

Sinclair Pharma Limited

Annual Report and Financial Statements

Year ended 31 December 2019

Company Registration no. 03816616

Sinclair Pharma Limited Annual report and Financial Statements 2019

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Company information

Sinclair Pharma Limited is registered as a private limited company, incorporated and domiciled in England and its registered number is 03816616.

Registered office

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Independent Auditors

PricewaterhouseCoopers LLP
1 Spinningfields
Hardman Square
Manchester
M3 3EB

Strategic report

Principal activities

The Group's principal activities are the development and commercialisation of medical aesthetic products through the Group's direct sales teams in major aesthetic markets and through marketing partners on an international basis.

Sinclair's 2019 portfolio comprised of four brands (Silhouette Soft®/InstaLift®, Ellansé®, Perfectha® and Sculptra®). The Group owns the global rights to these products, with the exception of Sculptra®, which was exclusively licensed under a long-term agreement for Western Europe from Galdema. The brands are marketed directly (in the UK, Spain, France, Germany, Brazil, South Korea, the USA and Mexico) and through a network of distributors in the Middle East, Asia, Central and Eastern Europe and Latin America.

Business review

In December 2019, the Board agreed to an early termination of the long term licence agreement for Sculptra® and therefore the results of the Sculptra® business are disclosed as discontinued operations in these financial statements for the whole of the current and prior financial years.

The results from continuing operations for 2019 show revenue of £50.6 million, a 33% increase from the £38.1 million achieved for 2018. Individual brand performance is discussed below.

Silhouette Soft® and InstaLift®

Sales of Silhouette increased by 11% to £18.6 million in the year, (2018: £16.7 million), driven by growth in sales in the US.

Asia remains the leading region for sales of Silhouette with the Group's South Korean affiliate continuing to deliver strong sales, with revenues of £4.0 million in 2019. This was supported by growth in Taiwan. Growth was also seen in the Middle East region. Sales however declined by 14% to £3.2 million in Europe partly resulting from regulatory restrictions on clinics impacting sales in the UK market. These regulatory restrictions are now resolved. In Latin America, sales of Silhouette Soft® declined by 17% to £2.5 million in 2019, impacted by a stock shortage in Brazil and poor partner performance in several other markets.

Revenues from Silhouette InstaLift® in the US were £4.8 million in 2019, an increase of 93% compared with the £2.5 million achieved in 2018, and reflecting a full year's contribution from Sinclair's enlarged US operation which was grown aggressively in Q1 2019 to a team of 20 sales reps under a new management team. Unfortunately, despite significant investment to support the product in the US market, revenues achieved remain far below the Board's expectations and the US business continued to be loss making throughout 2019. As a result, after the year end, the Board decided to appoint a distributor for Silhouette InstaLift® in the USA. Suneva Medical Inc. were appointed as distributor in March 2020 and following the transfer of five employees to Suneva, the rest of the Group's US commercial operation was closed, significantly reducing the Group's overheads.

The Group entered into a distribution agreement with its parent company, Huadong Medicine Co. Ltd, during the year for the registration and launch of Silhouette InstaLift® in China. Clinical trials are planned to commence in 2020 with launch anticipated in 2024.

Ellansé®

Ellansé® revenues grew by 51% to reach £18.1 million in 2019 compared to £11.9 million in 2018 with strong demand from multiple markets. In Brazil where Ellansé® was launched in March 2018 sales grew significantly, up over 80% on a constant currency basis. Sales also showed strong growth across Europe, the Middle East and Asia.

The product was submitted to the regulatory authorities in China in late 2019 and the Board expects Ellansé® to be approved and launched in this important market by Sinclair's parent group Huadong Medicine Co. Ltd in H1 2021.

Perfectha®

Revenues increased by 43% to £13.4 million in 2019 (2018: £9.4 million). Perfectha® performed exceptionally well in Brazil with sales growing over 150% on a constant currency basis in 2019, and also continued to perform well in the Middle East and Europe. Sales to the Group's partner in South Korea again declined in 2019 resulting in a mutually agreed termination of the distribution agreement and a transfer of the product licence to Sinclair's Korean affiliate. Sinclair plans to re-launch Perfectha® in South Korea during 2020.

Approval of the Perfectha® Lidocaine range in Europe was delayed in mid 2019 due to an abrupt cessation in activities at the Notified Body responsible for reviewing the CE Mark application. A new submission has subsequently been made to a different Notified Body and the Board now expects to receive CE Mark approval for the Perfectha® Lidocaine range in 2021.

Finance review

Gross profit grew strongly by 38% to £37.3 million (2018: £27.1 million) driven by the growth in sales in the year. Importantly, the gross margin also improved to 73.8% in 2019 from 71.1% in the prior year. This is a result of an improving sales mix with increasing sales of Ellansé®, the improved margin on Silhouette InstaLift® from direct sales in the US and a strategy to focus on increasing prices across the portfolio in all markets.

Strategic Report (continued)

Selling, marketing and distribution costs increased by 10% to £25.9 million in 2019 primarily due to having a direct presence in the US for a full year and increasing the size of the local team during the year.

Administrative expenses, pre-exceptional items, were £22.3 million for the year, a decline of 2% over 2018. Expenses were higher in 2018 due to share based payment charges of £2.7 million (2019: £nil) triggered by the change of control of the Company.

There are a number of exceptional administrative expenses affecting the result in 2019, see note 5 for further details. Overall, these result in a credit to the income statement of £19.0 million (2018: charge of £22.2 million). The main cause of these adjustments are the disappointing sales of Silhouette InstaLift® in the important US market which are trending significantly below the Board's expectations and which have resulted in the decision to move to a distribution model in the US. This results in a significant reduction in the future sales estimates for Silhouette InstaLift® in the US and as a result an impairment charge of £8.5 million has been recorded against the goodwill recognised on the Silhouette CGU. In addition, there is a significant reduction in the contingent consideration expected to be paid for Silhouette which was linked to future sales achieved in the US. A number of sales-based milestones are now unlikely to be achieved, reducing contingent consideration by over \$40 million. The impact of this is a credit adjustment to the value of contingent consideration of £14.6 million as well as a credit to finance charges.

Operating loss for the year pre-exceptional items was £10.8 million, a significant improvement on £19.1 million in 2018. This is a result of the strong trading performance in 2019 resulting in growth in sales and gross profit. Operating loss including exceptional items for 2019 is £4.0 million (2018: £41.3 million).

Finance income and expense

Exceptional finance income of £12.1 million (2018: £nil) reflects a £12.1 million adjustment to discount unwind charges made in prior years on contingent consideration for Silhouette arising from the reduction in the estimate of contingent consideration payable as outlined above, see note 8 for further detail. Finance income also includes a £0.9 million foreign exchange gain on the repayment of the Euro denominated borrowings from Hayfin Capital Management LLP that were repaid in full in April 2019.

Finance expense was £4.9 million for 2019, compared with £11.2 million in the prior year. Discount unwind charges on contingent consideration were significantly reduced to £3.7 million (2018: £5.4 million) as a result of the change to Silhouette contingent consideration set out above. In addition, early termination charges on debt facilities reduced from £3.8 million in 2018 to just £0.3 million in 2019. The debt facility with Hayfin Capital Management LLP was repaid in April 2019 and replaced with a three-year £20.0 million revolving credit facility with HSBC Bank with significantly lower interest rates. Interest payable reduced to £0.7 million in 2019 (2018: £1.6 million).

Profit from continuing operations

The Group reported a net profit for the year on continuing operations of £2.9 million (2018: loss of £52.4 million) driven by the increased gross profit, exceptional credit items, reduction in finance expenses and one-off finance credits.

Discontinued operations

Discontinued operations represent the results from the Sculptra® business. The Group achieved a profit from discontinued operations of £3.7 million for the year, compared with £2.8 million in 2018. This was achieved as a result of a 27% increase in sales to £7.1 million in 2019.

On 13 February 2020, the Group agreed an early termination of the long-term licence agreement with Galderma SA in return for a cash consideration of \$51.0 million.

Section 172 statement. Engagement with stakeholders - employees, suppliers and customers, community and the environment

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Group for the benefit of its members as a whole and in doing so have had regard, amongst other matters, to:

- the likely consequences of any decision in the long-term;
- the interest of the Group's employees;
- the need to foster the Group's business relationships with suppliers, distribution partners, Sinclair partner physicians, end users and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly with members of the Group.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172 of the Companies Act 2006. The stakeholders we consider in this regard are the people who work for us, our distribution partners, partner physicians and end-users and those in the supply chain with whom we engage, our owners, regulatory bodies and those that live in the societies within which we operate. The Directors recognise that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way. We are committed to doing business responsibly and thinking for the long term.

Strategic report (continued)

Employee Development and Employee Engagement

Our most important asset is our employees. We are committed to developing policies that encourage all employees to achieve their potential and to continue to contribute to the success of the Group.

Development

A formal human resources policy framework is followed throughout the Group. The framework includes a process of appraisal and development to ensure group companies get the best from their people; emphasis has been placed on career pathways with individual training and development programmes. The Group has run bespoke management training programmes for individuals it recognises as key to the future development of the business.

Our employees are encouraged to attend seminars, training courses, and providing help in seeking necessary professional qualifications to further their careers. All new and existing employees have access to "Sinclair College", our online platform which provides details of our full product range, as well as a series of videos which introduce each department and affiliate from the group, including their function, details of individuals within that department and how they interact with the wider group.

Engagement

We operate a global, cross-functional employee engagement committee. Their focus is to identify and run engagement activities, share ideas on local issues, and where necessary roll out solutions globally across Sinclair affiliates. This is supported by an annual employee survey, which gives an opportunity to provide anonymous feedback on different aspects of working at Sinclair Pharma, and management are then able to implement an action plan based on the findings of the survey. Following feedback from the 2019 survey, the Group has worked during 2020 to provide an improved employee benefits package to our employees.

The CEO hosts quarterly "town-hall" webinars across the group providing all employees with updates on the short and long-term business strategy, any key developments, and employees are invited to ask questions on any topic directly to him.

Finally, the Group is in the process of developing a Sinclair Pharma intranet. This will be a portal to communicate and share information across all our affiliates and is expected to launch by the end of 2020.

Partner physicians

We have developed "Sinclair" College, an online educational resource which supports hands on aesthetic training and provides additional practice development services to our partner physicians. Through individual registration, they have access to extensive training modules, expert webinars and general product information. This platform supports our physician customers to deliver patients unparalleled clinical results with industry leading safety standards.

Distribution partners

We view our distributors as trusted business partners and aim to work collaboratively with them to maximise market opportunities. We hold regular meetings to understand the local market place and sales performance, and provide product training and ensure we address any regulatory or supply issues in a timely manner.

Suppliers

We have consistent standards and procedures for the onboarding and use of external suppliers. We require suppliers to meet our compliance and financial stability requirements, as well as to meet our requirements around health and safety.

Impact on community and environment

We continue to promote volunteering and charitable activities amongst our employees as part of our Corporate Social Responsibility. The Group recognises the importance of its environmental responsibilities and aims to control its impact on the environment, including having a focus on reducing the amount of global travel undertaken by our employees.

Post Balance Sheet Events

On 13 February 2020, the Group agreed to an early termination with Galderma SA of the long-term license agreement for Sculptra®. In exchange for cash consideration of \$51 million, Sinclair transferred all rights to sell Sculptra®, and NewFill in Western Europe, inventory and goodwill to Galderma SA.

On 23 March 2020, the Group entered into a product rights agreement with Kylane Laboratoires SA ('Kylane') under which Sinclair agreed to acquire exclusive worldwide rights to a novel range of hyaluronic acid based dermal fillers with lidocaine. Sinclair paid €0.3 million to secure the rights and a further €13.7 million following CE Mark approval for the products in June 2020. The Group intends to launch the range under the Maili™ trademark in Europe in H1 2021 with multiple launches to follow across all strategic markets. Further milestones are due to be paid to Kylane linked to the transfer of the CE Mark to Sinclair and on transfer of manufacture of the products to Sinclair's in-house manufacturing facility. Kylane will also receive royalties linked to sales of the products for a period of 9 years.

On 17 September 2020, the Group entered into a share acquisition agreement with Kylane under which Sinclair agreed to acquire 20% of the issued share capital of Kylane for €6.0 million. At the same time, Sinclair and Kylane entered into a joint development agreement under which Sinclair agreed to contribute €1.0 million per year to Kylane to be used for the purposes of furthering development of a number of new aesthetic products. Under the terms of this agreement, Sinclair has a right of first refusal to the global rights for these new products on pre agreed terms.

The purchase of shares in Kylane has been financed by a £6.0 million loan from the Company's parent company, Huadong Medicine Co Limited.

Strategic report (continued)

COVID-19

From the start of the COVID pandemic in Q1 2020 the Board's priority has been to ensure the health and safety of all our employees across the globe. All our offices have been closed from time to time with staff working from home in line with local government guidelines. Our Investment in IT has ensured that we retain a high level of connectivity across all teams and so can operate remotely with minimal disruption to the business.

As clinics were closed across many markets and revenues declined, the Group responded by cancelling training and promotional activities along with other discretionary spending including all travel. With lockdown restrictions in place across Europe and in other markets and with social distancing requirements restricting clinic capacity on re-opening, the Group has seen a significant loss of revenue in 2020 compared to 2019 and the Board's expectations at the start of the year. While a recovery in revenues has been seen in Q3, the full year impact of COVID-19 is hard to predict.

Principal risks and uncertainties

The Group as a business depends on product revenues generated through its own operations and marketing partners to build future revenues. The Group's performance and future prospects may be affected by risks and uncertainties relating to our business environment. Sinclair's internal controls include a risk management process to identify key risks and, where possible, manage those risks through systems and processes and by implementing specific mitigation strategies.

The most significant identified risks that could materially affect the Group's ability to achieve its financial and operating objectives are summarised below.

Area	Principal Risk	Mitigation
Risk associated with commercial success of products	The Group's revenues are from sales of its products. There can be no assurance that current product revenues can be maintained or increased in the future. Product sales may be affected by adverse market conditions or other factors including: price competition from other products, the withdrawal of a product because of a regulatory or other reason, or the financial or commercial failure of a marketing partner. Lack of commercial success could result in low profits and the potential impairment of goodwill and intangible assets.	The Group manages these risks through regular reviews of the performance of its direct affiliates and partners. In-market sales data is closely monitored in order to assess products and partner performance and guide any corrective actions that may be required.
Interruption to product supply	The Group relies on third-party manufacturers for the supply of a significant part of its production. Problems at manufacturing facilities may lead to delays and disruptions in the supply chain which could have significant negative impact on the Group.	The Group maintains a close dialogue with key suppliers and regularly monitors inventory levels and customer demand to ensure that any interruption to product supply can be managed.
Product liability risk	The Group's products may produce unanticipated adverse side effects that may hinder their marketability.	Sinclair maintains product liability insurance and operates quality systems relating to the manufacture of its products and a pharmacovigilance system to monitor safety of its marketed products.
Competition and intellectual property risk	The position of Sinclair's products in the market is dependent on its ability to obtain and maintain patent and/or trademark protection for its products, preserve its trade secrets, defend and enforce its rights against infringement and operate without infringing the proprietary or intellectual property rights of third parties. The validity and enforceability of patents and/or trademarks may involve complex legal and factual issues resulting in uncertainty as to the extent of the protection provided. The Group's intellectual property may become invalid or expire before or during commercialisation of the product.	The Group continuously seeks to develop its products to ensure they are competitive and monitors its intellectual property rights to identify and protect against any infringements.
Regulatory risk	The Group must comply with the requirements of a number of different regulatory authorities in order to maintain product marketing licenses. If there is a breach of regulatory requirements, or the registration of licenses is not adequately maintained, products may be required to be withdrawn from certain markets.	The Group has an in-house regulatory and quality department, which maintains a close dialogue with regulatory authorities and reports any issues to the Board on a regular basis.

Principle risks and uncertainties (continued)

Area	Principal Risk	Mitigation
Brexit	Following the UK referendum outcome in June 2016 for the UK to leave the EU ('Brexit'), the UK Government and European Commission have been negotiating the terms on which the UK would leave the EU and the framework for the future relationship. While a Withdrawal Agreement has been agreed between the UK Government and the EU, the UK has entered a transition period and uncertainty over the longer-term trade issues could remain until 31 December 2020 and potentially beyond. Therefore, there remains volatility in markets and uncertainty about how future trading relationships, regulatory environments and supply chains will operate and it is difficult to accurately anticipate the impact on the regulatory environment for our products, supply chains and trading performance. The Group has manufacturing sites and central stock holdings within the EU from where it exports globally and in this regard our priority is to enable continuity of supply to our customers in the UK and the EU from both a supply chain and regulatory perspective.	The Group has implemented appropriate actions to mitigate where possible the potential risk of disruption to the supply of our products. This has included ensuring that the Group's products have the correct regulatory approvals in both the UK and EU27, and to enable continuing supply into these markets. These include, but are not limited to engagement with government and regulators; distribution of inventory to avoid short term stock shortages in affected territories, re-design of packaging and labelling, and transfer of regulatory certification from the UK to the EU. The Board had further considered the wider structure of the Group as follows: • In terms of product registration, Sinclair is accustomed to trading with multiple countries and different rules and legislation; • Despite the possible additional administrative burden, our distribution model can adapt to changes in tariffs and duties; • Inventory is held centrally in Belgium which is part of the EU27 and therefore the Group is able to maintain supply around the world and within Europe; • Manufacturing is located in the EU or out sourced to contract manufacturers in the USA and is therefore unaffected by Brexit; and • Our business is naturally hedged, which limits the impact of exchange rate volatility. The Board will continue to assess the potential impacts of Brexit as the process evolves.
Foreign exchange risk	The Group has transactional currency exposures as the majority of revenues, expenditures and deferred consideration liabilities are in currencies other than Sterling. Fluctuations in exchange rates between Sterling and these currencies could adversely impact financial results.	Sinclair seeks to match currency receipts and expenditure as far as possible with deferred consideration liabilities denominated in the functional currency of the underlying businesses acquired. From time to time the Group also engages in short-term hedging transactions in order to hedge against changes in exchange rates during the financial year.

On behalf of the Board



Chris Spooner
Chief Executive Officer
27 November 2020

Directors' Report

The Directors present their Annual Report on the affairs of the Company and the Group, together with the audited consolidated financial statements for the year ended 31 December 2019. The strategic review of the business and the Company and its subsidiaries is given on pages 3 to 7. Certain information required for disclosure in this report is provided in other sections of this Annual Report. These include the Strategic Report and disclosures on financial risks included in note 23 of the Notes to the Financial Statements, and these are, accordingly, incorporated into this report by reference. An indication of the likely future developments of the business, and post balance sheet events are included in the Strategic Report on Page 3-7.

Key performance indicators

The Board measures the Group's performance according to a wide range of key performance indicators ('KPIs'). The main KPIs at a Group level are as follows, and are measured for the years ending 31 December 2019, and 31 December 2018:

KPI	2019	2018	Definition, method of calculation and analysis
Continuing revenue	£50.6 million	£38.1 million	Revenue increased by 32.8% in 2019 driven by a strong performance across the business, with all three brands showing growth. Ellansé and Perfectha delivered the strongest growth with revenue increases of 51% and 43% respectively. Details of the performance of each brand are set out in the Strategic Report.
Gross margin	73.8%	71.1%	Gross margin improved significantly in 2019 driven by an improving sales mix with growth in higher margin product Ellansé and from increasing revenues of Silhouette InstaLift in the US. Margins were also improved through increasing capacity utilisation at the Group's in-house manufacturing facilities.
Profit/(loss) attributable to owners of the parent	£6.5 million	(£49.5 million)	The Group has reported a net profit in 2019 as a result of the strong improvement in the operations of the business, combined with a significant reduction in finance costs compared with 2018 following the re-financing of borrowings post the change of control, as well as the exceptional credit adjustments that arise from the revised assumptions around contingent consideration to be paid for Silhouette in the US.

Results, earnings and dividends

The profit for the financial year ending 31 December 2019 was £6,514,000 (2018: loss of £49,543,000). The Directors do not recommend a dividend (2018: £Nil).

Risk management

The Group's operations expose it to a variety of financial risks, including the effects of changes in currency exchange rates, credit exposure and liquidity. More details can be found in note 23 to the financial statements and on page 6.

Going concern

The Board has modelled a number of scenarios reflecting the impact of COVID-19 on the Group and its financing needs. These scenarios include the impact of a potential further lockdown across the Group's key markets and the mitigating actions that could be taken in such a scenario. The Group is reliant on borrowing facilities from its bank in order to finance its ongoing operations. The Directors have agreed terms for additional facilities with the Group's bank which the Directors believe will be sufficient for the Group to continue in operational existence for the foreseeable future. The Group's borrowing facilities include financial covenants relating to the Group's parent organisation, Huadong Medicine Co Limited. The group has also received a letter of support from its parent company, Huadong Medicine Co Limited. The Directors have not been provided with evidence to support future compliance with these covenants or cash flows to support the ability to provide support to the group which therefore presents a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

Directors

The Directors of the Company who served during the year and up to the date of this report were:

Chris Spooner
Alan Olby
Shizheng Duan
Bo Chen
Chengwei Liu

Directors' and officers' liability insurance

The Company had in place qualifying third party indemnity insurance for all Directors throughout the period and to the date of this report.

Structure of the Company's capital

The Company's share capital comprises a single class of 1p Ordinary shares, each carrying one vote and all ranking equally with each other. At 31 December 2019, the issued share capital was £5,801,571 comprising 580,157,084 1p Ordinary shares (2018: 526,466,981) allotted and fully paid. There are no restrictions on the transfer of shares in the Company or on voting rights.

Directors report (continued)

Change of control

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment following a takeover of the Company.

Future developments

Directors plans for the future is to continue developing the existing brands and add new brands to the portfolio where appropriate. See the strategic report for specific discussion on individual brands and post balance sheet acquisition details.

Research and development

The Group actively reviews technical development in its markets with a view of taking advantage of the available opportunities to maintain and improve its competitive position. The Group has continued to invest in the development of new products and line extensions during the year, with R&D costs, excluding salaries, of £732,000 in 2019 (2018: £824,000).

Employees

Our most important asset is our employees. We are committed to developing policies that encourage all employees to achieve their potential and to continue to contribute to the success of the Group. We seek to develop employees' potential by encouraging them to attend seminars, training courses, and providing help in seeking necessary professional qualifications to further their careers. We operate equal opportunities in recruitment, training and promotion regardless of gender, ethnic origin, nationality or disability. The Group operates internationally and therefore its employment practices are varied to meet local conditions and requirements. These are established on the basis of best practice for each individual country.

Employee engagement

See information set out under section 172 of the strategic report.

Supplier and customer engagement

See information set out under section 172 of the strategic report.

Political donations

The Group made political donations totalling £Nil (2018: £Nil).

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Statement as to disclosure of information to auditors

The Directors, in office at the date of this report, have confirmed that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Directors report (continued)

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

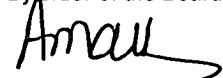
The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in Annual report and financial statements 2019 confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board



Alan Otby
Chief Financial Officer
27 November 2020

Independent auditors' report to the members of Sinclair Pharma Limited

Report on the audit of the financial statements

Opinion

In our opinion, Sinclair Pharma Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the cash flow statements, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's and company's ability to continue as a going concern. The group's borrowing facilities include financial covenants relating to the group's parent organisation, Huadong Medicine Co Limited. In addition, the group has received a letter of support from the parent organisation, Huadong Medicine Co Limited. The Directors have not been provided with evidence to support future compliance with these covenants or future cash flows to support the ability to provide support to the group. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.


Robert Halfpenny (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
27 November 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019			2018		
		Pre-exceptional items £'000	Exceptional items (note 6) £'000	Total £'000	Pre-exceptional items £'000	Exceptional items (note 5) £'000	Total £'000
Continuing operations							
Revenue	4	50,598	—	50,598	38,125	—	38,125
Cost of sales		(13,277)	—	(13,277)	(11,034)	—	(11,034)
Gross profit		37,321	—	37,321	27,091	—	27,091
Selling, marketing and distribution costs		(25,860)	—	(25,860)	(23,424)	—	(23,424)
Net impairment loss on goodwill		—	(8,493)	(8,493)	—	—	—
Administrative expenses		(22,308)	15,349	(6,959)	(22,724)	(22,233)	(44,957)
Operating loss	6	(10,847)	6,856	(3,991)	(19,057)	(22,233)	(41,290)
Finance income	8	915	12,126	13,041	6	—	6
Finance expense	8	(4,891)	—	(4,891)	(11,157)	—	(11,157)
Profit/(loss) before taxation		(14,823)	18,982	4,159	(30,208)	(22,233)	(52,441)
Taxation	9	(1,298)	—	(1,298)	84	—	84
Profit/(loss) for the year from continuing operations		(16,121)	18,982	2,861	(30,124)	(22,233)	(52,357)
Discontinued operations							
Profit for the year from discontinued operations	30			3,653			2,814
Profit/(loss) for the year				6,514			(49,543)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit/(loss) for the year	6,514	(49,543)
Other comprehensive (expense)/income (Items that may subsequently be reclassified to the income statement)		
Currency translation differences	(5,290)	2,008
Total other comprehensive income	(5,290)	2,008
Total comprehensive income/(expense) for the year attributable to the owners of the parent	1,224	(47,535)
Total comprehensive income/(expense) arises from:		
Discontinued operations	3,653	2,814
Continuing operations	(2,429)	(50,349)
	1,224	(47,535)

The notes on pages 18 to 39 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
NON-CURRENT ASSETS			
Goodwill	11	54,279	65,831
Intangible assets	12	66,074	78,752
Property, plant and equipment	13	6,573	1,953
Other financial assets		176	181
		127,102	146,717
CURRENT ASSETS			
Inventories	15	7,103	7,172
Trade and other receivables	16	16,683	12,228
Cash at bank		2,415	3,830
		26,201	23,230
Assets held for sale	14	5,443	–
TOTAL ASSETS		158,746	169,947
CURRENT LIABILITIES			
Borrowings	18	(26,941)	(28,817)
Trade and other payables	17	(15,837)	(20,910)
Lease liabilities	20	(834)	–
Other financial liabilities	19	(2,757)	(4,715)
Current tax liabilities		(2,654)	(824)
Provisions	21	(5,689)	(4,005)
TOTAL CURRENT LIABILITIES		(54,712)	(59,271)
NON-CURRENT LIABILITIES			
Lease liabilities	20	(2,310)	–
Trade and other payables	17	(1,395)	(759)
Other financial liabilities	19	(3,734)	(31,668)
Deferred tax liabilities	22	(16,671)	(19,192)
		(24,110)	(51,619)
TOTAL LIABILITIES		(78,822)	(110,890)
NET ASSETS		79,924	59,057
EQUITY			
Share capital	24	5,802	5,177
Share premium		109,648	90,273
Capital reserve		2,819	2,819
Merger reserve		97,141	97,141
Other reserves		9,654	14,944
Accumulated losses		(145,140)	(151,297)
Total equity		79,924	59,057

The notes on pages 18 to 39 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 39 were approved by the Board of Directors and signed on its behalf by:



Alan Olby
Director
27 November 2020

Sinclair Pharma Limited registered number 03816616

Company Balance Sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
NON-CURRENT ASSETS			
Investments	31	126,601	126,519
CURRENT ASSETS			
Trade and other receivables	16	42,101	902
Cash at bank		23	597
		42,124	1,499
TOTAL ASSETS		168,725	128,018
CURRENT LIABILITIES			
Borrowings	18	(26,941)	(7,000)
Trade and other payables	17	(2,266)	(1,018)
		(29,207)	(8,018)
TOTAL LIABILITIES		(29,207)	(8,018)
NET ASSETS		139,518	120,000
EQUITY			
Share capital	24	5,802	5,177
Share premium		109,648	90,273
Capital reserve		2,819	2,819
Merger reserve		102,241	102,241
Accumulated losses			
At start of year		(80,510)	(70,586)
Loss for the year attributable to the owners		(482)	(10,727)
Other changes in retained earnings		–	803
		(80,992)	(80,510)
Total equity		139,518	120,000

The notes on pages 18 to 39 are an integral part of these consolidated financial statements.

The financial statements on pages 11 to 39 were approved by the Board of Directors and signed on its behalf by:


Alan Olby
 Director
 27 November 2020

Sinclair Pharma Limited registered number 03816616

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2018	5,038	86,625	–	97,141	12,936	(102,557)	99,183
Exchange differences arising on translation of overseas subsidiaries	–	–	–	–	2,008	–	2,008
Loss for the year	–	–	–	–	–	(49,543)	(49,543)
Total comprehensive expense for the year	–	–	–	–	2,008	(49,543)	(47,535)
Share-based payments	–	–	–	–	–	803	803
Issue of share capital (note 24)	139	3,648	–	–	–	–	3,787
Capital contribution (note 24)	–	–	2,819	–	–	–	2,819
Total transactions with owners recognised directly in equity	139	3,648	2,819	–	–	803	7,409
Balance at 31 December 2018	5,177	90,273	2,819	97,141	14,944	(151,297)	59,057
Adjustment on adoption of IFRS 16 (net of tax) (note 2)	–	–	–	–	–	(357)	(357)
Restated total equity at 1 January 2019	5,177	90,273	2,819	97,141	14,944	(151,654)	58,700
Exchange differences arising on translation of overseas subsidiaries	–	–	–	–	(5,290)	–	(5,290)
Profit for the year	–	–	–	–	–	6,514	6,514
Total comprehensive income for the year	–	–	–	–	(5,290)	6,514	1,224
Issue of share capital (note 24)	625	19,375	–	–	–	–	20,000
Total transactions with owners recognised directly in equity	625	19,375	–	–	–	–	20,000
Balance at 31 December 2019	5,802	109,648	2,819	97,141	9,654	(145,140)	79,924

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2018	5,038	86,625	–	102,241	(70,586)	123,318
Loss for the year	–	–	–	–	(10,727)	(10,727)
Total comprehensive expense for the year	–	–	–	–	(10,727)	(10,727)
Share-based payments	–	–	–	–	803	803
Issue of share capital (note 24)	139	3,648	–	–	–	3,787
Capital contribution (note 24)	–	–	2,819	–	–	2,819
Total transactions with owners recognised directly in equity	139	3,648	2,819	–	803	7,409
Balance at 31 December 2018	5,177	90,273	2,819	102,241	(80,510)	120,000
Loss for the year	–	–	–	–	(482)	(482)
Total comprehensive expense for the year	–	–	–	–	(482)	(482)
Issue of share capital (note 24)	625	19,375	–	–	–	20,000
Total transactions with owners recognised directly in equity	625	19,375	–	–	–	20,000
Balance at 31 December 2019	5,802	109,648	2,819	102,241	(80,992)	139,518

The notes on pages 18 to 39 are an integral part of these consolidated financial statements.

Cash Flow Statements

For the year ended 31 December 2019

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Continuing operations				
Profit/(Loss) before tax	4,160	(52,441)	(482)	(10,727)
Exceptional Items	(6,856)	22,233	(780)	6,687
Loss before tax and exceptional items	(2,696)	(30,208)	(1,262)	(4,040)
Adjustments for:				
Finance income	(12,141)	(6)	-	-
Finance costs	4,891	10,776	48	320
Share-based payments	-	2,733	-	2,141
Depreciation	1,272	709	-	-
Amortisation of intangible assets	4,534	4,634	-	-
Impairment recognised in administrative expenses	979	528	-	-
Exchange gains	(900)	381	624	(114)
Loss on disposal of assets	282	-	-	-
Changes in working capital				
Increase in inventory	(472)	(2,714)	-	-
(Increase)/decrease in receivables	(4,707)	3,575	(193)	(900)
Increase/(decrease) in payables	1,378	117	1,844	(1,061)
Decrease in provisions	-	(279)	-	-
Net cash (outflow)/inflow from continuing operations before exceptional items	(7,580)	(9,754)	1,061	(3,654)
Exceptional costs paid	(4,200)	(8,953)	-	(8,339)
Net cash (outflow)/inflow from continuing operations	(11,780)	(18,707)	1,061	(11,993)
Discontinued operations				
Profit before tax	3,559	2,720	-	-
Adjustment for amortisation	396	396	-	-
Changes in working capital				
Increase/(decrease) in inventory	237	(224)	-	-
(Increase)/decrease in receivables	(452)	289	-	-
Decrease in payables	(401)	(1,062)	-	-
Net cash inflow from discontinued operations	3,339	2,119	-	-
Net cash (outflow)/inflow from operations	(8,441)	(16,588)	1,061	(11,993)
Interest paid	(4,136)	(1,517)	(629)	(662)
Taxation paid	(1,073)	(645)	-	-
Net cash (used in)/generated from operating activities	(13,650)	(18,750)	432	(12,655)
Investing activities				
Purchases of property, plant and equipment	(2,451)	(1,027)	-	-
Purchase of intangible assets	(1,233)	(3,664)	-	-
Payment of deferred and contingent consideration	(3,226)	(3,243)	-	-
Loan to subsidiary companies	-	-	(41,006)	-
Advance of intra-group loans	-	-	-	4,837
Net cash (used in)/generated from investing activities	(6,910)	(7,934)	(41,006)	4,837
Financing activities				
Proceeds from capital contribution	-	2,819	-	2,819
Proceeds from issue of share capital	24	20,000	20,000	-
Proceeds from borrowings	18	20,000	30,827	10,584
Repayment of borrowings	-	(19,910)	(5,000)	(5,000)
Principal elements of lease payments	-	(945)	-	-
Net cash generated from financing activities	19,145	28,646	40,000	8,403
Net (decrease)/increase in cash and cash equivalents	(1,415)	1,962	(574)	585
Cash and cash equivalents at start of year	3,830	1,837	597	12
Exchange gains on cash and cash equivalents	-	31	-	-
Cash and cash equivalents at end of year	2,415	3,830	23	597

The notes on pages 18 to 39 are an integral part of these consolidated financial statements

Notes to the Financial Statements

For the year 31 December 2019

1. General information

Sinclair Pharma Limited (the 'Company') is an international speciality pharmaceutical company focused on aesthetics. The Group has a direct sales and marketing presence in the US, UK, Spain, France, Germany, Brazil, South Korea and Mexico and a growing international division concentrated on key emerging markets through long-term multi-product and multi-country sales, marketing and distribution deals with key strategic partners.

The principal activities of the Group are the manufacture, commercialisation and sale of aesthetic products. The Group is also engaged in research and development and owns various product rights and licences in different territories.

The Company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Whitfield Court, 30–32 Whitfield Street, London W1T 2RQ, England.

The consolidated and Company financial information is presented in Sterling, which is also the functional currency of the parent company, and has been rounded to the nearest thousand (£'000).

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and IFRS Interpretations Committee ('IFRS IC') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The consolidated and company financial statements have been prepared under the historical cost convention as modified to fair value for certain financial assets and liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

Under Section 479A of the Companies Act 2006, exemptions from an audit of the financial statements for the financial year ending 31 December 2019 have been taken by Sinclair Pharma Holdings Limited (08871117); Sinclair Pharma Management Limited (09142486); Sinclair Pharmaceuticals Limited (01007146); IS Pharmaceuticals Limited (02685820); IS Pharma Limited (03337415) and Acorus Therapeutics Limited (03976183). As required, the Company guarantees all outstanding liabilities to which the subsidiary companies listed above are subject at the end of the financial year, until they are satisfied in full and the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary companies listed above is liable in respect of those liabilities.

Going concern

The Board has modelled a number of scenarios reflecting the impact of COVID-19 on the Group and its financing needs. These scenarios include the impact of a potential further lockdown across the Group's key markets and the mitigating actions that could be taken in such a scenario. The Group is reliant on borrowing facilities from its bank in order to finance its ongoing operations. The Directors have agreed terms for additional facilities with the Group's bank which the Directors believe will be sufficient for the Group to continue in operational existence for the foreseeable future. The Group's borrowing facilities include financial covenants relating to the Group's parent organisation, Huadong Medicine Co Limited. The group has also received a letter of support from its parent company, Huadong Medicine Co Limited. The Directors have not been provided with evidence to support future compliance with these covenants or cash flows to support the ability to provide support to the group which therefore presents a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

Basis of consolidation

The consolidated financial statements of the Company incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are deconsolidated from the date on which control ceases. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

All transactions, balances and unrealised gains between Group companies are eliminated on consolidation. Unrealised losses are also eliminated except to the extent they provide evidence of impairment of the asset transferred.

2. Accounting policies (continued)

Business combinations

The acquisition method of accounting is applied to all business combinations made by the Group. The cost of an acquisition is measured, as the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, at the rate of exchange (where applicable) on the date of acquisition. Acquisition costs are expensed as incurred and recognised within exceptional items.

Identifiable assets acquired and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values on the date of acquisition, based on the rate of exchange (where applicable) on the date of acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of identifiable net assets, including intangible assets acquired, is recorded as goodwill.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the functional currency of the primary economic environment in which the entity operates (the functional currency). Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date. Gains and losses arising on translation are included in the income statement. The results of operations that have a functional currency different from the presentation currency are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the date of the balance sheet. Exchange differences arising on translation from 1 July 2005 are taken directly to a separate component of equity, the cumulative translation reserve included within 'Other Reserves'. There is no tax impact on these transactions. Exchange differences on intra-group loan balances are taken to the income statement, unless they are considered long-term equity investments.

Revenue recognition

Revenue from product sales is recognised upon shipment to customers. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related sales occurred. The recognition of other payments received and receivable, such as licence fees, upfront payments and milestones, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations, if any, with the third party. Payment on sales are generally due within 30 days. These payments are recognised as revenue in the period in which they are earned. Amounts received and receivable are recognised immediately as revenue where there are no substantial remaining risks, no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

Discontinued operations

A discontinued operation is a component of our business that represents a separate major line of business or major geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income and statement of cash flows are reclassified as if the operation had been discontinued from the start of the comparative period.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity denominated in foreign currency and translated at the balance sheet date according to the rate of exchange prevailing at that date.

Intangible assets

i) Licences and product rights

Licences and trademarks including product distribution rights and technical dossiers are recognised at their fair values at acquisition date (where acquired as part of a business combination) or cost (if acquired separately) and are amortised on a straight-line basis over their estimated useful economic lives (10 to 20 years) from the time they are available for use. Amortisation is included within Administrative expenses.

ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development activities are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, status of regulatory approval, and costs can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the date of regulatory approval of the product on a straight-line basis over the period of its expected benefit, not exceeding 10 years.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying value and fair value less cost to sell.

2. Accounting policies (continued)

Property, plant and equipment

All property, plant and equipment are shown at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

- Leasehold improvements expensed over period of lease;
- Right of use assets are depreciated on a straight line basis over the period of the lease; and
- Office and laboratory equipment depreciated at 15% to 50% per year.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, over the term of the relevant lease.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less impairment provision. Such investments are subject to review and any impairment is charged to the income statement.

Impairment

Goodwill is tested annually for impairment and other intangible assets are tested where there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying value of the asset (CGU) is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of production overheads if appropriate at the relevant stage of production. Provision is made for obsolete, slow-moving or defective items where appropriate. Net realisable value is determined at the balance sheet date on commercially saleable products based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable and deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determinations is made.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. Accounting policies (continued)

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

In the financial year ended 31 December 2018 leases, including hire purchase contracts, are classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases and hire purchase contracts are capitalised and included in property, plant and equipment at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under current, or non-current liabilities.

The interest element of a rental obligation charged to the income statement is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

For the year ended 31 December 2019 the group has adopted IFRS 16, applying the simplified approach.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if it is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercising of that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of £Nil have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2018. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 10% for property leases relating to Brazil, 8% for all other property leases, 4% for office equipment and 6% for all cars. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2018 was 7.9%.

	£'000
Operating lease commitments disclosed as at 31 December 2018	3,854
(Less): short-term leases recognised on a straight-line basis as expense	(561)
(Less): low-value leases recognised on a straight-line basis as expense	(1)
Adjusted operating lease value	3,292
Property leases discounted at 8%	2,845
Brazil Property leases discounted at 10%	45
Cars discounted at 6%	112
Equipment discounted at 4%	31
Lease liability recognised at 1 January 2019	3,033

2. Accounting policies (continued)

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Property, plant and equipment increased by £2,598,000 on 1 January 2019, opening accruals reduced by £78,000, a lease liability was recognised of £3,033,000 and an adjustment was made to opening reserves of £357,000.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4, 'Determining whether an Arrangement contains a Lease'.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of £Nil.

Pensions

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held in independently administered funds. Contributions are charged to the income statement as they become payable in accordance with the rules of the schemes.

Other employee benefits

The expected cost of compensated short-term absence (i.e. holidays) is recognised when employees provide services that increase their entitlement. An accrual is made for holidays earned but not taken.

Share-based payments

The share based payment scheme ceased on 4th November 2018, due to the purchase of the companies share capital by Huadong Medicine Co., Ltd. No movements have been recorded on the scheme in the year ending 31 December 2019.

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Group assesses, on a forward looking basis the expected credit losses associated with classes of similar trade receivables, and provides for impairment accordingly.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. These items are subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement only.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Exceptional items

Exceptional items represent significant items of income and expense which due to their nature, size, or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statements to give a better understanding to shareholders of the elements of the financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

2. Accounting policies (continued)

Other financial assets

Other financial assets include non-current rent deposits paid on leasehold properties.

Equity

Equity comprises the following:

"share capital" represents the nominal value of equity shares;

"share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;

"merger reserve" represents the share premium in connection with historic acquisitions;

"other reserves" comprises all foreign exchange differences arising from the translation of foreign operations; and

"accumulated losses" represents cumulative retained losses.

New IFRSs standards and interpretations

The following standards, amendments, or interpretations, effective for the first time for the financial year beginning on 1 January 2019, have been adopted for the first time in these financial statements.

IFRS 16 removes the operating and finance lease classification in IAS17 Leases and replaces them with the concept of right-of-use assets and associated financial liabilities. The change results in the recognition of a liability on the balance sheet for all leases which convey a right of use asset for the period of the contract.

The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. See further information on our transition to this standard under leases above.

There are no standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Critical accounting estimates and judgements

Preparation of the Group's financial statements requires the use of estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. The Board bases its estimates and judgements on historic experience and on various other assumptions that it considers reasonable. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements

Impairment of goodwill

Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the CGUs to which goodwill or other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. There is a risk of a material adverse impact on the income statement should an impairment adjustment be required. The carrying value of goodwill at 31 December 2019 is £54,279,000 (2018: £65,831,000) (note 11), and an impairment of £8,493,000 (2018: Nil) was recognised in the year. Prior to the impact of COVID-19 any reasonable possible change in assumptions is expected to have a material impact on the carrying value of Silhouette as the CGU was impaired to its fair value less costs to sell at 31 December 2019, there is not expected to be an impact to the carrying value of Perfectha or Ellanse. The impact of COVID-19 has been considered in note 28 on post balance sheet events.

Valuation of contingent consideration

Determining the fair value of contingent consideration requires estimation of the probability and timing of future events such as regulatory approvals and sales milestones being achieved resulting in deferred consideration becoming payable. A suitable discount rate is then applied to the expected cash flows to calculate the present value. There is a risk of a material impact on the income statement in future periods should any key assumptions change which result in the expected value of the final consideration payable increasing or decreasing. The value of contingent consideration at 31 December 2019 is £6,491,000 (2018: £36,383,000). An increase/(decrease) of 10% to forecast sales would lead to an increase/(decrease) in contingent consideration of £344,000 /(£344,000).

Recoverable amounts of accounts receivable

Judgements have been made taking into account the age of overdue debt, order patterns, forecast trade, and the credit-worthiness of specific customers in order to assess the recoverable amount of accounts receivable balances. The carrying value of trade receivables at 31 December 2019 is £14,166,000 (2018: £10,091,000).

Legal Provisions

The Group has a number of ongoing legal disputes the outcome of which are uncertain, both in regards timing and the value of any potential settlements the Group may be required to make. The Group has therefore applied judgement to determine the most likely outcome of these disputes, and therefore any financial impact to the business. The carrying value of provisions at 31 December 2019 is £5,689,000 (2018: £4,005,000).

4. Revenue

Revenue relates solely to the principal activity of the Group/ Revenues on a geographic basis were as follows:

	2019 £'000	2018 £'000
Western Europe	13,626	9,868
Asia Pacific	12,085	11,863
Brazil	10,197	5,795
United States of America	4,763	2,468
Rest of World	9,927	8,131
Total Revenue	50,598	38,125

For revenues in relation to discontinued operations refer to Note 30.

5. Exceptional items

Exceptional items represent significant items of income and expense which due to their nature, size, or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the period, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

	2019 £'000	2018 £'000
Goodwill impairment	(8,493)	–
Adjustments to the value of contingent consideration	14,567	(3,235)
Adjustment to the value of interest due on contingent consideration	12,126	–
Professional fees for change of control	–	(9,441)
Legal costs	782	(3,793)
Impairment to intangible assets	–	(2,667)
Contract termination	–	(3,079)
Total exceptional income/(costs)	18,982	(22,233)

A goodwill Impairment charge of £8,493,000 has been recorded in 2019 relating to the Silhouette CGU following a decrease in expected future cashflows, particularly linked to underperformance in the US. See note 12 for further details.

Adjustments to contingent consideration in 2019 includes a credit of £14,567,000 (2018: debit of £3,253,000) as a result of changes to the forecast timing of contingent consideration payments for the acquisition of Silhouette Lift SL, following a reassessment of the growth profile of Silhouette InstaLift in the USA.

Professional fees for change of control of £Nil (2018: £9,441,000) relate to the acquisition of the group by Huadong Medicine Co. Ltd on 4 November 2018. The costs include legal and professional fees incurred to complete the transaction.

In 2018, a provision of £3,793,000 was charged to the income statement, relating to the anticipated settlement of ongoing legal disputes. In 2019, certain of these disputes have been settled for less than the original provision, resulting in a credit of £782,000 being recognised.

The acquisition of the Group in 2018, triggered an accelerated payment of £2,667,000 to the former owners of Refine arising on change of control (note 29). The Refine Support System is in the early stages of development, therefore the related intangible asset was immediately impaired.

Contract termination: In March 2018, Sinclair terminated its US distribution agreement for Silhouette InstaLift with ThermiGen LLC and consequently incurred a termination payment of \$2,000,000 (£1,423,000). Also included within contract termination costs is an inventory provision of £1,656,00 which relates to the write off of excess inventory acquired from ThermiGen LLC, following termination of the distribution agreement.

6. Operating loss

The operating loss is stated after charging/(crediting):

	2019 £'000	2018 £'000
Continuing operations:		
Cost of inventory recognised as an expense	12,135	8,383
Depreciation on leased assets	755	–
Depreciation of owned property, plant and equipment	517	709
Amortisation of intangible assets ¹	4,534	4,634
Impairment of intangible assets recognised in administrative expenses	1,261	528
Employee benefit expense excluding share-based payment expense (note 7)	25,114	20,749
Share-based payments	–	2,733
Foreign exchange losses/(gains)	454	(160)
Operating leases – land and buildings	–	880
Operating leases – other	–	75
Research and development (excluding salary costs)	732	824

¹ In line with the Group's accounting policy amortisation of intangible assets is included in the income statement under administrative expenses.

6. Operating loss (continued)

Services provided by the Group's auditors

During the period the Group obtained services from the Group's auditors as described below:

	2019 £'000	2018 £'000
Fees payable to Company's auditors for the audit of Parent Company and consolidated financial statements	280	294
Fees payable to Company's auditors and its associates for other services		
Audit of the financial statements of the Group's subsidiaries pursuant to legislation	—	4
Tax compliance services	9	29
Tax advisory services	31	150
All other services	36	33
	356	510

7. Employees and Directors

The average monthly number of employees (including Executive Directors) employed by the Group during the period was:

	Group		Company	
	2019 Number	2018 Number	2019 Number	2018 Number
Sales and marketing	138	108	—	—
Production	42	35	—	—
Regulatory and quality	29	32	—	—
Administration	66	56	2	4
Continuing operations	275	231	2	4

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries	21,142	16,980	622	2,030
Social security costs	3,251	3,096	67	303
Other pension costs	721	673	5	32
Share-based payments	—	2,733	—	2,141
	25,114	23,482	694	4,506

At 31 December 2019, the Group had unpaid pension contributions of £61,000 (2018: £57,000).

In the year ended 31 December 2019, the above staff costs include £Nil (2018: £244,000) in respect of termination payments.

Key management compensation

Key management includes Executive Directors and members of the executive management team. Compensation paid or payable to key management for employee services is shown below:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salaries and short-term employee benefits	5,577	6,075	721	2,046
Post-employment benefits	79	42	—	25
Compensation for loss of office	—	121	—	—
Share-based payments	—	2,251	—	2,101
	5,656	8,489	721	4,172

Directors

The directors' emoluments were as follows

	2019 £'000	2018 £'000
Aggregate emoluments	1,513	1,773
Aggregate amounts (excluding shares) receivable under long-term incentive schemes	1,560	2,702
Contributions to money purchase pension scheme	10	10
	3,083	4,485

Highest paid Director

The amounts of the highest paid director are as follows:

	2019 £'000	2018 £'000
Total emoluments and amounts receivable under long-term incentive schemes	2,375	3,178

8 Finance income and finance expense

	2019 £'000	2018 £'000
Finance income		
Net foreign exchange gains on financing activities	900	–
Adjustments to discount unwind on deferred consideration	12,126	–
Other finance income	15	6
Total finance income	13,041	6
Finance expense		
Discount unwind on deferred consideration	(3,669)	(5,369)
Net foreign exchange losses on financing activities	–	(381)
Interest on bank loans and overdrafts	(679)	(1,595)
Early termination charges on financing arrangements and acceleration of arrangement fees	(274)	(3,792)
Other finance charges	–	(20)
Interest on lease liabilities	(269)	–
Total finance expense	(4,891)	(11,157)
Net Finance expense	8,150	(11,151)

Discount unwind costs represent non-cash charges for the reversal of discounting on the Group's deferred consideration liabilities which are carried at their net present value, see note 18 for further details. Included within finance income is an exceptional credit of £12,126,000 being an adjustment to the historic discount unwind on deferred consideration as a result of changes to the forecast timing of contingent consideration payments for the acquisition of Silhouette Lift SL (note 6).

Net foreign exchange gains of £900,000 (2018: losses of £381,000) arise from the difference in the Sterling: Euro and the Sterling: US Dollar exchange rates on borrowings from the date of drawdown and the period end or date of repayment.

9 Taxation

	2019			2018		
	Continuing operations £'000	Discontinued operations £'000	Total £'000	Continuing operations £'000	Discontinued operations £'000	Total £'000
Current tax						
UK corporation tax	167	–	167	256	–	256
Overseas tax	(3,132)	–	(3,132)	(1,149)	–	(1,149)
	(2,965)	–	(2,965)	(893)	–	(893)
Deferred tax (note 22)						
Origination and reversal of temporary differences	1,667	94	1,761	1,245	94	1,339
Change in overseas tax rates	–	–	–	(268)	–	(268)
	1,667	94	1,761	977	94	1,071
Tax (expense)/credit on loss before taxation	(1,298)	94	(1,204)	84	94	178

Factors affecting the total tax charge for the period

The tax credit assessed on the profit/(loss) on ordinary activities for the period is lower (2018: lower) from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit/(loss) on ordinary activities before tax from continuing and discontinued operations	7,718	(49,721)
Profit/(loss) on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,466	(9,447)
Amortisation not allowed for tax purposes	675	569
Expenses not deductible for tax purposes	1,327	4,394
Tax losses utilised in the period previously not recognised	(3,422)	(160)
Reinvestment relief	(218)	(218)
Tax losses arising in the year not recognised	1,432	2,838
Tax rate difference	226	254
Unrelieved overseas tax losses	–	1,574
Change in overseas tax rates	(411)	268
Under provided in previous periods	305	106
Research and development tax credits	(176)	(356)
Total tax expense/(credit)	1,204	(178)

Changes to the UK corporation tax rates enacted as part of Finance Bill 2017 (on 6 September 2016) were repealed, meaning that the corporation tax rate is remaining at 19%. Deferred taxes at the balance sheet date have been measured using tax rates enacted at 31 December 2019 and reflected in these financial statements.

10. Loss for the financial year

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the year ended 31 December 2019 was £482,000 (loss for the year ended 2018: £10,727,000).

11. Goodwill

	2019 £'000	2018 £'000
Cost and net book value		
At start of period	65,831	63,425
Impairment	(8,493)	–
Exchange adjustments	(3,059)	2,406
Net book value at period end	54,279	65,831

Exchange adjustments arise as a result of the impact of the difference in the Sterling: Euro exchange rate and the Sterling: US Dollar exchange rate, at the beginning of the period or the date of acquisition, and at end of the period on balances recorded in Euros and US Dollars.

Goodwill has been allocated to cash generating units ('CGU's) on a product basis as these form an easily identifiable group of assets with independent cash flows. Goodwill has been allocated to the following CGUs:

	2019 £'000	2018 £'000
Silhouette	28,595	38,566
Ellansé	13,713	14,563
Perfectha	11,971	12,702
	54,279	65,831

Goodwill is not amortised but tested annually for impairment or more frequently if there are indications that it may be impaired.

Value In Use

For Ellansé and Perfectha CGU's, value in use calculations have been utilised to calculate recoverable amount. Value in use is calculated as the net present value of the projected post-tax cash flows of each CGU.

Fair Value Less Costs to Sell

For the Silhouette CGU, recoverable amount has been calculated by assessing its fair value less costs to sell. This CGU was previously valued using a value in use calculation but due to the post-year end change of structure to a distribution model, the fair value less costs to sell method now gives a lower valuation for this CGU. Fair value less costs to sell is the price that would be received to sell the asset in an arm's-length transaction, between market participants under normal market conditions. As there is no current market price available, this has been calculated using the income approach which converts future cashflows to a discounted amount, reflecting current market expectations, and is adjusted to reflect the move to a distribution model in the US, which was agreed in March 2020.

The cash flow forecasts for both the value in use and fair value less costs to sell calculations are based on a five year forecast extrapolated to perpetuity. Forecasts for 2020 are based on the approved annual budget and forecasts for 2021-24 are based on management's five year plan.

For all CGUs growth rate assumptions have been applied at an individual product and market level. Long term growth-rate assumptions beyond year five are consistent with forecasts used in industry reports for aesthetic products for the markets where the Group is operating. The key assumptions for each CGU are as follows:

	Discount rate %	2019 Five-year compound growth rate %	Long-term growth rate %	Discount rate %	2018 Five-year compound growth rate %	Long-term growth rate %
Silhouette	9.5	7.7	2.7	11.7	30.1	2.7
Ellansé	10.4	22.3	2.6	12.8	19.8	2.8
Perfectha	12.5	16.4	3.6	14.1	16.8	3.3

For each CGU management have modelled four possible cashflow scenarios, and applied a weighted average assumption to determine the carrying value of the CGU. These scenarios are

- Upside - 5% weighting
- Base case - 70% weighting
- Severe downside - 20% weighting
- Very severe downside - 5% weighting

Scenarios have been run on Ellansé and Perfectha and no reasonable possible changes were expected at the balance sheet date that would remove the headroom. For Silhouette, as this has been impaired to its carrying value any reasonable possible change would further reduce the carrying value of goodwill. See note 28 on post balance sheet events for the expected impact of Covid-19

12. Intangible assets

	Licences and product rights £'000	Other £'000	Total £'000
Cost			
At 1 January 2018	99,802	1,756	101,558
Additions	3,489	370	3,859
Disposals	(24)	–	(24)
Exchange adjustments	3,121	1	3,122
At 31 December 2018	106,388	2,127	108,515
Additions	1,179	458	1,637
Transfer to held for sale	(7,925)	–	(7,925)
Exchange adjustments	(4,050)	(8)	(4,058)
At 31 December 2019	95,592	2,577	98,169
Accumulated amortisation and impairment			
At 1 January 2018	20,104	786	20,890
Charge for the period	4,986	44	5,030
Impairment	3,195	–	3,195
Disposals	(24)	–	(24)
Exchange adjustments	672	–	672
At 31 December 2018	28,933	830	29,763
Charge for the period	4,894	36	4,930
Impairment	1,261	–	1,261
Transfer to held for sale	(2,776)	–	(2,776)
Exchange adjustments	(1,075)	(8)	(1,083)
At 31 December 2019	31,237	858	32,095
Net book value			
At 31 December 2019	64,355	1,719	66,074
At 31 December 2018	77,455	1,297	78,752

Additions to licences and product rights include capitalised development costs in relation to Perfectha and obtaining regulatory approval for Ellanse in the US. In 2019 additions included accelerated payments for the Refine Support System (note 27) which is in the early stages of development, therefore the asset recognised has been immediately impaired (note 5).

Exchange adjustments arise as a result of the impact of the difference in the Sterling: Euro exchange rate and the Sterling: US Dollar exchange rate, at the beginning of the period or the date of acquisition and at end of the period on balances recorded in Euros and US Dollars.

13. Property, plant and equipment

	Right of use assets			Owned assets		
	Leasehold property £'000	Car leases £'000	Office equipment £'000	Leasehold improvements £'000	Office and laboratory equipment £'000	Total £'000
Cost						
At 1 January 2018	–	–	–	159	4,028	4,187
Additions	–	–	–	205	903	1,108
Disposals	–	–	–	–	(134)	(134)
Exchange adjustments	–	–	–	–	30	30
At 31 December 2018	–	–	–	364	4,827	5,191
Adoption of IFRS 16	2,459	101	38	–	–	2,598
At 1 January 2019	2,459	101	38	364	4,827	7,789
Additions	794	84	–	–	2,575	3,453
Disposals	–	–	–	–	(29)	(29)
Exchange adjustments	–	–	–	–	(296)	(296)
At 31 December 2019	3,253	185	38	364	7,077	10,917
Accumulated depreciation						
At 1 January 2018	–	–	–	159	2,454	2,613
Charge for the period	–	–	–	16	693	709
Disposals	–	–	–	–	(134)	(134)
Exchange adjustments	–	–	–	–	50	50
At 31 December 2018	–	–	–	175	3,063	3,238
Charge for the period	673	65	17	22	495	1,272
Disposals	–	–	–	–	(28)	(28)
Exchange adjustments	–	–	–	–	(138)	(138)
At 31 December 2019	673	65	17	197	3,392	4,344
Net book value						
At 31 December 2019	2,580	120	21	167	3,685	6,573
At 31 December 2018	–	–	–	189	1,764	1,953

13. Property, plant and equipment (continued)

In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, see the leases accounting policy.

14. Assets held for sale

On 17 February 2020, the Group disposed of its European distribution rights to Sculptra to Galderma SA. As at 31 December 2019, the long term distribution rights held by the group were being actively marketed for immediate sale, and the sale was considered highly probable to complete within 12 months of the balance sheet date. This therefore meets the criteria detailed under IFRS 5, and the relevant assets have been reclassified as held for sale, valued at the lower of its carrying value and fair value less costs to sell.

	2019 £'000
Assets classified as held for sale	
Intangible assets	5,149
Inventories	294
Total assets of disposal group held for sale	5,443

15. Inventories

	Group	
	2019 £'000	2018 £'000
Raw materials	2,163	1,486
Work in progress	1,010	1,549
Finished goods	3,930	4,137
	7,103	7,172

The cost of inventories as an expense includes £123,000 (2018: £57,000) in respect of write-downs of inventory to net realisable value.

16. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables	15,485	11,648	–	–
Less loss allowance of trade receivables	(1,319)	(1,557)	–	–
Trade receivables – net of provision	14,166	10,091	–	–
Amounts due from Group undertakings	–	–	41,693	687
Other receivables	1,362	1,087	408	215
Prepayments and accrued income	1,155	1,050	–	–
	16,683	12,228	42,101	902

Amounts due from group are unsecured trade balances which do not accrue interest.

The fair value of trade receivables, other receivables and accrued income is considered to be equal to their carrying value.

Expected credit loss rate

The loss allowance for the company is calculated based on historic debts, and factors specific to the region. Specific provisions are then in place for debtors not considered recoverable and so those amounts and the provision are not included in the table below. The ageing is split based on the due date of the debtor.

		2019	
		Debtors	Loss Allowance
		£'000	£'000
0-180 days	0.5%	14,500	80
181-300 days	5.7%	155	9
301-360 days	11.6%	14	2
>360 days	100%	548	548
		15,217	639

		2018	
		Debtors	Loss Allowance
		£'000	£'000
0-180 days	1.6%	10,290	160
181-300 days	7.7%	94	7
301-360 days	13.7%	39	5
>360 days	100%	533	533
		10,956	705

16. Trade and other receivables (continued)

Movements on the Group's loss allowance for trade receivables as at 31 December reconcile to the opening loss allowance as follows:

	Group	
	2019 £'000	2018 £'000
At 1 January	1,557	872
Provision for receivables impairment	–	717
Reduction in provision for receivables	(214)	–
Exchange adjustments	(24)	(32)
At 31 December	1,319	1,557

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
GBP	1,556	1,248	42,101	902
EUR	6,601	4,784	–	–
USD	860	892	–	–
BRL	2,950	2,247	–	–
MXN	469	635	–	–
KRW	4,247	2,422	–	–
	16,683	12,228	42,101	902

17. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current liabilities				
Trade payables	3,995	6,797	–	37
Other taxes and social security costs	1,718	1,931	–	–
Other payables	127	671	529	281
Accruals and deferred income	9,997	11,511	889	597
Amounts due to Group undertakings	–	–	848	103
	15,837	20,910	2,266	1,018
Non-current liabilities				
Accruals and deferred income	1,395	759	–	–
Total	17,232	21,669	2,266	1,018

Amounts due to group are unsecured trade balances which do not accrue interest.

18. Borrowings

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Bank loans	20,000	21,817	20,000	–
Deferred arrangement costs	(81)	–	(81)	–
Amounts due to Parent undertaking	7,022	7,000	7,022	7,000
Current borrowings	26,941	28,817	26,941	7,000
Total net borrowings	26,941	28,817	26,941	7,000

Borrowings are repayable as follows:

On demand or within one year	26,941	28,817	26,941	7,000
Total gross borrowings	26,941	28,817	26,941	7,000

On 26 March 2019, the Group agreed a new three year £20.0 million revolving credit facility with HSBC UK Bank Plc. Proceeds of the facility were utilised to repay existing borrowings, and fund working capital. The facility is subject to covenants over the parent company Huadong Medicine Co. Ltd.

The facility was drawn down in three tranches, the first £16.0 million was drawn immediately, £2.0 million in August and a further £2.0 million in November. Interest is charged at LIBOR+1.75%.

The amounts due to parent undertaking relate to an unsecured loan payable in January 2020. Interest is charged at 5%.

On 27 April 2018, the Group agreed a new five year €23.0 million term loan facility with Hayfin Capital Management ('Hayfin'). Interest was charged at EURIBOR+9.0% (subject to a EURIBOR floor of 0.75%) with interest being added to the capital balance for the first 18 months of the facility. Following the change of control of the group, the Hayfin borrowings became immediately repayable, and were paid in two stages. €12,737,861 in January 2019 and £10,262,139 in April 2019. This facility was repaid in full in April 2019.

18. Borrowings (continued)

Movement in net debt for the Group is analysed as follows

	At 1 January 2019 £'000	Cash flows £'000	Addition of prepaid arrangement fees £'000	Interest expense £'000	Other balance sheet movements £'000	New leases £'000	Termination fee £'000	Early Amortisation of prepaid arrangement fees £'000	Exchange adjustments £'000	At 31 December 2019 £'000
Bank borrowings	(21,817)	3,435	105	(374)	—	—	(2,058)	(25)	815	(19,919)
Amounts owed to parent undertaking	(7,000)	350	—	(372)	—	—	—	—	—	(7,022)
Cash and cash equivalents	3,830	(1,415)	—	—	—	—	—	—	—	2,415
Lease liability	(3,033)	945	—	(269)	91	(878)	—	—	—	(3,144)
Total net debt	(28,020)	3,315	105	(1,015)	91	(878)	(2,058)	(25)	815	(27,670)

19. Other financial liabilities

Other financial liabilities consist of deferred and contingent purchase considerations which are due as follows:

	2019 £'000	2018 £'000
Obvieline SAS	290	2,872
Silhouette Lift SL	640	640
Sinclair Korea Ltd	1,827	985
Medicalio SL	—	218
Total Current	2,757	4,715
Obvieline SAS	—	4,087
Silhouette Lift SL	7,020	33,699
Sinclair Korea Ltd	915	1,971
Total non-current	7,935	39,757
Discount	(4,201)	(8,089)
Total other financial liabilities	6,491	36,383

Items of deferred and contingent consideration represents the Directors' estimate of the fair value of the assumed contractual minimum liabilities discounted to their net present value.

Deferred and contingent consideration is payable as follows

	2019 £'000	2018 £'000
On demand or within one year	2,757	4,715
Over one and under two years	1,230	25,409
Over two and under five years	1,357	13,105
Over five years	5,348	1,243
Discount	(4,201)	(8,089)
Total other financial liabilities	6,491	36,383

20. Lease liabilities

The following lease liabilities have been recognised by the group:

	2019 £'000	1 January 2019 * £'000
On demand or within one year	834	587
Over one and under two years	566	613
Over two and under five years	646	806
Over five years	1,098	1,027
Total lease liabilities	3,144	3,033

* the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 2.

21. Provisions

	Legal £'000
At 1 January 2019	4,005
Credited to the income statement	(782)
Utilised	(283)
Exchange adjustments	(145)
Transfer from other financial liabilities	2,894
At 31 December 2019	5,689

Transfer from other financial liabilities relates to amounts which are no longer contractually payable under a contingent consideration agreement but may become payable under relate to ongoing legal disputes. All provisions relate to ongoing legal disputes and are expected to be utilised within the next year.

22. Deferred tax liabilities

Analysis of the Group's deferred tax assets and liabilities is as follows:

	Group	
	2019 £'000	2018 £'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(15,364)	(18,050)
– Deferred tax liability to be recovered within 12 months	(1,307)	(1,142)
Total deferred tax liabilities	(16,671)	(19,192)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax liabilities

	Business combinations £'000	Reinvestment relief £'000	Total £'000
At 1 January 2019	17,223	1,969	19,192
Exchange differences	(760)	–	(760)
Change in tax rates	(411)	–	(411)
Amortisation of deferred tax liabilities	(1,132)	(218)	(1,350)
At 31 December 2019	14,920	1,751	16,671

The deferred tax liability arising on business combinations relates to the fair value adjustment to the carrying value of intangible assets recognised on historic acquisitions and the subsequent disposal, amortisation, exchange movement or impairment of balances within this category of intangible assets.

The deferred tax liability arising on reinvestment reflects the taxable value of timing differences following the tax relief obtained through the reinvestment of the proceeds from the sale of assets.

Foreign exchange differences of £760,000 (2018: £642,000) arising on deferred tax liabilities from overseas business combinations are recognised as part of the movement in other reserves. All other movements are recognised in the income statement.

Unrecognised deferred tax

The Group and Company have potential deferred tax assets, which have not been recognised in the financial statements, due to uncertainties surrounding suitable future taxable profits. In the event that these assets are recognised in the future, planned reductions in the rate of corporation tax in the UK will reduce the potential value of these assets. This potential deferred tax asset is analysed as follows:

	Group	
	2019 £'000	2018 £'000
Tax losses	10,952	6,362
Decelerated capital allowances	352	352
Unrecognised deferred tax asset	11,304	6,714

The tax losses have no expiration date.

23. Financial instruments

The Group's activities expose it to a variety of financial risks. The main financial risks faced by the Group relate to the risk of default by counterparties to financial transactions, the availability of funds to meet business needs, foreign exchange movements and interest rate movements. These risks are managed as described below. Monitoring of financial risk is part of the Board's ongoing risk assessment process. The Group does not use financial derivatives, other than foreign exchange hedging contracts, and it is the Group's policy not to undertake any trading in speculative financial instruments.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates or interest rates will affect the Group's net income or value of its assets and liabilities.

23. Financial instruments (continued)

Foreign exchange risk

The Group has transactional currency exposures as the majority of the Group's revenues, and certain expenditures, are in currencies other than the functional currency of the Group, mainly Euros and US Dollars.

The Group finances the majority of its activities in Europe, Brazil, South Korea, and the US in the local currency, out of revenue receipts, excess currency receipts are then translated into Sterling either at the spot rate or through forward contracts. Where subsidiaries are funded centrally, this is achieved by the use of long-term loans, on which exchange translation differences are taken to reserves.

The Group's other financial liabilities include deferred and contingent consideration which is denominated in Euros and US Dollars. Cash reserves are held on deposit in US Dollars to hedge against the foreign exchange risk on items of deferred and contingent consideration payable in US Dollars which are expected to be settled over the next 12 months. Any future surpluses may be held on currency deposit to meet future contingent consideration liabilities.

At 31 December 2019, if the Euro had strengthened/weakened by 5% against Sterling, with all other variables held constant, loss after tax would have been £(322,000)/£291,000 (higher)/lower (2018: £(288,000)/£261,000 (higher)/lower). The impact on total equity would have been £1,970,000/(£1,781,000) higher/(lower) (2018: £1,911,000/(£1,728,000) higher/(lower)).

At 31 December 2019, if the US Dollar had strengthened/weakened by 5% against Sterling, with all other variables held constant, loss after tax would have been £442,000/(£400,000) lower/(higher) (2018: £446,000/(£404,000) lower/(higher)). The impact on total equity would have been £2,482,000/(£2,246,000) higher/(lower) (2018: £2,557,000/(£2,314,000)).

Foreign currency exposure

At 31 December 2019, the Group's operating companies have financial instrument assets of £1,232,000 (2018: £1,516,000) and financial instruments liabilities of £5,698,000 (2018: £30,475,000) denominated in US Dollars, financial instrument assets of £7,733,000 (2018: £6,796,000) and financial instrument liabilities of £7,221,000 (2018: £36,417,000) denominated in Euros.

Interest rate risk

The Group does not have significant interest-bearing assets and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short and long-term borrowings. At 31 December 2019, if interest rates on floating borrowing rates had been 0.5% higher/lower with all other variables held constant, loss after tax would have been £65,000 (2018: £69,000) higher/lower.

Interest-bearing financial liabilities are made up as follows:

Financial liabilities	2019		2018	
	Fixed £'000	Floating £'000	Fixed £'000	Floating £'000
Borrowings – bank loan	–	20,000	–	21,817
Borrowings - amounts due to Parent undertaking	7,022	–	7,000	–

The effective interest rates on financial liabilities as at the balance sheet date are as follows:

	2019		2018	
	Fixed	Floating	Fixed	Floating
		LIBOR +		EURIBOR +
Bank loan	–	1.75%	–	9.0%
Amounts due to Parent undertaking	5.0%	–	5.0%	–

Trade and other receivables, trade and other payables and other non-current assets, liabilities, provisions are not interest bearing.

Credit risk

Credit risk is managed on a Group basis. The Group is exposed to credit risk through pre-wholesalers and marketing partners, such that if one or more of them is affected by financial difficulty, it could materially and adversely affect the Group's financial results. Concentration of credit risk in relation to trade receivables is analysed in note 16.

The creditworthiness of customers is assessed by reference to publicly available information, or information supplied by those customers.

Surplus cash deposits are invested with institutions which have a higher credit rating than A.

The Directors do not believe that the Group is exposed to significant concentrations of credit risk on other classes of financial instruments.

Price risk

The Group is not exposed to significant commodity or other market price risk. However like any trading company, the Group is exposed to the risk of unforeseen increases in the cost of goods purchased from suppliers. To mitigate this risk, the Group manages its relationships with suppliers closely such that pricing mechanism are controlled by contract, forecast demand is scheduled up to 12 months prior to delivery, and actual demand is confirmed in advance through purchase orders in accordance with pre-agreed pricing lists.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due and can generate sufficient cash flows to meet covenant targets, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board reviews the forecast liquidity and covenant headroom at every Board meeting using cash flow forecasts which are updated on a regular basis in line with the business plan. The Group complied with the covenants on its borrowings throughout the period.

At 31 December 2019, the net cash balance is £2,415,000 (2018: £3,830,000).

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23. Financial instruments (continued)

Capital management

The Group defines the capital that it manages as the Group's total equity. The Group and Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern; to provide an adequate return to investors based on the levels of risk undertaken; to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits and returns to investors; and to maintain sufficient financial resources to mitigate against risks and unforeseen events together with ensuring compliance with the Group's existing banking covenants on borrowings, which were complied with fully throughout the period.

The Group believes it has sufficient ongoing cash and cash equivalents to meet its stated capital management objectives and the Directors believe that the capital management objectives have been met throughout the financial year.

Fair value estimation

The Group analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's financial assets and liabilities measured at fair value at 31 December 2019:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Financial liabilities at fair value through the profit or loss				
– Contingent consideration from business combinations	–	–	3,972	3,972

The Group's financial assets and liabilities measured at fair value at 31 December 2018 :

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Financial liabilities at fair value through the profit or loss				
– Contingent consideration from business combinations	–	–	33,650	33,650

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. At 31 December 2019 and 31 December 2018 there were no financial instruments at Level 1.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate caps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(c) Financial instruments in Level 3

The fair value of contingent consideration at 31 December 2019 related to the acquisitions of Silhouette Lift SL. The fair value is calculated with reference to discounted future cash flows, which represent management's best estimate of the amount payable.

The following table presents the changes in Level 3 instruments for the period ended 31 December 2019:

	Contingent consideration in a business combination £'000
Opening balance	33,650
Foreign exchange movements	(554)
Adjustments to fair value	(17,404)
Payments	(2,998)
Gains and losses recognised in profit or loss	(8,722)
Closing balance	3,972
Change in unrealised gains or losses for the period included in profit or loss for assets held at the start and end of the reporting period	

The group use a discount rate of 11.5% for contingent consideration arising on business combinations.

The Group's financial instruments comprise: cash and cash equivalents, finance leases, borrowings and various trade and other receivables and trade and other payables that arise directly from its operations.

23. Financial instruments (continued)

The Group had the following financial instruments at the period end:

	Assets		Liabilities	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables				
Other non-current financial assets	176	181	–	–
Cash at bank	2,415	3,830	–	–
Trade and other receivables	14,242	10,176	–	–
Financial liabilities measured at amortised cost				
Trade and other payables	–	–	15,374	19,080
Other financial liabilities	–	–	6,491	36,383
Lease liabilities	–	–	3,143	–
Borrowings – bank loans	–	–	19,919	21,817
Borrowings – amounts due to Parent undertaking	–	–	7,022	7,000
	16,833	14,187	51,950	84,280

The following table details the Group's maturity analysis of its financial liabilities. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments.

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
31 December 2019						
Trade and other payables	1,465	3,115	9,220	680	894	15,374
Other financial liabilities	–	1,252	1,505	2,587	5,347	10,691
Lease liabilities	71	141	622	1,212	1,098	3,144
Borrowings – bank loans	–	–	19,919	–	–	19,919
Borrowings – amounts due to Parent undertaking	–	–	7,022	–	–	7,022
	1,536	4,508	38,288	4,479	7,339	56,150

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
31 December 2018						
Trade and other payables	1,698	8,031	8,408	685	258	19,080
Other financial liabilities	788	58	3,869	38,514	1,243	44,472
Borrowings – bank loans	21,817	–	–	–	–	21,817
Borrowings – amounts due to Parent undertaking	–	–	7,000	–	–	7,000
	24,303	8,089	19,277	39,199	1,501	92,369

In accordance with IAS 39 'Financial instruments: Recognition and measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. There were no such derivatives at 31 December 2019 or 31 December 2018. The Directors consider that the fair value of the Group's financial instruments do not differ significantly from their book values.

Company

The Company had the following financial instruments at the period end:

	Assets		Liabilities	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash at bank	23	597	–	–
Trade and other receivables	–	–	–	–
Borrowings - amounts due from Group undertakings	54,728	12,545	–	–
Trade and other payables	–	–	2,266	1,018
Borrowings	–	–	19,919	–
Borrowings – amounts due to Parent undertakings	–	–	7,022	7,000
	54,751	13,142	29,207	8,018

Trade and other payables and other non-current liabilities are non-interest bearing. The Directors consider that the fair value of the Company's financial instruments do not differ significantly from their book values.

Foreign currency exposure

At 31 December 2019, the Company has financial instrument assets of £10,311,000 (2018: £10,216,000) denominated in Euros.

24. Share capital

Group and Company	2019 Number	2018 Number	2019 £'000	2018 £'000
Issued and fully paid				
Ordinary shares of 1.0p				
At start of period	517,657,084	503,768,952	5,177	5,038
Issue of shares	62,500,000	13,888,132	625	139
At 31 December	580,157,084	517,657,084	5,802	5,177

On 4 November 2018, the Company issued 13,512,591 new Ordinary shares of 1p each, and immediately allotted them to EW Healthcare Partners in full settlement of their convertible loan. The shares were issued at a conversion price of 28p each against the value of the loan plus accrued interest of £3,787,000. At that date the share price was 32p, resulting in a net credit to share premium of £3,648,000.

24. Share capital (continued)

On 4 November 2018, the Company issued 375,541 new Ordinary shares of 1p each, and immediately allotted them to certain employees, in settlement of the VCP share option scheme. The shares were immediately sold to the new parent company, Huadong Medicine Aesthetics Investment (HongKong) Limited.

On 6 November 2018, the immediate parent company, Huadong Medicine Aesthetics Investment (HongKong) Limited, issued a capital contribution to the Company of £2,819,000 which was recognised in a capital reserve.

On 21 January 2019, the company issued 62,500,000 Ordinary shares of 1p each to Huadong Medicine Aesthetics Investment (HongKong) Limited for a consideration of 32p per share. The difference between the total consideration of £20,000,000 and the nominal share value of £625,000 was recognised in the share premium reserve.

25. Share-based payments

All share based payment schemes ceased on 4 November 2018, due to the purchase of the company's entire share capital by Huadong Medicine Co. Ltd. No movements have therefore been recorded in relation to any of these schemes in the year ending 31 December 2019.

Value Creation Plan

The Sinclair Pharma Plc 2011, VCP was approved by shareholders at a General Meeting held on 13 January 2011. Awards granted under the VCP had no value at grant but subject to satisfaction of the performance conditions can convert into nil-cost options at each measurement date. Following the acquisition of the Group, the VCP scheme was closed and outstanding awards settled.

The charge for the period to the income statement in relation to these VCP awards amounted to £Nil (2018: £1,785,000).

2013 Bonus Plan

Certain employees of the Group were eligible to participate in the 2013 Bonus Plan which was closed on 4 November 2018. The charge to the income statement in the year was therefore £Nil (2018: £948,000) of which £Nil (2018: £465,000) was an accelerated charge resulting from the closure of the plan following the acquisition of the Group. All remaining awards were settled in cash.

Share Options

A reconciliation of share option movements is set out below:

	2019		2018	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at start of period	-	-	3,068,012	0.0p
Extinguished on closure of the scheme	-	-	(3,068,012)	0.0p
Outstanding and exercisable at 31 December	-	-	-	-

The total charge for the 12 month period relating to employee share options was £Nil (2018: £2,733,000) all of which related to the above equity based transactions.

26. Operating lease commitments

The group leases various offices, production premises and vehicles under noncancellable operating leases expiring within six months to nine years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 January 2019, the group has recognised right-of-use assets for these leases, except for shortterm and low-value leases, see note 13 and note 20 for further information.

Group	2019			2018		
	Land and buildings £'000	Equipment £'000	Total £'000	Land and buildings £'000	Equipment £'000	Total £'000
Commitments under non-cancellable operating leases						
Within one year	-	-	-	922	91	1,013
Between one and two years	-	-	-	661	54	715
Between two and five years	-	-	-	859	11	870
After five years	-	-	-	1,256	-	1,256
	-	-	-	3,698	156	3,854

There were no operating lease commitments for the Company at 31 December 2019 (2018: £Nil).

27. Capital commitments

The Group and Company had no capital commitments at 31 December 2019 (2018: £Nil).

28. Post Balance Sheet Events

On 13 February 2020, the Group agreed to an early termination with Galderma SA of the long-term license agreement for Sculptra®. In exchange for cash consideration of \$51 million, Sinclair transferred all rights to sell Sculptra®, and NewFill in Western Europe, inventory and goodwill to Galderma SA.

On 23 March 2020, the Group entered into a product rights agreement with Kylane Laboratoires SA ('Kylane') under which Sinclair agreed to acquire exclusive worldwide rights to a novel range of hyaluronic acid based dermal fillers with lidocaine. Sinclair paid €0.3 million to secure the rights and a further €13.7 million following CE Mark approval for the products in June 2020. The Group intends to launch the range under the Maili™ trademark in Europe in H1 2021 with multiple launches to follow across all strategic markets. Further milestones are due to be paid to Kylane linked to the transfer of the CE Mark to Sinclair and on transfer of manufacture of the products to Sinclair's in-house manufacturing facility. Kylane will also receive royalties linked to sales of the products for a period of 9 years.

On 17 September 2020, the Group entered into a share acquisition agreement with Kylane under which Sinclair agreed to acquire 20% of the issued share capital of Kylane for €6.0 million. At the same time, Sinclair and Kylane entered into a joint development agreement under which Sinclair agreed to contribute €1.0 million per year to Kylane to be used for the purposes of furthering development of a number of new aesthetic products. Under the terms of this agreement, Sinclair has a right of first refusal to the global rights for these new products on pre agreed terms.

The purchase of shares in Kylane has been financed by a £6.0 million loan from the Company's parent company, Huadong Medicine Co Limited.

COVID-19

From the start of the COVID pandemic in Q1 2020 the Board's priority has been to ensure the health and safety of all our employees across the globe. All our offices have been closed from time to time with staff working from home in line with local government guidelines. Our Investment in IT has ensured that we retain a high level of connectivity across all teams and so can operate remotely with minimal disruption to the business.

As clinics were closed across many markets and revenues declined, the Group responded by cancelling training and promotional activities along with other discretionary spending including all travel. With lockdown restrictions in place across Europe and in other markets and with social distancing requirements restricting clinic capacity on re-opening, the Group has seen a significant loss of revenue in 2020 compared to 2019 and the Board's expectations at the start of the year. While a recovery in revenues has been seen in Q3, the full year impact of COVID-19 is hard to predict. As the Silhouette CGU has been impaired in the current year to its fair value less costs to sell (note 11), it is likely that 2020 will see a further impairment due to the impact of COVID-19, however, it is not currently possible to quantify that value.

29. Related party transactions

Group

The following transactions were carried out with related parties:

a) On 19 June 2017, the Group acquired the Refine Support System, a patented and FDA cleared, suture based product primarily used in breast cosmetic and reconstructive procedures, from Refine LLC. Jeff Thompson, who was non-executive Director of Sinclair until 5 November 2018, has a beneficial interest of 52% in Refine LLC. The acquisition of the Group on 5 November 2018, triggered an accelerated payment of £2,667,000 to the former owners of Refine arising on change of control of the Group.

b) Key management compensation

The compensation paid to key management for employee services is set out in note 7.

Company

The following transactions were carried out with related parties:

Transactions with parent undertaking

During the prior year, the Company received a loan of £7,000,000 from the parent undertaking (note 18), on which interest is charged at a fixed rate of 5% per annum. This loan was repaid in full in February 2020.

Transactions with subsidiaries

The Company is responsible for financing of the Group, managing Group funds and setting Group strategy. Finance is then provided to operating subsidiary undertakings where necessary.

Trade receivables and trade payables due from or to Group undertakings arise from the recharge of corporate services. Details of inter-company trade receivables and payables are set out in notes 16 and 17.

Amounts owed to and due from Group undertakings are unsecured, interest bearing and have no fixed repayment dates, but are not expected to be repaid within 12 months. Details of guarantees confirmed to subsidiary companies are provided in note 2 of the financial statements.

In addition, options over the Company's shares had previously been awarded to employees of subsidiary companies. In accordance with IFRIC 11, the Company has treated the awards as a capital contribution to the subsidiaries, resulting in an increase in the cost of investment of £Nil (2018: £592,000).

30. Discontinued operations

On 17 February 2020, the Group disposed of its European distribution rights to Sculptra to Galderma SA. As a result all income and expenditure relating to the sculptra asset for the current and the prior year have been disclosed as discontinued.

30. Discontinued operations (continued)

The results of the discontinued operations, for the current and prior year, which have been included in the consolidated income statement were as follows:

	2019 £'000	2018 £'000
Revenue	6,530	5,461
Cost of sales	(2,486)	(2,227)
Gross profit	4,044	3,234
Selling, marketing and distribution	(52)	(73)
Administrative expenses	(433)	(441)
Operating profit and profit before taxation	3,559	2,720
Taxation	94	94
Profit for the period from discontinued operations (attributable to owners of the company)	3,653	2,814

Cash flows from discontinued operations (from operating activities)

	2019 £'000	2018 £'000
Profit before tax	3,559	2,720
Adjustment for amortisation	396	396
Working capital movements		
Decrease/(increase) in inventory	237	(224)
(Increase)/decrease in receivables	(452)	289
Decrease in payables	(401)	(1,062)
Net working capital movement	(616)	(998)
Net cash flow from discontinued operations	3,339	2,118

31. Investments

	Shares in subsidiary undertakings £'000	Loans to Group undertakings £'000	Total £'000
Cost			
At 1 January 2018	121,974	16,777	138,751
Net loan repayments	–	(4,837)	(4,837)
Interest charged on loans to Group undertakings	–	714	714
Capital contribution re employee share options	592	–	592
Exchange adjustments	–	114	114
At 31 December 2018	122,566	12,768	135,334
Interest charged on loans to Group undertakings	–	706	706
Exchange adjustments	–	(624)	(624)
At 31 December 2019	122,566	12,850	135,416
Accumulated impairment			
At 31 December 2019 and 31 December 2018	8,592	223	8,815
Net book value			
At 31 December 2019	113,974	12,627	126,601
At 31 December 2018	113,974	12,545	126,519

The Company's subsidiary undertakings are as set out below:

	Country of incorporation	Holding	Proportion held	Nature of business
Sinclair Pharmaceuticals Limited	England	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma France Holding SAS	France	Ordinary shares	100%	Holding company
Sinclair Pharmaceutical Espana SL	Spain	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma GmbH	Germany	Ordinary shares	100%	Pharmaceutical products
IS Pharma Limited	England	Ordinary shares	100%	Dormant
IS Pharmaceuticals Limited	England	Ordinary shares	100%	Dormant
Acorus Therapeutics Limited	England	Ordinary shares	100%	Dormant
Sinclair Life Sciences India Private Limited	India	Ordinary shares	100%	Dormant
Sinclair Pharma Holdings Limited	England	Ordinary shares	100%	Holding company
Sinclair Pharma Management Limited	England	Ordinary shares	100%	Investment company
Sinclair France SAS	France	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma Australia Pty Ltd	Australia	Ordinary shares	100%	Dormant
Sinclair Holdings BV	Netherlands	Ordinary shares	100%	Holding company
AQTIS Medical BV	Netherlands	Ordinary shares	100%	Pharmaceutical products
Sinclair Netherlands IP BV	Netherlands	Ordinary shares	100%	Pharmaceutical products
Building Health Distribuidora de Productos para a Saude Ltda	Brazil	Ordinary shares	100%	Pharmaceutical products
Sinclair Aesthetics de Mexico	Mexico	Ordinary shares	100%	Pharmaceutical products
Sinclair Korea Limited	Republic of Korea	Ordinary shares	100%	Pharmaceutical products
Silhouette Holding Iberia SL	Spain	Ordinary shares	100%	Holding company
Silhouette Lift SL	Spain	Ordinary shares	100%	Pharmaceutical company
Silhouette Lift Inc	USA	Ordinary shares	100%	Pharmaceutical company

31. Investments (continued)

The investment in Sinclair Pharma Management Limited is held directly by the Company. The investments for all other subsidiaries are held indirectly through Sinclair Pharma Management Limited.

32. Registered addresses

The registered addresses of each of the group's subsidiary companies are as follows:

Sinclair Pharmaceuticals Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Sinclair Pharma France Holding SAS	44 Rue de la Bienfaisance, 75008 Paris, France
Sinclair Pharmaceutical Espana SL	Av De Castilla, Edeficio Dublin Planta 2, San Fernando De Henares, Madrid 28830, Spain
Sinclair Pharma GmbH	Kurfursten Anlage 3, 69115 Heidelberg, Germany
IS Pharma Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
IS Pharmaceuticals Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Acorus Therapeutics Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Sinclair Life Sciences India Private Limited	Topiwala Center, CTS no. 746/7, Village-Pahadi, Goregaon (W), Mumbai City, MH 400062, India
Sinclair Pharma Holdings Limited	1 st Floor, Whitfield Court, 30 - 32 Whitfield Street, London, W1T 2RQ, UK
Sinclair Pharma Management Limited	1 st Floor, Whitfield Court, 30 - 32 Whitfield Street, London, W1T 2RQ, UK
Sinclair France SAS	8 Chemin du Jubin, 69570 Dardilly, France
Sinclair Pharma Australia Pty Ltd	Mazars, Level 12, 90 Arthur Street, North Sydney NSW 2060
Sinclair Holdings BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
AQTIS Medical BV	Yalelaan 44, 3584 CM, Utrecht, Netherlands
Sinclair Netherlands IP BV	Yalelaan 44, 3584 CM, Utrecht, Netherlands
Building Health Distribuidora de Productos para a Saude Ltda	Rua Baraldi, 894, 1º Andar - Sala 1, Sao Caetano do Sul - SP, CEP 09510-005, Brazil
Sinclair Aesthetics de Mexico	IOS Offices Kansas, Oficina 255, Insurgentes Sur 859, Napoles, Mexico, 03810
Sinclair Korea Limited	(Suseo-dong)#228, 62, Saemal-ro, Seoul, Republic of Korea
Silhouette Holding Iberia SL	Av De Castilla, Edeficio Dublin Planta 2, San Fernando De Henares, Madrid 28830, Spain
Silhouette Lift SL	Gran Via de les Corts, Catalanes 630, Barcelona 08007, Spain
Silhouette Lift Inc	1 Technology Drive, STE F211, Irvine, CA 92648-5536, USA

33. Immediate and ultimate parent undertaking

The Immediate parent undertaking is Huadong Medicine Aesthetics Investment (Hongkong) Limited, a subsidiary of Huadong Medicine Co. Ltd. Both companies are registered in China. There is no ultimate parent undertaking.

These financial statements are consolidated within the financial statements of Huadong Medicine Co Ltd which is listed on the Shenzhen Stock Exchange. Information about the company including its annual report and financial statements is available on the company's website: www.eastchinapharm.com