keaili has achieved a very remarkable growth in sales. The Group will grasp the opportunity of Keaili being included into the national centralised procurement list with the lowest price to accelerate hospital development and market penetration, and continue to adopt a professional academic-based promotion strategy in order to seize the market share of paclitaxel and achieve rapid sales growth of Keaili.

Ailineng (艾利能) (elemene injection)

Ailineng is an oncology drug developed in China and has been included into the national reimbursement drug list. The product is mainly used for the treatment of nerve glioma, brain metastases and malignant pleural and peritoneal effusion, and can be used in combination with radiotherapy and chemotherapy to boost treatment efficacy. After years of clinical verification, it has been widely recognised by the medical profession. The liquid formulation of the product has been granted patent in China. Compared with the traditional emulsion formulation, the purity and content of elemene are further improved with significant reduction of adverse clinical reaction.

The current sales volume of Ailineng is still not significant. The Group will continue to strengthen academic-based promotion, initiate clinical medical research and constantly promote the transformation of regional sales model to further expand the market share of Ailineng.

(ii) Common Generic Drug Products

During the year, the Group continued with the strategy of enhancing sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Products with higher sales growth included aspirin enteric-coated tablets, troxerutin tablets and compound aminophenazone barbital injection. The Group also actively pushed forward the consistency evaluation for key products, with 17 drugs passing during the year (cumulative 23). Products passing the consistency evaluation can provide patients with medication options of high-quality and competitive price, and can relieve the burden of medical insurance expenditures. The Group will make full use of the opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products. In addition, the Group will also make full use of the development opportunities brought about by the drug centralised procurement policy to develop the hospital market for common generic drug products.

In 2019, common generic drug products achieved sales of RMB4,962 million, representing a 4.2% growth. In addition to the continuous implementation of the above development strategies, the Group will also promote the direct sales model through professional academic-based promotion to improve doctors' recognition of the products, striving for better promotion results and higher sales growth.

(iii) Newly Launched Products

The strong R&D capability and rich pipeline of drugs under development enable the Group to have a continuous launch of new products. The Group believes that these new products will contribute considerable sales revenue in the next three years and become a new growth driver.

Qixiao* (琦效) *(arbidol hydrochloride tablets)

As a broad-spectrum antiviral drug, arbidol is mainly used for the treatment of viral infections represented by influenza. With its good clinical efficacy and outstanding performance in the treatment of novel coronavirus pneumonia, arbitol has been included into the national "Guidelines for Diagnosis and Treatment of Influenza" and "Guidelines for Diagnosis and Treatment of Novel Coronavirus Pneumonia".

The Group has established a dedicated sales team of more than 500 people, and will put full effort in the research of arbidol for the treatment of influenza, novel coronavirus and other viruses. Given the high incidence of influenza, Qixiao is expected to have a great market potential.

Daxinning* (達新寧) *(dronedarone hydrochloride tablets)

Dronedarone is indicated for sinus arrhythmia patients with a medical history of paroxysmal or persistent atrial fibrillation (AF) to reduce the risk of hospitalization due to atrial fibrillation, with high clinical demand and short supply in the market.

The Group has established a dedicated sales team for Daxinning to vigorously explore the market of dronedarone in China. As an exclusive product in China, Daxinning has a huge market potential.

Shuanling (舒安靈) (pentoxifylline injections/tablets)

Pentoxifylline is a classic drug with clinical application for more than a century and can be used as an essential drug in Europe and the U.S.. It is indicated for treating dizziness caused by circulation cerebral ischemia, improving cognitive dysfunction caused by cerebral blood supply insufficiency and treating intermittent claudication caused by peripheral artery disease, and venous ulcers.

The Group has established a dedicated sales team for Shuanling and will cultivate doctors' perception of using pentoxifylline through clinical trial projects. Since most of the competing products of pentoxifylline are subject to medical insurance restrictions, the current sales of pentoxifylline are increasing rapidly. Thus, Shuanling is expected to have a considerable market potential.

Meiluolin (美洛林) (ticagrelor tablets)

Ticagrelor is a first-line antiplatelet agent for the treatment of acute coronary syndrome and the top recommendation in the "Clinical Pathway of Acute ST-Segment Elevation Myocardial Infarction (2019)". According to market data, total sales of the antiplatelet market amounts to RMB15.4 billion in 2019, of which P2Y12 receptor inhibitors accounted for 60%. Ticagrelor demonstrated the strongest growth among all with a CAGR of 103%, having a great market potential.

Meiluolin is the second-to-market generic drug in China with an invention patent for its crystalline form. It is more stable than the originator drug and is the most value for money product currently available in the market. The Group will gradually establish a platform of experts in the cardiovascular field and develop a cardiovascular product portfolio. It will also build its brand influence through professional academic promotion and accelerate market development to seize market share.

Gubangjia (固邦佳) (alendronate sodium-vitamin D3 tablets)

Alendronate sodium-vitamin D3 is mainly used for the treatment of osteoporosis in postmenopausal women and osteoporosis in men to increase bone mass. The conservative estimate of osteoporosis patients in China is 70 million. With the acceleration of aging population and changes in lifestyle, the incidence of osteoporosis is still increasing gradually. With the current treatment rate of only 11.5%, there is a promising market prospect.

Gubangjia is the first and only compound preparation of alendronate sodium and vitamin D3 in China. The Group will expand the coverage of academic activities for doctors and patients, and establish its own sales force.

Gaoshunsong (高顺松) (acemetacin extended-release capsules)

Acemetacin is a non-steroidal anti-inflammatory drug (NSAIDs) mainly used for the treatment of osteoarthritis, ankylosing spondylitis and rheumatoid arthritis. The overall sales of NSAIDs market are estimated to be over RMB13 billion in 2018 with a three-year CAGR of 15.64%, showing a steady growth in market size.

Gaoshunsong is an exclusive generic drug in China. The Group is establishing a direct sales team and expanding end-user market in order to promote more patients to use the product.

Enxi (恩悉) (pramipexole dihydrochloride tablets)

Enxi is indicated for the treatment of signs and symptoms of adult idiopathic Parkinson's disease, and is the first pramipexole dihydrochloride tablet passing the consistency evaluation in China. The number of patients with Parkinson's disease increases about 100,000 annually and is expected to reach 4.94 million in 2030. In 2018, the sales of pramipexole accounted for approximately 41.2% of the overall domestic market for Parkinson's disease drugs with rapid growth at a CAGR of 18%. Therefore, Enxi is expected to have a promising sales prospect.

The Group will initiate clinical studies including comparison with the originator drug and combo study with butylphthalide for the treatment of vascular Parkinsonism/Parkinson's syndrome. The Group will also enhance doctors' diagnosis and treatment standard for Parkinson's disease, strengthen patient education and increase the consultation rate of patients with Parkinson's disease. Currently, the price of Enxi is only 47% of the originator product, which can significantly reduce patients' financial burden as well as maximize its clinical value.

Luoruite (洛瑞特) (erlotinib hydrochloride tablets)

Erlotinib is a first-line drug for the treatment of patients with advanced EGFR mutation-positive lung cancer. It is the first generation EGFR-TKI drug and has been unanimously recommended by domestic and foreign guidelines. Luoruite is the first-to-market erlotinib generic in China with consistency evaluation passed and was included in category B of the national reimbursement drug list. With a lower price than the originator drug, it has a higher pharmacoeconomic value.

Leveraging on the advantages of products and resources, the Group will compete in the first generation EGFR-TKI market so as to capture new patients and replace existing ones among the target population of patients with EGFR mutation-positive non-small cell lung cancer.

Montelukast sodium tablets/chewable tablets

Montelukast is mainly used for the prevention and long-term treatment of asthma. Asthma is one of the most common diseases in the world today. There are approximately 30 million asthma patients in China with prevalence of children at 3.02% and people over 14 years of age at 1.24%, and the incidence is increasing at an alarming rate. Montelukast has a sales of RMB3.2 billion in China and has been included in the 1st batch of "4+7" pilot centralised procurement. The Group's montelukast sodium tablets/chewable tablets are deemed as passing the consistency evaluation. The Group will commit to promoting the clinical use of the product and preparing for the next round of national centralised procurement.

Sitagliptin phosphate tablets

Sitagliptin is mainly used for the treatment of type 2 diabetes. It is the first dipeptidyl peptidase-4 (DPP-4) inhibitor in the market and has been fully recognised by domestic and overseas clinical guidelines. With increasing market recognition, sitagliptin gradually leads DPP-4 inhibitors to become one of the major players in the diabetic market. Ranking first in the world, the number of diabetic patients in China is 116 million, creating a huge market for diabetes drugs. Currently, the sales of sitagliptin have maintained rapid growth. It is expected that the Group's sitagliptin will gain a certain market share after its approval.

Nintedanib esilate soft capsules

Nintedanib is mainly used for the treatment of interstitial lung disease associated with idiopathic pulmonary fibrosis or systemic sclerosis. It is recommended by the guidelines together with pirfenidone for treating pulmonary fibrosis, but with a higher safety. The Group will strive to launch this product as the first-to-market generic in China.

VITAMIN C BUSINESS

In 2019, the vitamin C business continued to build on its market strengths in terms of capacity, quality and production cost. Both sales volume and export market share were able to further increase even though already ranked the first place in the industry. However, the price decline has weakened the business performance during the year as compared to previous year. As it is expected that the overall supply of vitamin C will continue to be excessive for a long time, significant product price rebound is unlikely. In addition to continuously improving product quality and reducing production costs, the Group will keep focusing on the development of untapped market, optimizing customer mix, increasing number of end-user customers and reducing energy consumption in order to achieve continuous enhancement of overall market competitiveness of the business.

ANTIBIOTICS BUSINESS

The overall demand and prices of antibiotics have remained low as a result of the policy of restrictive use of antibiotics over the years, and the business performance remained weak in 2019. The Group will keep improving product quality, developing high-end market, striving for high-end registration as well as making use of the product chain advantage to improve market competitiveness.

OTHER BUSINESSES

The functional food business (including caffeine additives and vitamin supplements) recorded a stable growth in 2019. The market environment of caffeine has seen changes with increase in competitors and total supply. Thanks to the Group's increased efforts in technology upgrade, cost reduction and market development, its share of the export market has greatly increased and a relatively good performance has been achieved.

RESEARCH AND DEVELOPMENT

The Group firmly believes in the importance of investing in research and development so that the Group can have strong product and technology innovation capability as well as a rich pipeline of drugs under development. The R&D expenses for the year amounted to RMB2,000 million (charged to profit or loss statement), representing an increase of 49.1% and accounting for approximately 11.2% of the finished drug business revenue. At present, the Group has established four major R&D centres in China and overseas, owns ten core technology platforms and an R&D team with more than 1,800 people. There are more than 300 projects in the pipeline, of which over 40 are innovative small molecule drugs, over 50 are innovative macromolecule drugs and over 20 are drugs of new preparation, primarily focusing on the therapeutic areas of oncology, autoimmunity, psychiatry and neurology, digestion and metabolism, cardio-cerebrovascular system and anti-infectives. According to the evaluation results of the "National Enterprise Technology Centre (2019)" issued by the National Development and Reform Commission, the Group was ranked as "excellent", proving the Group's capabilities in R&D and innovation.

The major R&D progress of the Group since the beginning 2019 is as follows:

10 drugs were granted drug registration approval in China. Of which sunitinib malate capsules and dronedarone hydrochloride tablets are first-to-market generics, pramipexole hydrochloride tablets is the first generic passing consistency evaluation, and products like clopidogrel bisulfate tablets, ticagrelor tablets and rivaroxaban tablets have great market potentials. There are 27 drug candidates pending drug registration approval. As for international registration, 1 drug was granted U.S. NDA approval, 2 drugs granted U.S. ANDA approval and 6 drugs candidates are pending approval.

During the year, the Group reached a peak in terms of application and approval for consistency evaluation, with 17 products passing the evaluation and 25 products submitted for approval application.

16 new drug candidates, including 7 innovative small molecule drug candidates, 5 innovative macromolecule drug candidates and 4 new preparations, were granted clinical trial approval, of which 12 in China and 4 in the U.S. and Australia, further enriching the clinical pipeline of new drugs. At present, the Group has 42 products under clinical trials, including 31 innovative drugs and 11 new preparations.

Apart from in-house research and development, the Group has also been proactively seeking external cooperation and acquisition opportunities. During the year, the Group has 1) entered into a licensing agreement with Hangzhou Innogate Pharma Co., Ltd. for 5 small molecule compounds; 2) acquired the entire equity interests in Yong Shun Technology Development Co., Ltd. and obtained its R&D platform of antibodies and product pipelines; 3) entered into a licensing agreement with Shanghai Institute of Materia Medica for 4 small molecule compounds; 4) established a joint venture with

Shanghai Haihe Pharmaceutical Co., Ltd for the joint development of 5 new drug projects; 5) entered into a licensing agreement with Synermore Biologics (Suzhou) Co., Ltd. for omalizumab biosimilar; and 6) entered into a product transfer agreement with Shanghai Acebright Pharmaceuticals Group Co., Ltd. for erlotinib hydrochloride.

The Group attaches great importance to the protection of intellectual property rights and actively files patent applications for its research and development projects. During the year, the Group has filed 161 domestic patent applications (61 authorised) and 62 overseas patent applications (9 authorised).

In the next three years, the Group is expected to launch more than 50 new products, over 15 of which will be major products with a market potential of more than RMB1 billion each, providing strong support for the Group's high-quality growth in the future.

As a national innovative enterprise in China equipped with a strong R&D team and product pipelines, the Group will definitely take the lead in future market competition.

IMPACT OF CORONAVIRUS DISEASE (COVID-19)

Since the novel coronavirus outbreak in January 2020, the close-off management throughout the country has severely affected the outpatient visits and hospitalization rate, marketing activities and drug distribution have also been hindered. Except for certain finished drug products related to the epidemic achieving sales above expectation, the sales of other finished drug products have been adversely affected to various degrees.

During the epidemic, the Group, on one hand, actively responded to various prevention and control measures of the government, and ensured sufficient supply of products with urgent clinical needs such as arbidol. On the other hand, the new ways of doing academic promotion such as online academic meetings and lectures have generated good results, alleviating the impact on sales from the epidemic to a certain extent. Currently, the Group has fully resumed operation and business has been back to normal, except for Hubei Province. The Group will endeavour to make up for the epidemic's impact on the business progress of the year.

FINANCIAL REVIEW

Results

	2019	2018	Change
	RMB '000	*RMB '000*	
Revenue:			
Finished drugs	**17,937,001**	13,503,386	+32.8%
Vitamin C	**1,921,704**	1,783,510	+7.7%
Antibiotics	**878,921**	1,086,725	-19.1%
Others	**1,365,566**	1,342,919	+1.7%
Total	**22,103,192**	17,716,540	+24.8%
Operating profit	**4,600,181**	3,822,962	+20.3%
Operating profit margin	**20.8%**	21.6%	
Profit attributable to shareholders	**3,714,106**	3,080,802	+20.6%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 32.8% to RMB17,937 million in the current year. Innovative drugs, in particular, delivered a strong growth with sales reaching RMB12,975 million, representing a growth of 48.4%. Revenue from innovative drugs as a proportion of total revenue of the Group further increased from 49.3% in 2018 to 58.7% in the current year.

Operating profit margin slightly decreased from 21.6% in 2018 to 20.8% in 2019. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business resulting from the Group's increased efforts in market development; (iii) significant increase in research and development expenses; and (iv) decreased profitability of the vitamin C business due to lower selling prices.

Selling and Distribution Expenses

Selling and distribution expenses was RMB8,712 million in 2019 as compared to RMB6,185 million in 2018. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of the innovative drugs; (ii) increased efforts in marketing and academic promotion for the newly launched innovative drug product "Keaili"; and (iii) increased efforts in academic promotion for some generic drug products.

Administrative Expenses

Administrative expenses was RMB749 million in 2019 as compared to RMB657 million in 2018. The increase in administrative expenses was primarily attributable to the expanded scale of operation of the Group.

Research and Development Expenses

R&D expenses was RMB2,000 million in 2019 as compared to RMB1,342 million in 2018. The increase in R&D expenses was primarily attributable to (i) increased number of products under development; (ii) increased spending on ongoing and newly initiated clinical trials; (iii) increased spending on product collaboration projects; and (iv) increased spending on quality and efficacy consistency evaluation of generics.

Liquidity and Financial Position

For the financial year of 2019, the Group's operating activities generated a cash inflow of RMB3,784 million (2018: RMB3,795 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly improved from 37 days in 2018 to 35 days this year. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 178 days in 2018 to 149 days this year. Current ratio of the Group was 2.2 as at 31 December 2019, higher than 1.9 a year ago. Capital expenditure for the year amounted to RMB2,185 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2019, cash and cash equivalents amounted to RMB4,118 million (2018: RMB4,336 million) and bank borrowings amounted to RMB23 million (2018: RMB71 million), resulting in a net cash position of RMB4,095 million (2018: RMB4,265 million).

All of the Group's borrowings are denominated in Renminbi. The Group's sales revenue are denominated in Renminbi for domestic sales in China and in US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Pledge of Assets

As at 31 December 2019, structured bank deposits amounting to RMB195 million and buildings amounting to RMB34 million have been pledged to secure certain banking facilities of the Group.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the Group's core profit on a full year basis. The actual amount of dividends will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

As at 31 December 2019, the Group had approximately 17,300 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2019 except the deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 9 June 2020 to Monday, 15 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Monday, 15 June 2020, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 June 2020.

The register of members of the Company will be closed from Monday, 22 June 2020 to Tuesday, 23 June 2020, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and issue of bonus shares, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 19 June 2020.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. ZHANG Cuilong, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Dr. LU Hua, Dr. LI Chunlei, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Prof. LO Yuk Lam, Dr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.