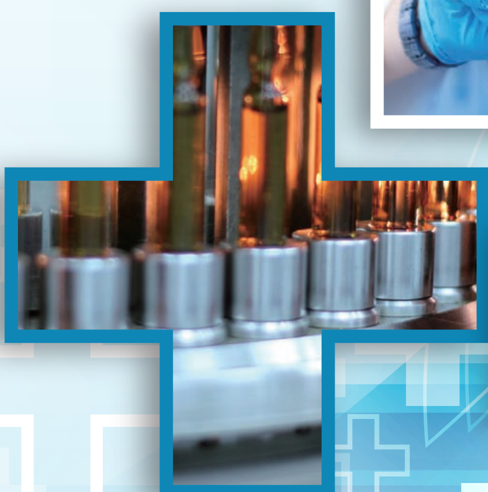
上海復旦張江生物醫藥股份有限公司
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1349)

2018
Annual Report



* *For identification purpose only*

Contents

Corporate Information

EXECUTIVE DIRECTORS

Wang Hai Bo (*Chairman)*
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS

Shen Bo
Yu Xiao Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

SUPERVISORS

Zhou Xi *(Chairman)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xue Yan, HKICPA/FCCA/CICPA/CIA

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xue Yan, HKICPA/FCCA/CICPA/CIA

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Shen Bo
Xu Qing

REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Yang Chun Bao

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Zhou Zhong Hui
Xu Qing

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian LLP

LEGAL ADVISERS TO THE COMPANY

Baker & McKenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Taizhou Branch
China Merchants Bank, Tianshan Sub-branch
Ping An Bank, Shanghai Branch

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AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

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LISTING INFORMATION

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Stock Code: 1349

WEBSITE

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Five Years Financial Data Highlights

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**740,422**	497,694	621,870	579,463	470,900
Operating profit	**150,264**	76,001	155,117	153,056	129,960
Finance costs	**(7,194)**	(5,505)	(4,279)	(7,106)	(1,861)
Profit before income tax	**143,070**	70,496	150,838	145,950	128,099
Income tax expense	**(13,304)**	(10,337)	(20,830)	(18,903)	(17,605)
Profit for the year	**129,766**	60,159	130,008	127,047	110,494
Profit attributable to:					
Shareholders of the Company	**150,982**	75,287	138,708	127,723	118,258
Non-controlling interests	**(21,216)**	(15,128)	(8,700)	(676)	(7,764)
Total comprehensive income for the year	**116,155**	59,858	129,914	127,047	110,494
Total comprehensive income attributable to:					
Shareholders of the Company	**137,371**	74,986	138,614	127,723	118,258
Non-controlling interests	**(21,216)**	(15,128)	(8,700)	(676)	(7,764)
EBITDA	**208,691**	122,256	185,970	182,070	155,748
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB 0.1636**	RMB 0.0816	RMB 0.1503	RMB 0.1384	RMB 0.1281

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,459,363**	1,145,134	1,120,753	1,020,265	824,481
Total liabilities	**(466,079)**	(252,652)	(247,699)	(254,425)	(148,062)
	993,284	892,482	873,054	765,840	676,419
Capital and reserves attributable to:					
Shareholders of the Company	**982,071**	872,390	843,554	732,630	650,975
Non-controlling interests	**11,213**	20,092	29,500	33,210	25,444
	993,284	892,482	873,054	765,840	676,419

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2018 for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

With the ultimate goal to stay as an innovator and a leader in the bio-pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical and patients treatment as well as developing novel and more effective treatments/medicines, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

Drug procurement with quantity in "4 + 7" cities which was a major milestone has been implemented under the background of pharmaceutical system reform this year. It changed the commercial foundation of the pharmaceutical industry which regarding the development of generic drugs and ME-TOO drugs as kinds of new drugs in the past few decades. In near future, China's medicines will surely be back to the drug pricing model that is internationally accepted, in which prices of new drugs and generic drugs are separately determined. In other words, except those innovative drugs that have been proven specific clinical value, the commercial practice of competitive pricing model will be applied to other drugs, either generic drugs or ME-TOO drugs. In future, we believe that the competition of pharmaceutical enterprises will be reflected in innovation ability and production capacity.

Since its establishment, the Group, as a pharmaceutical enterprise based on drug research and development, has adhered to choosing the projects that can meet the unmet needs and deficiencies of clinical and patients treatment. The evaluation system of the projects process depends on whether specific accomplishment of treatment will be achieved. Such non-commerce opportunities oriented projects-setting policy have brought huge difficulties and challenges to us in the past in China. And the sluggish development of projects was frustrating and the situation that our continued effort cannot be turned into profits was not widely recognized. But we always believe that the real mission of pharmaceutical companies is to develop innovative drugs with clinical value, and Chinese pharmaceutical industry will put this into practice eventually. It was glad to see our mission was reflected on the current changes in the industry. The products launched or under development of the Group have shown positive prospect and the characteristics of not affected by changes of policies. Our effort and strategies adopted over the years have laid a solid foundation and generated a driving force for the Group's development in the new political environment. Only if we endeavor and continue to optimize our specific strategies for research and development: strengthening our research capacities in the fields where we have leading positions, continually expanding the new clinical indications, adhering to the projects worth spending time with, gradually applying for international drug registration and insisting on terminating the projects that are not in line with the Group's value and make no progress for long term, our products will bring great benefits to the Company while reflecting its value in the future.

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the year under review, our R&D platforms, namely, genetic engineering, photodynamic-tech, nanotech and oral solid preparation technology, has laid solid foundation for our drug development direction. The Group has committed to developing new clinical indications to tackle selected drugs and developing new medicines and innovative treatments to tackle selected diseases. At the same time, the Group has explored and developed in the fields of molecular targeting, immunotherapy and other fields in order to have a new research and development direction.

During the year under review, with an overall consideration of research resources, risks and cycle time, the Group has continually focused drug development on tumors, skin and self-immunological diseases, reducing the number of innovative drugs, expanding and strengthening the number and progress of commercialized drugs.

- **The projects for innovative research**
  Such as the research on a new antibody cross-linking drug (ADC) for the treatment of tumors; the research for the treatment of CIN, the research on photodynamic drugs for brain gliomas and bladder cancer; the research on small-molecule drugs for autoimmune diseases; the research on drugs for the treatment of moderate and severe acne, etc. This kind of projects focus on the diseases with unmet needs and the deficiency of clinical and patients treatment. It needs to be further explored due to their uncertainties although they are of great importance in the areas of science and clinical treatment.

- **The projects for international registration and commercialization purpose**

  Including international registration of listed products, such as the registration as a generic drug in the United States of tumor drug of Doxorubicin Hydrochloride Liposome; the registration as an innovative drug in the United States of Hemoporfin, the first photodynamic drug for the treatment of Port Wine Stain ("PWS") in the world; the commercialization of Nanoparticle Albumin-bound Paclitaxel and the BE study and drug registration of generic drug of obeticholic acid for the indication of biliary cirrhosis, etc. This kind of projects is of specific importance in clinical treatment and has completed the research on technology. Continuously pushing the clinical research and commercialization is the main purpose in our current stage which will expand the number of drugs as well as the production scale and make contribution to the revenue and profit of the Group in short or mid-terms.

Insisting on the research of innovative drugs and strengthening the commercialization development of drugs fully embody the concept of the Group "stand on solid ground and look up at the starry sky". We know that modern medical procedure is implemented jointly by clinicians who perform disease diagnosis based on big data and researchers who continuously explore pathogenesis and innovative therapy or drugs. A real pharmaceutical company should take the responsibility of new drugs development which is the mission of the Company and the significance of its existence. As an R&D company which emphasizes on the research from needs of clinical treatment, our choices face challenges but we never give up. And we also realize that the commercialization of drugs is the basis for the growth of the Company. Only by constantly expanding the Company's product group and maintaining the growth of profits can we expand the Company's scale and make it stable, laying the foundation for further research and development and long-term healthy development of the Group.

In addition, we will try our best to avoid involving in trouble of homoplasy as a result of selecting projects by the use of Chinese method from the drugs or targets which were well-developed overseas. We believe that time will tell, our efforts will be worthwhile both in the areas of clinical treatments for patients and the payback for investors.

GENETIC TECHNICAL PLATFORM

We will pay constant attention to the ability on building genetic technical platform. We realized that gene technology in terms of signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research bases on the most fundamental and specific causes and molecular mechanism of diseases. We keep a close eye on hotspots of existing antibody drugs research. We need to find our own direction as the basis of projects selection which means selecting the areas with clinical requirement but lacking effective treatments, with definite positions in scientific theory and unique technology. The Group will continue in making effort on pushing the projects which have entered into clinical trial. We will try to realize the commercialization of protein drugs as early as we can.

The progresses of the projects on genetic technical platform are summarized as follows:

The clinical trial approval for high bio-activity recombinant human TNF receptor (重組親和力TNF受體) for the treatment of arthritis has been obtained in May 2014, and the project has completed clinical trial phase I. The drug is mainly used to treat self-immunological diseases, such as arthritis. Clinical research is terminated due to the consideration of efficacy.

The antibody-drug conjugate drugs have shown obvious advantages on tumor treatment in clinical trials, which is much better than the effect of the conventional antibody plus chemotherapy drugs. In order to follow the development trend in bio-pharmaceutical area, recombinant anti-CD30 human-mouse chimeric monoclonal Antibody-MCC-DM1 injection ("CD30-DM1") for the treatment of tumors has completed pre-clinical study and obtained the clinical trial approval from State Drug Administration during the year under review. For more details, please refer to the indicative announcement of the Company dated 18 July 2018. The Company will carry out relevant clinical research as soon as possible.

Two other antibody-drug conjugate for mammary cancer and gastric cancer has entered into pre-clinical conceptual validation.

Avastin bio-similar drug for the treatment of tumor has obtained clinical trial approval. According to the competitive situation of the target market and the company's existing research strategy, the Company is considering transferring the project to a suitable third party.

PHOTODYNAMIC TECHNICAL PLATFORM

The Group has been expanding the drugs development based on photodynamic technical platform. Photodynamic drugs will become the most important product pipeline of the Group. We will continue to exert its feature of "one drug, several indications" and becoming a new scalpel for clinical treatment so that according to the treatment principle of photodynamic drugs, we will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment. The Group is commencing further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. At the same time, exploration of the fundamental research on the relationship between the penetrating power of different light wavelengths and the treatment of tumour is under progress. Meanwhile, we have planned to apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group.

The progresses of the projects on photodynamic technical platform are summarized as follows:

As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology (艾拉®,brand name of the first product) obtained positive market response after it was launched for sale. To expand the application to new indications of this drug is one of the key R&D projects of the Group.

Several years after it was launched to the market, ALA (艾拉®), the first photodynamic drug for the treatment of condyloma acuminate in the world, has become the preferred choice in this area. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the text book of Dermatovenercology and relevant clinical treatment guidance from 2013. The latest nineth edition of Dermatovenercology adds the new application of the aforementioned therapy on the acne treatment, and also includes Hemoporfin developed by the Group as new photosensitizer for the treatment of PWS.

The clinical research progress of Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV ("CIN") is still slow. Based on the research literature showing good effect, the Company will continue to optimize the clinical trial plan, adhere to the research of this project and strive for early registration of this new indication.

Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne has obtained the clinical trial approval and phase I clinical studies is under way.

Aminolevulinic Acid Hydrochloride used for the adjunctive therapy of brain gliomas has completed pre-clinical study. Considering the market prospects and future capital investment, the Company decided to postpone this project.

FuMeiDa (the brand name of Hemoporfin), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. During the year under review, FuMeiDa has been launched to the market officially. PWS is the most common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The visible manifestation of this disorder is often considered a disfigurement. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. PWS had no good treatment before. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, more uniform to treat, higher cure rate, lower incidence of scar formation and lower recurrence rate. The excellent efficacy of the drug in the market and the high cure rate compared to the traditional laser treatment rejoice the clinicians and researchers. FuMeiDa launched to market in 2017 and clinical trial phase IV is under way. Meanwhile the international registration of this drag was officially launched in 2017. During the year under review, the Group has already made a preliminary communication with the Food and Drug Administration of the United States ("FDA"). We will submit the official application as soon as we optimize the corresponding registration scheme.

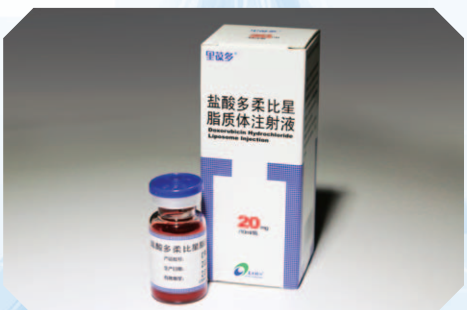
Duteroporphyrin (多替泊芬) for the treatment of tumors has entered into the clinical trial phase II. The progress of its clinical trial was slow due to various reasons. Considering the safety and efficacy of the drug, we intend to terminate the clinical research.

NANO TECHNICAL PLATFORM

The Group will further develop drugs based on the platform of preparation technology of nano drugs to speed up the ability and the progress of commercialization for the Group.

The progresses of the projects on nano technical platform are summarized as follows:

LIBOd® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. Registration for the drug is being carried out in the U.S.. After the clinical trial being recognized by FDA, the Company will be required to further obtain the verification of good quality management system of our production plant by FDA before the drug can be launched to the U.S. market.



Vincristine sulphate liposome (LVCR) for the treatment of malignant tumors has completed clinical trial phase I. The Group cautiously decided to transfer this project to an independent third party pharmaceutical company based on the consideration of its future prospect, production conditions and payback period, etc. During the year under review, the transfer agreement is in the execution stage.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, has entered into pre-clinical study and some improvements have been made in large-scale production processes. The reform of existing production line for this project has been completed. We will launch the bioequivalence study and then apply for the drug registration.

ORAL SOLID PREPARATION TECHNICAL PLATFORM

Oral solid preparation is the most basic form of preparation. Both small molecular targeting drugs and special oral preparation are the research fields that new drugs developers pay high attention to. The Company cooperated with other third party research institutions to gradually establish technological systems for such platform in previous years. Various new drugs and generic drugs with specific clinical value are being developed. Oral solid preparation technology is one of the long-term development platforms of the Group.

The progresses of the projects on oral solid preparation technical platform are summarized as follows:

The bioequivalence study of obeticholic acid for hepatobiliary disease has been commenced and we will apply for drug registration as soon as possible. It is a generic drug of a medicine developed in the US and listed worldwide for the treatment of primary biliary cirrhosis (PBC). Such drug has a large market in China which is a country with high incidence of hepatobiliary disease. The Company has engaged a third-party research institution, to break through the patent restrictions on the original drug. The Company was granted the patent in China during year under review.

During year under review, the Group is conducting a pre-clinical study on the selective inhibitor project for JAK1, a small molecular targeting drug. It has been confirmed to have great therapeutic value on the autoimmune disease. We are looking forward to find a new me-better drug containing therapeutic advantages and apply for clinical research as soon as practicable.

THE EXPLORATION AND DEVELOPMENT OF NEW RESEARCH DIRECTION

New Antigen Vaccine for Cancer: During the year under review, the Group noticed the clinical treatment breakthrough and great potential of personalized tumor vaccine, and conducted in-depth research and exploration in this direction. The Group has jointly carried out immunotherapy based on neo-tumor antigen with hospitals and research institutes for a number of patients. The Group will continue to maintain the attention in this direction and seek cooperation opportunity with foreign research institutions for a suitable entry point of the Group.

By the end of the year 2018, the major drugs under R&D of the Group are summarized as follows:

Technical platform	Project name	Indications	Progress
Genetic engineering	rhTNFR(m):Fc (High bio-activity recombinant human TNF receptor 2-Fc fusion protein mutant (高活性重組人腫瘤壞死因子受體突變體-Fc融合蛋白)	Arthritis	Clinical trial phase I completed. Terminated due to effectiveness problems.
	CD30-MMAE	Tumors	The clinical trial approval has been obtained.
	Trop 2 Antibody-drug conjugates	Tumors	Pre-clinical study
	Avastin	Tumors	The clinical trial approval has been obtained. Negotiating with third-party pharmaceutical enterprises on technology transfer.
Photodynamic technology	Hemoporfin (海姆泊芬)	Port Wine Stain	Clinical trial phase IV Prepare for U.S. Registration
	Deuteroporphyrin (多替泊芬)	Tumors	Clinical trial phase II. Terminated due to safety and effectiveness problems.
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase II
	Aminolevulinic acid	Acne	Clinical trial phase I
	Aminolevulinic acid	Brain gliomas	Pre-clinical study completed
Nano technology	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Under process of registration in USA
	Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	Pre-clinical study
Oral solid preparation technology	Obeticholic acid	Hepatobiliary disease	BE study and drug registration
	JAK1 inhibitor	Autoimmune diseases	Pre-clinical study

In a word, we are still exploring and hope our efforts can provide useful help for the treatment of the patients and bring value to the investors. Although facing significant risks and challenges, we still believe our R&D strategy and result will be beneficial to the Company's sustainable development in medium and long term.

OPERATION STRATEGY, REVIEW AND PROSPECTS

The Group's operating strategy is to do a good job of domestic academic promotion of listed products, so that products can be applied among more patients. When conditions are ripe, international (mainly European and the United States) registration of listed products should be carried out as soon as possible to benefit more patients and obtain greater therapeutic value and commercial benefits. Secondly, China has joined the ICH Organization, which lays the foundation for the internationalization of research. Therefore, the medium and long-term research projects being developed by the Group must be able to register at home and abroad (such as the United States) in order to achieve the goal of the internationalization of the long-term development of the Group. Finally, we need to pay close attention to the selection and development of foreign investment projects, in order to balance the short-term and long-term development plans of the Group, and ultimately achieve the goal of the development of the Group and the realization of shareholders' benefit.

During the year under review, product sales revenue of the Group increased by 49% compared with that of last year. ALA (艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd® which is indicated for the treatment of tumor and FuMeiDa which is indicated for PWS are three major products of the Group, and together contributed 99% of the sales revenue of medical products by the Group.

– ALA (艾拉®) was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, non-scar, and much lower adverse reaction rate and recurrence rate comparing with previous average level. ALA has become one of the largest consumed skin-sure drugs now. During the year under review, the contribution of ALA to sales revenue of the Group increased by 29% compared with that of last year due to sales strategy adjustments based on market trends. The sales volume of ALA grew steadily and average unit price increased slightly.

– LIBOd® (里葆多®) for the treatment of tumors, as the first generic drug of nanomedicine at home and abroad, was launched for sale in August 2009 and it obtained favorable market response and reputation. During the year under review, the Company established a new sales and marketing team for responding the sales and promotion of LIBOd® nationwide. Its terminal sales gradually recovered so that its contribution to sales revenue by the Group increased by 89% for the year 2018 compared with that of last year. With the gradual implementation of the "two invoice" system, and affected by the change of national policies and the industry environment, the market competition of doxorubicin liposome tends to be more fierce. As the increase in the market shares of LIBOd® of the Company needs a large-scale oncology drug promotion team as the basis, the Company needs a long time to build its own promotion team and achieve ideal promotion performance. In order to accelerate the expansion on market share of LIBOd® as well as meet high standards of compliance requirements, on 29 October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.* (輝正(上海)醫藥科技有限公司) ("Shanghai Huizheng") entered into the market promotion service agreement for Doxorubicin liposome (LIBOd®) (the "Agreement"), to provide the market promotion services for LIBOd® of the Company in the PRC from 1 November 2018. Shanghai Huizheng, a subsidiary of Zhejiang Haizheng Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600267), owned a oncology drug promotion team with several hundred professional promotion personnel as well as a large number of counterpart hospitals and medical resources. The cooperation between the parties will help the Company effectively utilize the existing team and resources of Shanghai Huizheng, thus rapidly increasing the end-sales volume and market shares of LIBOd® of the Company. Meanwhile, to ensure the smooth transition of relevant businesses, the original promotion team of the Company will be fully integrated with the promotion team of Shanghai Huizheng. For more details, please refer to the announcement of the Company dated 29 October 2018.

The Group is currently registering for generic drugs of LIBOd® in the United States.

– 复美达光动力 –

– FuMeiDa (复美达®, the brand name of Hemoporfin), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. FuMeiDa has been launched in the market officially in 2017. We have designed a new sales mode for FuMeiDa, with the integration of treatment and sales, which includes the Company's Wechat subscription, chain clinics of the Group, designated hospitals and direct distribution systems provided by pharmaceutical companies. During the year under review, FuMeiDa has been sold in many hospitals throughout the country with well postoperative feedback and its contribution to sales revenue of the Group increased by 80% compared with that of last year. The Group is combining case feedback as soon as possible to optimize the key steps in the process of treatment in order to form a standardized treatment plan.

The group has completed preliminary communication with the FDA during the year under review, and the FDA has recognized that the drug will be the first one to apply for the treatment of PWS. Therefore, the Group was requested to assist in establishing standards for disease classification and then to make agreement with the FDA. At the same time, the clinical research program registered in the United States has been clarified. At present, the Group is working hard to complete the preparations before the official clinical application. After the corresponding registration program is improved, clinical research in the United States will be carried out as soon as possible.

– For the past years, as the first product group, diagnostic reagents in clinical treatment contribute stable sales revenue to the Group. With intensive competitions in diagnostic technology industry, the advantages of this product group became weaker and weaker and there are few good reserve projects. In order to further strengthen diagnostics business unit and integrate in existing vitro diagnostic reagents platform, the Group invested to set up the subsidiary, Tracing Bio-technology jointly with a third party investor in 2012 and the new company covers all sectors including R&D, production and sales of the diagnostic reagents. In addition, during the year of 2015, the Group completed a series of jobs on structure restructuring and resource integration of this platform so that we can improve the competitiveness of diagnostic products and develop more and more new products.

During the year under review, the Group keeps increasing investments on diagnosis technique and reagent research, and planned to push the "rapid, quantitative detection system" as starting point of entering into clinical medical market to develop the molecular diagnostic technique based on the technology of adapter body as technical reserves. This platform will focus on the specialized market of grassroots medical, obstetrics and neonatal unit, which can become the significant component of the industry layout of the Group in the area of diagnosis technology.

After the integration of vitro diagnostic reagents platform, the Group clarified the establishment of food-origined contaminants screening system as our direction of development in the area of clinical detecting besides keeping exploring the existing dairy tests market. The Group will provide solutions for rapid screening, timely intervention and source control after focusing on food-origined contaminants such as antibiotics and mycotoxins in the early stage of human being. During the year under review, several kinds of screening reagents for food-origined antibiotics and their matching testing instruments have been applied for registration and obtained approval for sale in March 2019.

– During the year under review, the Group continues to regard academic promotion as our primary marketing method. The Wechat communication platform for photodynamic technology that the Company established serves as a network service system integrated with academic exchanging among dermatology clinician, sharing of clinical case and standard practice video, Q&A platform between doctors and patients, etc. The platform has become a relatively well-known professional Wechat subscription in China. In addition, we plan to take advantage of these doctor resources on the platform to develop a new sale mode to solve some frequent problems in current marketing environment and some frequent difficulties for patients in hospital. We believe this kind of investment will have positive significance for products promotion, brand awareness and the Company's recognition as well.

Making full use of the advantages accumulated in skin management field these years, the Group invested in the establishment of Derma Clinic Investment Co., Ltd.*(德美診聯醫療投資管理有限公司)("Derma Clinic") in August 2015. During the year under review, nine clinics invested and set up by Derma Clinic in Beijing, Chongqing, Changsha and Shenzhen etc., have all completed relevant registration procedures and opened for business. In recent years, with the vigorous development of the domestic medical and aesthetic industry, the influx of various funds has also led to the uneven quality of the entire industry. As an enterprise taking research and development of drugs as its principal business, the Company, after completing the initial framework design, corporate strategy formulation and development direction planning for Derma Clinic, considers that it is necessary to involve a shareholder who is familiar with specific industry business, capable of effective resources integration and equipped with relevant industry experience and management experience of chain enterprises to lead and guide the subsequent development direction of Derma Clinic so as to enhance the overall operation of Derma Clinic. In this situation, in order to focus on the core business of the Group, during the year under review, the Group began to seek strategic partners who are familiar with the industry business, capable of effective resources integration, and able to guide the development of Derma Clinic. On 28 February 2019, the Company entered into an equity acquisition agreement with Shenyang Bringspring-Roadtop Health Data Industrial Equity Investment LLP. (瀋陽榮科融拓健康數據產業股權投資合夥企業(有限合夥)) ("Bringspring-Roadtop") to sell 30.04% of equity interest in Derma Clinic. Upon the completion of the transfer, Bringspring-Roadtop will own 63% of equity interest in Derma Clinic while the Company will own 20% of equity interest in Derma Clinic. Therefore, Derma Clinic will cease to be a subsidiary of the Company, and its financial results will not be consolidated into the consolidated financial statements of the Company. For more details, please refer to the announcement of the Company dated 28 February 2019. In the future, the Group will continue to cooperate with Derma Clinic as new marketing channels and clinical treatment platforms for new photodynamic drugs.

– During the year under review, all the product lines for existing products in sale of the Group passed GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standard so that our products could be sold worldwide. The management has considered to apply the GMP certification of FDA to two product lines in Shanghai and Taizhou. In the future, the timetable will be made according to specific commercialization projects.

  The subsidiary of the Company, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd ("Taizhou Pharmaceutical") has constructed two production lines for the material and injection of Hemoporfin. To make the two production lines at full capacity before further new self-developed innovative drugs obtaining production approval, the Group will choose several generic drugs which can be produced with Hemoporfin on the same production line and planned to submit the application of registration. The work of technology research of these generic drugs has been completed and the registration will be applied for according to the production plan of the production line. The registration application of Parecoxib Sodium (帕瑞昔布鈉) for analgesia has been submitted and waiting for approval during the year under review. In addition, Taizhou Pharmaceutical has built a new solid preparation production line during the year under review, which is ready for the commercialization of obeicholic acid. More investments on production lines will be made in Taizhou in the next few years so as to make Taizhou Pharmaceutical become the centralized production base of the Group.

The Group has successfully accomplished the transformation from purely R&D to equally stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

By the end of the year 2018, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Indications	Launching time
Photodynamic technique	ALA	Condyloma acuminate	2007
	FuMeiDa	Port wine stain	2017
Nano technique	LIBOd®	Tumors	2009
Diagnosis and Inspection	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi®, Beiyou	Down's syndrome	Launched already
	Several food safety inspection projects	food safety inspection	Launched already

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the year under review, the Group applied for 3 invention patents, and has been granted 4 invention patents in domestic. By the end of the year of 2018, the Group has cumulatively applied for 75 invention patents, and has been granted 46 invention patents.

GRANTS AND AWARDS

The Group has always been improving its ability of new drugs development in light of the industrial policies of China. During the year under review, the grants and awards obtained by the Group from governments at all levels for a number of R&D and commercialization projects approximately amounted to RMB22,846,000.

ACKNOWLEDGEMENT

Lastly, I would like to take this opportunity to express my gratitude to the shareholders and business partners of the Group for all their unreserved support and encouragement. I would also like to express my most sincere thanks to all the Directors, Supervisors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo
Chairman

Shanghai, the PRC
28 February 2018

Management Discussion and Analysis

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with and take reference to the consolidated financial statements of the Group and the related notes to the consolidated financial statements.

REVENUE

The consolidated revenue of the Group for the year 2018 amounted to approximately RMB 740,422,000, comparing to approximately RMB 497,694,000 for the year 2017, representing an increase of 49%. The major products of the Group, ALA (艾拉®,鹽酸氨酮戊酸散, ALA) and LIBOd® (里葆多®,鹽酸多柔比星脂質體, Doxorubicin liposome), have contributed significant revenue to the Group, representing 53% and 36% to the total revenue of the Group, respectively.

The total revenue for the year 2018 mainly came from the sale of medical products. The main source of total revenue for the year 2018 was nearly the same as that for the year of 2017.

Revenue from sale of medical products

The major products of the Group are ALA and FuMeiDa (复美达®, Hemoporfin) from photodynamic platform, LIBOd® from Nano-drug platform and various kinds of diagnostic reagents from diagnosis technology platform. The Company has entered into the market promotion service agreement with Shanghai Huizheng for providing marketing services for LIBOd® in China since 1 November 2018. Except for the two months above mentioned, the work of sales and distribution of all the products is taken by the sales team of the Group.

Revenue of the Group from the sale of medical products for the year 2018 was RMB 729,102,000 (representing 98.47% of the total revenue), increased by 48.76% from that of year 2017 which was RMB 490,125,000. The sales of ALA, one of the major products of the Group, was continuously improving and its sales revenue increased by approximately 29% from that of the same period in 2017. Sales of LIBOd® recovered in 2018 and its sales revenue increased 89% comparing to 2017. FuMeiDa, the newly listed product, also contributed about 8% of the total revenue to the Group.

COST OF SALES

For the year 2018, cost of sales of the Group was RMB 76,297,000, while the corresponding figure for 2017 was RMB 54,791,000. The ratio of cost of sales to revenue from sale of products decreased to 10% from the level of 11% for last year, and the gross profit margin increased a bit correspondingly. The Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to increase the gross profit margin.

OPERATING PROFIT

For the year 2018, operating profit of the Group was RMB 150,264,000 comparing to the operating profit of RMB 76,001,000 for the year 2017, representing an increase of 98%.

Expenditure and other income presented before operating profit are as follows:

- Other income

  Other income for the year 2018 was RMB 45,725,000, compared with RMB 53,812,000 for the year 2017, representing a decrease of 15%. Other income for the year 2018 includes the income from Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals"), a shareholder of the Company, for the strategic cooperation on innovative pharmaceutical research and development amounting to approximately RMB 1,420,000 compared with approximately RMB 12,898,000 for the year 2017. And it also includes the government grants during the year under review amounting to RMB 27,295,000, compared with RMB 24,886,000 for the year 2017.

- R&D costs

  The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs of the Group were recognised as expenses as incurred. With the development of R&D projects and the establishment of new projects, R&D costs of the Group for the year 2018 were RMB 114,284,000, compared with RMB 110,426,000 for the year 2017, representing an increase of 3%. The ratio of R&D costs to revenue for the year 2018 was 15% (2017: 22%).

- Distribution and marketing costs

  Distribution and marketing costs for the year 2018 were approximately RMB 350,469,000 compared with approximately RMB 253,003,000 for the year 2017, representing an increase of 39%. The increase in distribution and marketing costs was in line with the increase in revenue for sale of products. The ratio of distribution and marketing costs to revenue for sale of products was 47% (2017: 51%).

- Administrative expenses

  Administrative expenses for the year 2018 were RMB 93,579,000, compared with RMB 54,509,000 for the year 2017, representing an increase of 72%. The increase in administrative expenses was mainly due to the increases of operating costs such as payroll and increase of administrative expenses of clinics in operation of Derma Clinic during the year under review.

- Other operating expenses

  Other operating expenses for the year 2018 were approximately RMB 1,254,000 compared with approximately RMB 2,776,000 for the year 2017, representing a decrease of 55%. The decrease in the other operating expenses is mainly due to the decrease of losses on disposals of fixed assets in 2018.

FINANCE COSTS

For the year 2018, finance costs of the Group were approximately RMB 7,194,000 compared with approximately RMB 5,505,000 for the year 2017, representing an increase of 31%. It is mainly due to increase of interest rate of borrowings by the Group during the year under review.

INCOME TAX

Effective from 1 January 2008, Fernovelty Holding is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and Tracing Bio-technology were recognised as high-tech enterprises, and their applicable tax rates are both 15% in 2018. The applicable tax rates of the rest Mainland China subsidiaries are 25% in 2018.

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2017: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HK$2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2018 and 2017, Hong Kong profits tax has not been provided.

As at 31 December 2018, the applicable tax rate and tax policy of the Group remained unchanged.

PROFIT FOR THE YEAR

The profit of the Group for the year 2018 was approximately RMB 129,766,000, comparing with that of approximately RMB 60,159,000 for the year 2017, representing an increase of approximately 116%.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of approximately RMB 150,982,000 was recorded in the consolidated financial statement for the year 2018, compared with that of approximately RMB 75,287,000 for the year 2017, representing an increase of 101%.

SIGNIFICANT INVESTMENTS

The Board approved the Company to establish a subsidiary named Derma Clinic with independent third parties, including Zhong He Hou De Investment Management Co., Ltd.* (中和厚德投資管理有限公司) ("Zhong He Hou De") in Shanghai, China on 12 December 2014. The Company received the approval and completed the registration and filing procedures with the relevant authorities regarding the establishment of Derma Clinic on 4 August 2015. Derma Clinic will make investment to establish and operate nationwide skin beauty chain clinics, by taking advantage of the brand effect and market share of the Company in the skin beauty field of medical market. During the year under review, Derma Clinic adjusted its registered capital to RMB 55,000,000. As at 31 December 2018, the Company has paid all capital contribution. Details of this transaction were set out in the announcements issued by the Company on 12 December 2014 and 4 August 2015.

The Board approved the Company to enter into the cooperation framework agreement with Shanghai BVCF Healthcare Investment Management Company Limited ("Shanghai BVCF") in respect of the subscription for the shares of Yiwu BVCF Investment Management Partnership (Limited Partnership) on 14 November 2017. According to the cooperation framework agreement, the BVCF Fund was set up by Shanghai BVCF, with a size of approximately RMB 300,000,000, of which the Company subscribed for RMB 60,000,000, accounting for 20% of the fund size. If the size of the fund is reduced, the subscription amount of the Company will be decreased proportionately. If the total amount of the fund is less than RMB 200,000,000 (including the part that shall be subscribed by the Company according to the cooperation framework agreement), it shall be deemed that the establishment of the BVCF Fund is unsuccessful, and BVCF Fund shall refund all the amounts which the Company has paid. For more details, please refer to the announcement of the Company dated 14 November 2017. On 19 September 2018, the fund is officially registered as Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund"). As at 31 December 2018, the Company has paid RMB 24,000,000.

On 15 December 2017, the Board approved the Company to establish a new subsidiary, Shanghai Baosu Pharmaceutical Technology Co., Ltd.* (上海葆溯醫藥科技有限公司) ("Baosu Pharmaceutical"), which would be responsible for the sales and promotion of LIBOd® nationwide from 1 January 2018. For more details, please refer to the announcement of the Company dated 15 December 2017. Baosu Pharmaceutical's registered capital is RMB 20,000,000, and the relevant registration and filing procedures was completed on 28 February 2018. As at 31 December 2018, the Company has paid capital contribution amounting RMB 11,000,000.

Saved as disclosed above, the Group had no other significant investment during the year 2018.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries and associated companies during the year 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2018, seven intellectual properties of the Group were pledged as security of bank borrowings. These intellectual properties do not have any carrying value in the Group's financial statements for the year ended 31 December 2018.

Saved as disclosed above, there were no other charges on the Group's assets as at 31 December 2018.

BANKING BORROWINGS

As at 31 December 2018, the outstanding amount of the loans of the Group was RMB 150,000,000, which includes:

As at 31 December 2018, an unsecured short-term bank borrowing of RMB 40,000,000 was taken by the Company, bore a floating interest rate at 4.5675% per annum (As at 31 December 2018) and was due for repayment on 9 April 2019;

As at 31 December 2018, an unsecured short-term bank borrowing of RMB 60,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum (As at 31 December 2018) and was due for repayment on 2 August 2019;

As at 31 December 2018, an unsecured short-term bank borrowing of RMB 40,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum (As at 31 December 2018) and was due for repayment on 15 November 2019;

As at 31 December 2018, a secured short-term bank borrowing of RMB 10,000,000 was taken by the Company and bore a fixed interest rate at 4.35% per annum. The borrowing was mortgaged by the Company's seven intellectual properties and was due for repayment on 3 January 2019. These intellectual properties do not have any carrying value in the Group's financial statements.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Taizhou Pharmaceutical, the subsidiary of the Company, will build new production plants as and when appropriate according to the R&D progress of the Group to meet future production needs.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), proceeds from the share placing, grants from the municipal government authorities and commercial loans.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB 588,221,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. As at 31 December 2018 and 2017, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance costs, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placing of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

EMPLOYEES AND SALARIES

As at 31 December 2018, the Group had a total of 627 employees, as compared to 650 employees as at 31 December 2017. Staff costs including Directors' remuneration for the year 2018 were RMB 169,565,000, compared with RMB 115,734,000 for the year 2017. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

USE OF PROCEEDS

On 4 February 2013, the Company completed a placing of 142,000,000 H shares with a par value of RMB0.10 each at a price of HKD 1.70. The amount of net proceeds from the placing was approximately HKD 233,909,000 (equivalent to approximately RMB 185,575,000) (after deducting all applicable costs and expenses, including commissions, legal fees and levies). The net proceeds were applied in the planned projects described in the circular of the Company dated 14 May 2012 and the announcement of the Company dated 16 January 2013.

Particulars of the proceeds from the placing were used as follows:

	Budget RMB'000	Total amount that has been utilized as of 31 December 2018 RMB'000	Remaining balance as of 31 December 2018 RMB'000
R&D projects			
– the clinical study project regarding using ALA for the treatment of cervical intraepithelial neoplasia	**20,000**	20,000	–
– the pre-clinical study and clinical study project regarding using ALA for the treatment of brain glioma	**10,000**	10,000	–
– the pre-clinical and clinical study – project of paclitaxel albumin nanoparticles	**20,000**	20,000	–
– the pre-clinical and clinical study – project of CD30-DM1	**30,000**	30,000	–
To repay the debts of the Company	**20,000**	20,000	–
For the working capital of the Company	**85,575**	85,575	–
Total	**185,575**	185,575	–

OTHER MATTERS

Proposed Issue of A Shares

The Board announced that at a meeting of the Board held on 8 March 2019, the Company proposed to apply to the relevant regulatory authorities in the PRC for the allotment and issue of not more than 120,000,000 A Shares with a nominal value of RMB 0.1 each to the qualified price consultation participants subject to the laws and regulations of the PRC and the conditions required by the regulatory authorities, qualified investors of the Sci-Tech Innovation Board who maintain securities account with the Shanghai Stock Exchange and other investors as approved by the CSRC and the Shanghai Stock Exchange (excluding those in respect of which subscription has been prohibited by laws and regulations), and proposed to apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares.

The Issue of A Shares will be subject to, among other things, the approval by the Shareholders by way of special resolutions at the AGM and the Class Meetings, as well as the approvals by the CSRC and the Shanghai Stock Exchange.

The valid period of the resolution on the Issue of A Shares is 12 months from the date on which this resolution is considered and approved by the AGM and the Class Meetings. On the same date, the resolution will replace the resolution in relation to the matters regarding the issue and listing of A Shares as previously considered and passed by the Company (details of which are set out in the circular dated 18 April 2018 and the announcement dated 8 June 2018 of the Company).

Report of the Directors

The Board is pleased to present the directors' report for the year 2018 and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

ACTIVITIES REVIEW

The Group is principally engaged in R&D and commercialization of innovative drugs.

On R&D, the Group is committed to developing four R&D platforms, including genetic technical platform, photodynamic platform, nano technical platform and oral solid preparation platform. As at the end of the report period, the Group had about 15 major R&D projects and over 20 corresponding proposed indications or specifications. Given that R&D on innovative drugs faces significant risks and challenges, the Group adopts more prudent and conservative capitalized policy on R&D expenses and will try to make the medium and long-term plans of R&D in view of actual financial position.

On commercialization, the major products of the Company are ALA on photodynamic technical platform, LIBOd® on nano technical platform and all kinds of diagnostic reagents on diagnosis technology platform. FuMeiDa, which is indicated for the treatment of Port Wine Stain, launched to the market in 2017 officially. FuMeiDa and LIBOd® for the treatment of tumors are preparing to apply for U.S. drug registration.

In additional, to make full use of the advantages accumulated in skin management field these years, the Group began to involve itself in the industry of skin beauty chain clinics during the year under review and made investment to establish Derma Clinic in August 2015. In recent years, with the vigorous development of the domestic medical and aesthetic industry, the influx of various funds has also led to the uneven quality of the entire industry. As an enterprise taking research and development of drugs as its principal business, the Company, after completing the initial framework design, corporate strategy formulation and development direction planning for Derma Clinic, considers that it is necessary to involve a shareholder who is familiar with specific industry business, capable of effective resources integration and equipped with relevant industry experience and management experience of chain enterprises to lead and guide the subsequent development direction of Derma Clinic so as to enhance the overall operation of Derma Clinic. In this situation, in order to focus on the core business of the Group, during the year under review, the Group began to seek strategic partners who are familiar with the industry business, capable of effective resources integration, and able to guide the development of Derma Clinic. On 28 February 2019, the Company entered into an equity acquisition agreement with Bringspring-Roadtop to sell 30.04% of equity interest in Derma Clinic. Upon the completion of the transfer, Bringspring-Roadtop will own 63% of equity interest in Derma Clinic while the Company will own 20% of equity interest in Derma Clinic. Therefore, Derma Clinic will cease to be a subsidiary of the Company, and its financial results will not be consolidated into the consolidated financial statements of the Company. For more details, please refer to the announcement of the Company dated 28 February 2019. In the future, the Group will continue to cooperate with Derma Clinic as new marketing channels and clinical treatment platforms for new photodynamic drugs.

The Group's revenue for the year 2018 was generated from the sale of medical products.

The Group only operates a single business segment in 2017 and 2018 and hence no segment information is presented.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	Purchases
Largest customer	14.37%	
Total of the five largest customers	47.22%	
Largest supplier		20.42%
Total of the five largest suppliers		38.58%

Shanghai Pharmaceuticals, a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the Board meeting of the Company. Save for this, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks faced by the Group are R&D risks of innovative drugs, promotion risks of innovative drugs and price cut down risks of drugs, etc.

There are many uncertainties during the R&D of innovative drugs with large investment and long research period. Once the project after many years of research and ultimately attributed to failure, there is a big negative impact on the company. The company will continue to improve project management from the beginning of the project with fully demonstration to reduce the risk from the source. In addition, we will perform assessment during the research process in a timely manner to reduce the risk of each stage. And the Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs were recognised as expenses as incurred. The success of the final project or not, will not have a greater impact on the current financial statements.

After the success of research and launch into the market, it needs time for innovative drugs to develop the market to achieve their sales expectations. It's uncertainty to set the length of the process or to judge if achieve the desired state. The company will promote new products in a positive and scientific manner, in order to let professionals and patients to have dependence with full understanding of the product as well as avoiding all other risks caused by informal means.

There are lots of factors which will likely affect the Company's sales revenue and sales profit such as the release of the drug sales regulations, the gradual implementation of the "two-invoice" system and the new "B2V" policy came into force, As our drugs are not included in the national essential drug list, it is impossible to make a substantial price reduction under the current policy. On the other hand, the Company will try to avoid the price drop due to other reasons.

The principal uncertainty is regulatory policy. In recent years, the domestic drug regulatory policy has undergone major changes. It is uncertain about further reform action. The Company will actively adapt to the new regulatory policy of the industry and improve the corresponding management of our R&D projects, which reduce the impacts of regulatory changes as lower as possible.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

An analysis on the Company's annual results of 2018 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

DIVIDENDS

The resolution in relation to the distribution of a final dividend of RMB0.07 per share (tax inclusive) for the year ended 31 December 2018 has been considered and approved at the meeting of the Board held on 28 February 2019, totaling approximately RMB 64,610,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2018 annual general meeting to be held on Friday, 26 April 2019, the final dividend is expected to be distributed on Tuesday, 20 August 2019 or before to all shareholders whose names appear on the register of the Company on Friday, 10 May 2019. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Friday, 3 May 2019 to Friday, 10 May 2019 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 2 May 2019. Final dividend for holders of Domestic Shares will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H Shares will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date of declaration of the dividend. In case of any change to the expected payment date or the period during which the register of holders of H Shares will be closed, further announcement(s) will be published by the Company in due course in respect of such changes.

Pursuant to CIT Law and its implementing regulations, the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the CIT Law. The Company will distribute the final dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company on 10 May 2019, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 36 and note 45 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 15 to the consolidated financial statements.

MAIN EMPLOYEE

Details of the main employee of the Group ate set out in environmental, social and governance report.

STAFF RETIREMENT BENEFIT SCHEME

Details of the staff retirement benefit scheme of the Group are set out in note 9 to the consolidated financial statements.

STAFF QUARTERS

During the year, the Group has not provided staff quarters to its staff. Details of the housing subsidies provided to staff are set out in note 8 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

Directors and Supervisors of the Company during the year and as at the date of this report are as follows:

Executive Directors

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

Non-executive Directors

Shen Bo
Yu Xiao Yang

Independent Non-executive Directors

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

Supervisors

Zhou Xi *(Chairman)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

CORPORATE GOVERNANCE

The Company has always been endeavoring in establishing a formal and appropriate corporate governance structure. The Company believes that through enhancing its transparency and establishing effective system of accountability, the Company can operate in a more systematic manner, make decisions in a more scientific way, safeguard the interests of all Shareholders, and boost the confidence of investors. Details of corporate governance of the Group are set out in the following sections of the annual report:

1) Corporate Governance Report;
2) Report of the Supervisory Committee;
3) Report of the Audit Committee;
4) Report of the Remuneration Committee;
5) Report of the Nomination Committee;
6) Environmental, Social and Governance Report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and Supervisors' Service Contracts" section of the "Corporate Governance Report".

PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Refer to "Profiles of the Directors, Supervisors and Senior Management" section of the annual report.

EMOLUMENTS OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HIGHEST PAID INDIVIDUALS

The remuneration committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 8 and note 46 to the consolidated financial statements.

Details of senior management of the Group are set out as follows:

	Number Year 2018	Year 2017
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number Year 2018	Year 2017
The emoluments range (HKD)		
1,000,001-1,500,000	**–**	1
1,500,001-2,000,000	**1**	5
2,000,001-2,500,000	**5**	1
2,500,001-3,000,000	**1**	–
	7	7

Details of emoluments of senior management are set out in note 39 to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to "Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures" section of the "Corporate Governance Report".

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 31 December 2018, the Company did not have any share option scheme in force.

RESTRICTED SHARE SCHEME

On 29 June 2012, the Company adopted the restricted share scheme.

Pursuant to the scheme, the scope of scheme participants shall mainly include Directors, senior management, mid-level management and main research staff of the Company who are necessary to the realization of strategic target of the Company and other key employees who, in the opinion of the Board or the remuneration committee of the Company, contribute directly to the overall business performance and sustainable development of the Group. Refer to the circular of the Company dated 14 May 2012 for more details.

As at the date of this report, the Company has completed all the unlocking stage for the restricted share scheme.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Refer to "Directors' and Supervisors' Interests" section of the "Corporate Governance Report".

PERMITTED INDEMNITY PROVISIONS

During the year under review and as at 31 December 2018, the Company has purchased liability insurance for Directors and Supervisors which provides proper protection for the Directors and Supervisors.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2018, the interests (if any) of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules were as follows:

Name	Position	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total number of issued shares
Wang Hai Bo	Director	Domestic Shares	57,886,430 (L)	Beneficial owner	Personal	9.93%	6.27%
Su Yong	Director	Domestic Shares	22,312,860 (L)	Beneficial owner	Personal	3.83%	2.42%
Zhao Da Jun	Director	Domestic Shares	19,260,710 (L)	Beneficial owner	Personal	3.30%	2.09%
Wang Luo Chun	Supervisor	Domestic Shares	1,170,000 (L)	Beneficial owner	Personal	0.20%	0.13%
Yu Dai Qing	Supervisor	Domestic Shares	800,000 (L)	Beneficial owner	Personal	0.14%	0.09%

Note: The letter "L" stands for long position.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2018, the persons other than a Director, Supervisor or chief executive of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Interest of controlled corporation	Corporate	23.94% 20.75%	22.77%
Shanghai Pharmaceuticals	Domestic Shares H Shares	139,578,560 (L) 70,564,000 (L)	Beneficial owner	Corporate	23.94% 20.75%	22.77%
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%
Investco Hong Kong Limited	H Shares	25,236,000 (L)	Investment manager	Corporate	7.42%	2.73%

Note: The letter "L" stands for long position.

CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the continuing connected transactions of the Group are set out as follows:

Sales and Distribution Agreement with Shanghai Pharmaceutical

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Co., Ltd.* (上藥控股有限公司, formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.* (上海醫藥分銷控股有限公司)), as its distribution agent since 10 August 2010 when the Company entered into the original sales and distribution agreement (the "Original Sales and Distribution Agreement") with Shanghai Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Shanghai Pharmaceuticals. On 18 March 2016, the Board approved the Company to enter into the renewal agreement of the Original Sales and Distribution Agreement, which extended the term of the Original Sales and Distribution Agreement for a period of three years with effect from 1 January 2016 to 31 December 2018. For more details, please refer to the announcements of the Company dated 18 March 2016 and 21 March 2016. The Board approved the Company to enter into the sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceuticals Group on 17 August 2018 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals for the period from 1 January 2018 to 31 December 2019. The renewal agreement of the Original Sales and Distribution Agreement will be terminated immediately upon the Sales and Distribution Agreement becoming effective. For more details, please refer to the announcement dated 17 August 2018 and the circular of the Company dated 14 September 2018. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the two years ending 31 December 2019 are approximately RMB 46,000,000 and RMB 62,000,000 respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Sales and Distribution Agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. The transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and were approved by the independent shareholders at the extraordinary general meeting on 2 November 2018. During the year 2018, the product sales revenue to Shanghai Pharmaceuticals Group was RMB 45,559,000, which did not exceed the annual cap which was approved at the extraordinary general meeting.

*

Strategic Cooperation Agreement for Innovative Pharmaceuticals R&D with Shanghai Pharmaceuticals

In February 2011, the Company entered into the original strategic cooperation agreement for innovative pharmaceuticals R&D (the "Original Strategic Cooperation Agreement") with Shanghai Pharmaceuticals, with the expiration date of 31 December 2013. Both parties would jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. To renew the transactions contemplated under the Original Strategic Cooperation Agreement, the Company entered into the strategic cooperation agreement for innovative pharmaceuticals R&D (the "Strategic Cooperation Agreement") with Shanghai Pharmaceuticals on 19 March 2013, with the expiration date of 31 December 2016. On 18 March 2016, the Company entered into the supplemental agreement with Shanghai Pharmaceuticals to revise the annual cap for 2016 under the Strategic Cooperation Agreement from RMB 20,000,000 to RMB 34,000,000, which was approved at the annual general meeting held on 13 May 2016. For more details, please refer to the announcements of the Company dated 23 February 2011, 19 March 2013, 18 March 2016 and the circulars of the Company dated 8 April 2011, 12 April 2013 and 13 April 2016. On 10 May 2017, the Company and Shanghai Pharmaceuticals entered into the renewal agreement, which extends the term of the Strategic Cooperation Agreement for a period of three years with effect from 1 January 2017 to 31 December 2019. For more details, please refer to the announcement of the Company dated 10 May 2017. The annual caps for the continuing connected transactions contemplated under the Strategic Cooperation Agreement (as renewed by the renewal agreement) for the three years ending 31 December 2019 are approximately RMB 28,000,000, RMB 28,000,000 and RMB 28,000,000, respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the proposed annual cap for each of the three years ending 31 December 2019 for the continuing connected transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2018, the Group received an amount of RMB 2,089,500 from Shanghai Pharmaceuticals for cooperation and development, the nature of the transaction was in the context of the framework agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

The above connected transactions are closely monitored by the Company's Internal Audit and Control Department. The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions along with the report of external auditors and confirmed that the transactions have been entered into:

(1) in accordance with the Group's pricing policies;

(2) in the ordinary and usual course of business of the Group;

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 28 February 2019.

For the year ended 31 December 2018, the one-time connected transaction of the Group are set out as follow:

Entrustment Development Agreement with Shanghai Pharmaceuticals

The Company has entered into the Entrust Development Agreement with Shanghai Pharmaceuticals on 11 September 2018 for the development of the small-molecule compound CLB-SN38 in accordance with the relevant technical parameters by Shanghai Pharmaceuticals for the Company during the contractual period from 11 September 2018 to the completion date of production and verification of samples for registration. For more details, please refer to the announcement of the Company dated 11 September 2018. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transaction under the Entrustment Development Agreement constitutes a connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the connected transaction under the Entrustment Development Agreement exceeds 0.1% but is less than 5%, such transaction is subject to the reporting, announcement and annual review requirements, but is exempt from the independent shareholders' approval requirements under the Listing Rules. During the year 2018, the Group paid an amount of RMB 200,000 to Shanghai Pharmaceuticals for the entrustment development and the transaction is in progress.

The above transactions are closely monitored by the Company's Internal Audit and Control Department. Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions along with the report of external auditors and confirmed that the transactions have been entered into:

(1) in accordance with the Group's pricing policies;

(2) in the ordinary and usual course of business of the Group;

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of material related party transactions undertaken in the ordinary and usual course of business are set out in note 39 to the consolidated financial statements. None of the related party transactions constitutes a connected transaction that should be disclosed, except for the above connected transactions, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

SECURITIES TRANSACTIONS BY DIRECTORS

Refer to "Directors' Securities Transactions" section of the "Corporate Governance Report" for more details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the articles of association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director who are Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Shen Bo. Mr. Lam Yiu Kin was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2018 before proposing to the Board for approval.

For more details, refer to "Report of the Audit Committee" and "Audit Committee" section of the "Corporate Governance Report".

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers. The Company has not changed the auditor during the last three years.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The discussion on the Company's environmental policies and performance during the year under review are set out in the section headed "Social Responsibility" of the "Corporate Governance Report" and "Environment, Social and Governance Report".

RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the board was responsible for evaluating and determining the nature and extent of the risks the Company wants to take in achieving the its strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the board on the effectiveness of these systems. The board oversaw the Company's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the year under review. The review covered all material controls, including financial, operational and compliance controls. The board's review ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting, internal audit and financial reporting functions.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year under review, the Company has complied with the relevant laws and regulation that have a significant impact on the Company, including but not limited to Pharmaceutical Administration Law of the People's Republic of China and its implementation regulations, Measures for the Supervision over and Administration of Pharmaceutical Production, Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers, Trademark Law of the People's Republic of China, Patent Law of the People's Republic of China and its rules for implementation, etc. Details of the relevant laws and regulations on environment and society with which the Company has complied during the year under review are set out in the "Environment, Social and Governance Report".

By Order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
28 February 2019

Report of the Directors

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Xu Qing *(Independent Non-executive Director)*
Mr. Yang Chun Bao *(Independent Non-executive Director)*

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") has performed its duties for the year 2018 in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have attended all on-site board meetings. They reviewed the Group's financial statements and gave advice and recommendations on the issues which were reflected in the Group's operations and management.

The Supervisory Committee duly supervised the Directors and senior management's compliance with the laws and regulations as well as the Articles of Association, in carrying out their duties, and the legal procedures on the change of directorship. The Supervisory Committee held the opinion that there was no violation of the PRC laws and regulations or the Articles of Association by the Directors and managers during the year 2018.

The Supervisory Committee was of the view that the resolutions passed in all board meetings for the year 2018 had been made with a view to protecting the Company's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP are true and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee is satisfied with the achievement and progress of each task of the Group in 2018 and has great confidence in the future of the Group.

SUPERVISORY COMMITTEE

Mr. Zhou Xi *(Chairman)*
Mr. Wang Luo Chun
Mr. Liu Xiao Long
Mr. Huang Jian
Ms. Yu Dai Qing

Shanghai, the PRC
28 February 2019

Report of the Audit Committee

The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo is a master of professional accounting with qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an executive Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, together with the Group's effective internal control and in appointing external auditors. The Audit Committee reviews issues involving the accounting principles and practice principles adopted by the Group, including studying audit functions, financial reporting, risk management and internal control, participating in the formulation of the corporate governance policy of the Group, and participating in the disclosure compliance in the corporate governance report of the group, etc. If necessary, the Audit Committee will also invite external auditors, the general manager and senior management to attend meetings. The Principles of the Audit Committee which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for reference.

A summary of the work performed by the Audit Committee in 2018 is as follows:

1) Review the financial reports for the year ended 31 December 2017 and for the half year ended 30 June 2018, respectively;

2) Review connected transactions of the Company during the year 2017;

3) Supervise the Company's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2018;

6) Discuss the risk management and internal control systems with the management on a regular basis to ensure that the management has performed its duty to have effective systems.

The Audit Committee meeting held on 28 February 2019 reviewed the Company's 2018 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Company, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2018, and the Audit Committee proposed that the Board considered the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and the statutory auditors of the Group, respectively, for the year 2019.

The Audit Committee held four meetings in 2018.

AUDIT COMMITTEE

Mr. Lam Yiu Kin *(Chairman)*
Mr. Shen Bo
Mr. Xu Qing

Shanghai, the PRC
28 February 2019

Report of the Remuneration Committee

The Remuneration Committee is comprised of three Independent Non-executive Directors, who are Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, and Mr. Yang Chun Bao. Mr. Zhou Zhong Hui is the Chairman of the Committee.

The terms of reference for the Remuneration Committee is: to make recommendations to the Board on the Company's remuneration policy and structure for all Directors, supervisors and senior management and on the establishment of a formal and transparent procedure for developing such policy remuneration; to formulate the remuneration management policy and remuneration packages scheme of individual Executive Directors and senior management and make recommendations to the Board; such remuneration packages include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-executive Directors and supervisors; in formulating the remuneration policies and standards, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, supervisors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration; to review and approve the remuneration packages of the management by reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; to review and approve compensation arrangements relating to dismissal or removal of directors and supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; to ensure that no Director or supervisor or any of their associates is involved in deciding his/her own remuneration; to research the share incentive plan of the Company and put forward proposals; requirements in relation to the scope of work for the Remuneration Committee under the Listing Rules of other places where the Company's securities are listed (as amended from time to time).

The Principles of the Remuneration Committee which were passed by the Board specifically laid down the terms of reference of the Remuneration Committee and elaborated its role and the power as conferred to the Remuneration Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board. The Remuneration Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for reference.

A summary of the work performed by the Remuneration Committee in 2018 is as follows:

1) Review the remuneration scheme for the Directors and Supervisors for the year 2017;

2) Formulate the remuneration scheme for the Directors and Supervisors for 2018.

The Remuneration Committee held one meeting in 2018.

REMUNERATION COMMITTEE

Mr. Zhou Zhong Hui *(Chairman)*
Mr. Lam Yiu Kin
Mr. Yang Chun Bao

Shanghai, the PRC
28 February 2019

Report of the Nomination Committee

The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director), and Mr. Xu Qing (Independent Non-executive Director).

The Board of the Company set up the Nomination Committee in April 2012 and approved the Principles of the Nomination Committee which stipulated the terms of reference for the Nomination Committee and elaborated its role and the authority delegated to it by the Board. The Nomination Committee is provided with sufficient resources to perform its duties. The Nomination Committee is accountable to the Board and its meeting minutes should be submitted to the Board for reference.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief-executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and to put forward proposals to the Board; and other authority delegated to the Nomination Committee by the Board and matters assigned by the Board.

A summary of the work performed by the Nomination Committee in 2018 is as follows:

1) Assess the independence of Independent Non-executive Directors;

2) Report to the Board the composition of the Board members and monitor the implementation of the policy on board diversity.

The Nomination Committee held one meeting in 2018.

NOMINATION COMMITTEE

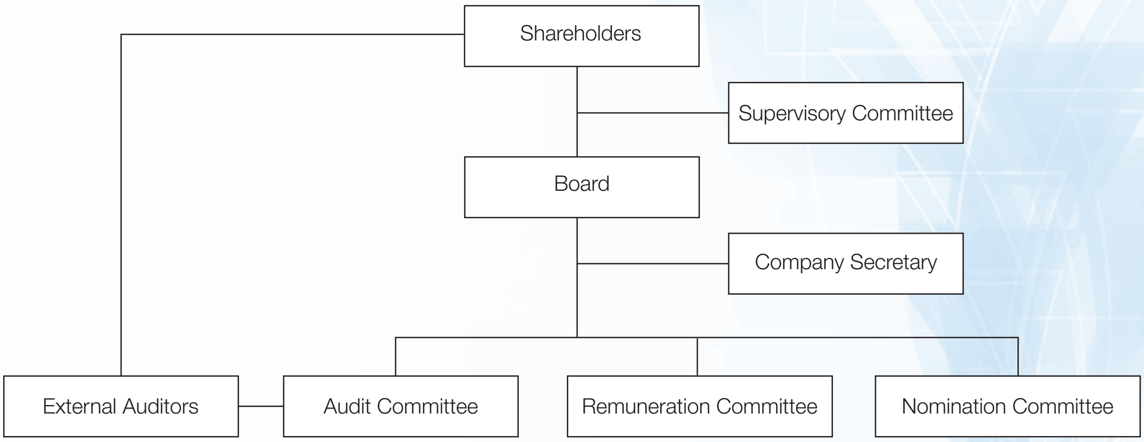
Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Xu Qing

Shanghai, the PRC
28 February 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's Corporate Governance Code includes but is not limited to the following documents:

a) Articles of Association;

b) Principles of the Audit Committee;

c) Principles of the Remuneration Committee;

d) Principles of the Nomination Committee;

e) Principles regarding transactions in the Company's securities;

f) Regulations for information disclosure;

g) Regulations for internal control management;

h) Daily management documents of the Company.

The Audit Committee and the Board have reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

Major aspect which deviate from the provisions as set out in the Code:

– The positions of the chairman and the general manager rest on the same person. Although the articles of association of the Company (the "Articles of Association")contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the chairman and the chief executive.

BOARD

The Company is governed by the Board which is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

DIRECTORS

Currently, the Board comprises the Chairman, two other Executive Directors, two Non-executive Directors and four Independent Non-executive Directors.

Particulars of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Board and their appointments are as follows:

Directors	Time of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo *(Chairman)*	11 November 1996	9 June 2017	Three years
Su Yong	20 January 2002	9 June 2017	Three years
Zhao Da Jun	20 January 2002	9 June 2017	Three years
Non-executive Directors			
Shen Bo	29 June 2012	9 June 2017	Three years
Yu Xiao Yang	30 May 2013	9 June 2017	Three years
Independent Non-executive Directors			
Zhou Zhong Hui	30 May 2013	9 June 2017	Three years
Lam Yiu Kin	9 October 2013	9 June 2017	Three years
Xu Qing	29 May 2015	9 June 2017	Three years
Yang Chun Bao	9 June 2017	–	Three years

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to provide adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board considers that they can make independent judgments effectively in compliance with the guidelines for assessment of independence under Rule 3.13 of the Listing Rules. All the Directors have the terms of office for no more than three years, and can be nominated for re-election at the annual general meeting.

POWERS OF THE BOARD

The Board reviews the performance of the operating divisions against their proposed budgets and business targets on a regular basis, and also exercises a number of reserved powers pursuant to the Articles of Association, including:

1) Responsible for convening shareholders general meetings, and presenting reports at the meetings;

2) Implementing the resolutions of the general meetings;

3) Determining the operation plans and investment plans of the Company;

4) Formulating annual financial budget plans and final accounting plans of the Company;

5) Formulating profit distribution plans and loss compensation plans of the Company;

6) Setting up liability and financial policies of the Company, plans for the increase or reduction of the Company's registered capital and plans for the issuance of the Company's bonds;

7) Formulating material acquisition or disposal plans of the Company, and the Company's merger, demerger and dissolution plans;

8) Determining deployments of the Company's internal management;

9) Appointing or removing the Company's managers, and appointing or removing the Company's vice presidents, financial controller, Board secretary in accordance with the nomination of the general manager, and deciding on their remunerations;

10) Setting the basic management policies of the Company;

11) Formulating the amendment plans to the Articles of Association;

12) Deciding other material affairs and administrative affairs of the Company other than those to be resolved at the general meeting pursuant to the Company Law and the Articles of Association, and signing other important agreements.

The Board is responsible for leadership and control of the Group as well as promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to management. The Board is responsible for the completeness of financial information and the effectiveness of the Group's internal controls system and risk management processes. The Board is also responsible for preparing financial accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

Powers of the Management

Pursuant to the Articles of Association, the management (ie: one general manager, with a certain number of deputy general managers, one financial controller who will assist the general manager in his work) shall be accountable to the board of directors and exercise the following functions and powers:

1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the board of directors;

2) to organize the implementation of the Company's annual business plan and investment plan;

3) to draft plans for the establishment of the Company's internal management structure;

4) to draft the Company's basic management system;

5) to formulate basic rules and regulations of the Company;

6) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;

7) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the board of directors;

8) other functions and powers conferred by these Articles and the board of directors.

Chairman and the General Manager

Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small, with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the Chairman and the chief executive.

Board Diversity

The Board has adopted a board diversity policy which became effective on 9 October 2013. The Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 9 directors. One of them are women and one of them resides in Hong Kong. Four of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. The composition of the Board is diversified in terms of gender, nationality, professional background and skills.

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying board documents of regular Board meetings are circulated where possible at least seven days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at board and committee meetings, and through meeting key people in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to all Committees.

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board documents, are available to all board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

In furtherance of good corporate governance, the Board has established three sub-committees: an Audit Committee, a Remuneration Committee and a Nomination Committee. All of them have terms of reference which accord with the principles set out in the Code. The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board held 4 meetings during 2018, all are on-site. The attendance of individual directors at the board meetings is set out in the table below.

Members of the Board	Required number of attendance for the year	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate
Executive Directors						
Wang Hai Bo *(Chairman)*	4	4	0	0	0	100%
Su Yong	4	4	0	0	0	100%
Zhao Da Jun	4	4	0	0	0	100%
Non-executive Directors						
Shen Bo	4	2	2	0	0	100%
Yu Xiao Yang	4	0	4	0	0	100%
Independent Non-executive Directors						
Zhou Zhong Hui	4	4	0	0	0	100%
Lam Yiu Kin	4	4	0	0	0	100%
Xu Qing	4	4	0	0	0	100%
Yang Chun Bao	4	4	0	0	0	100%

Note: Attendance by proxy is not be counted as attendance rate.

The table below sets out the time and major agenda of Board meetings in 2018:

Time of Board meetings	Major agenda
Regular Board meetings	
23 March 2018	Reviewed the annual report of 2017; Considered the distribution of dividend; Reviewed the connected transactions of 2017; Considered the renewal for auditor; Considered the 2018 remuneration plans for Directors and Supervisors; Determined the time for annual general meeting.
8 June 2018	Reviewed the first quarterly results of 2018.
17 August 2018	Reviewed the interim results of 2018; Reviewed the Increment on Investment in Derma Clinic; Reviewed the Sales and Distribution Agreement with Shanghai Pharmaceutical; Review the proposal for signing a commissioned development agreement for small molecular compounds with Shanghai Pharmaceutical.
2 November 2018	Reviewed the third quarterly results of 2018; Review the proposal on Assignment of Stock Ownership of Baosu; Reviewed the proposal for Ba Dian Medicine liquidation.

Directors' Training

The Company provides introduction and information to newly appointed directors on their legal and other responsibilities as directors and their functions. In addition, the Company invites legal adviser to answer the questions about the above documents and the questions raised by the newly appointed directors.

During the year under review, all directors participated in the continuing education program to develop and update their knowledge and skills. The Company secretary arranged on-site training once, and sent the documents such as industry frontier information, Director's responsibilities to the directors for reference by e-mail twice during the year under review. The attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	3/3	100%
Su Yong	3/3	100%
Zhao Da Jun	3/3	100%
Shen Bo	3/3	100%
Yu Xiao Yang	3/3	100%
Zhou Zhong Hui	3/3	100%
Lam Yiu Kin	3/3	100%
Xu Qing	3/3	100%
Yang Chun Bao	3/3	100%

The Company has kept training record to assist the Directors to record the training sessions they participated in. The attendance record above does not include any external training which the Directors participated in by themselves.

Directors' and Supervisors' Interests

All Directors disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organizations and such declarations of interests are updated annually (if any). When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his interest and is required to abstain from voting, and withdraw from the meetings as appropriate. The Company will seek confirmation from Directors in every financial report period in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any). It is also applicable to the Supervisors.

The Group has not entered into any transactions agreement or contract of significance in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2018.

Directors' and Supervisors' Service Contracts

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election at the general meeting. The terms of the service contracts are approved by the Remuneration Committee. Some directors will be proposed for re-election at the forthcoming annual general meeting. But the company did not sign any relevant unexpired service contract which is not terminable within a year without payment of any compensation (Other than statutory compensation).

Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures

None of the Directors, chief executive or Supervisors or their spouse or children under age of 18 years has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within the year 2018.

Interests of Directors, Chief Executive and Supervisors in the Shares of the Company

Refer to the section headed "Directors, Chief Executive and Supervisors" in the "Report of the Directors".

SUPERVISORY COMMITTEE

Currently, the Supervisory Committee comprises the Chairman (Shareholder representative Supervisor), two other Employee representative Supervisors, and two Independent Supervisors.

Particulars of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Supervisory Committee and their appointments are as follows:

Supervisors	Time of initial appointment	Date of latest re-appointment	Term
Shareholder representative Supervisor			
Zhou Xi *(Chairman)*	29 May 2015	9 June 2017	3 years
Employee representative Supervisor			
Wang Luo Chun	22 February 2016	9 June 2017	3 years
Yu Dai Qing	9 June 2017	–	3 years
Independent Supervisor			
Liu Xiao Long	13 May 2016	9 June 2017	3 years
Huang Jian	9 June 2017	–	3 years

The Supervisory Committee held four meetings during 2018, the attendance of which was as follows:

Members of the Supervisory Committee	Attendance in person/Times of meetings	Attendance rate
Zhou Xi *(Chairman)*	4/4	100%
Wang Luo Chun	4/4	100%
Yu Dai Qing	4/4	100%
Liu Xiao Long	4/4	100%
Huang Jian	4/4	100%

The Supervisory Committee takes the view that the financial statements presented by the Company give a true and fair view of the state of affairs, profit and cash flows of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The amended "Code of transactions in the Company's securities", which was passed on 11 August 2009 by the Board meeting of the Company, has the terms no less strict than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules. Directors and relevant employees shall comply with this code. A copy of the code is sent to each Director upon his appointment and thereafter, a notification not to deal in the securities of the Company until after the half-year results have been published would be sent to the Directors 30 days before the date of every Board meeting on which the half-year results are supposed to be approved, and 60 days before the annual board meeting.

Under this code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the delegated directors and receive a dated written acknowledgement before any dealing.

Supervisors' securities transactions should comply with the regulations for the Directors. All the relevant employees, if any, having any price-sensitive information of the Group which is not yet disclosed should also comply with the regulations for the Directors.

All Directors, Supervisors and relevant employees have complied with the relevant requirements in 2018. The previous year has not found the Directors, the Supervisors and the relevant employees violating the above regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

The responsibilities of the Board of the Company include the establishment of complete risk management and internal control and its effective implementation. During the year under review, the Board was responsible for evaluating and determining the nature and extent of the risks the Group wants to take in achieving the its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Audit Committee of the Board oversaw the Group's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the year under review. The review covered all material controls, including financial, operational and compliance controls and ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Company can only provide reasonable and not absolute assurance against material misstatement or loss;

In February 2011, the Company established the Internal Audit and Control Department of the Company (the "IACD") to enhance its internal control system and guarantee the effectiveness of the Group in respect of financial, operational, compliance and risk management. The IACD reports important points in risk identification to the Audit Committee on a quarterly basis and elaborates on corresponding measures and subsequent improvements. During the year under review, the IACD made self-check four times in the Audit Committee meetings focusing on risk management, risk identification and the effectiveness of internal control and the Audit Committee summarized and reported the results to the Board. Furthermore, the IACD discussed risk management and internal control systems with the Audit Committee and reviewed the effectiveness of the risk management and internal control systems. In addition, the IACD was continually working on risk management and internal control, organizing and coordinating with each department on risks identification, analysis, assessment, alert and treatment as well as renewing the risks list in order to help the IACD perform more effective risk identification and internal control for forming a risk management culture of active and steady operation.

The Company's Audit Committee and the Board have reviewed the effectiveness of the risk management and internal control systems of the Group during the year 2018 and the Board considers the current risk management and internal control systems of the Group are effective and adequate. The Company will further enhance the Group's risk management and internal control systems pursuant to the requirements of the Listing Rules on internal control, to ensure that the Group's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

The Company formulated several rules focusing on risk management and internal control including the "regulations for information disclosure" and the "regulations for internal control management". Pursuant to these regulations, the main procedures for the delivery, review and disclosure of inside information is as follow:

1) Relevant responsible persons who obtaining the information which might be disclosed, are required to review the faithfulness, accuracy and completeness of the information;

2) The main responsible persons or their designated special responsible staff shall deliver relevant information to the Company Secretary, and shall take confidential measures;

3) The Company Secretary shall review according to relevant requirements and determine whether to approve their disclosure applications; and

4) Make the information disclosure to the public in accordance with the stipulated procedures.

During the year under review, the Company fulfilled its information disclosure obligation strictly. The Company announced the important information which needs to be disclosed in order to ensure its faithfulness, accuracy, completeness and timeliness and ensure investors can obtain information publicly disclosed through the open, fair and equitable method.

Corporate Governance Measures to Manage Potential Conflicts of Interests

Since the Non-Competition Undertaking was entered into by Shanghai Pharmaceuticals in 2000, the Company has been adopting certain corporate governance measures to ensure compliance of the Non-Competition Undertaking by Shanghai Pharmaceuticals. The existing corporate governance measures require the Company to regularly communicate with Shanghai Pharmaceuticals and monitor the business activities of Shanghai Pharmaceuticals.

The Company has enhanced the effectiveness of its previous corporate governance measures by modifying the measures as follows:

- The Independent Non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Undertaking by Shanghai Pharmaceuticals;

- Shanghai Pharmaceuticals will provide the necessary information for the annual review by the Independent Non-executive Directors in relation to the compliance and enforcement of the Non-Competition Undertaking; and

- The Company will disclose, with basis, decisions on matters reviewed by the Independent Non-executive Directors relating to the compliance and enforcement of the Non-Competition Undertaking in its annual reports.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo is a master of professional accounting with qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an Executive Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific "Principles of the Audit Committee" as a guideline for the Audit Committee in dealing with various matters. The updated Principles of the Audit Committee were passed by the Board of Directors on 30 December 2015.

The Audit Committee met four times in 2018. Senior management and/or external auditors were invited to attend each meeting. In 2018, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2018 interim results and 2017 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2018:

Audit Committee	**Attendance in person/Times of meetings**	**Attendance rate**
Lam Yiu Kin *(chairman)*	4/4	100%
Shen Bo	4/4	100%
Xu Qing	4/4	100%

Connected transactions

The Audit Committee has reviewed the connected transactions during the year under review. For the year ended 31 December 2018, the connected transactions have been approved by the Board meeting or independent shareholders either (Depending on the circumstances).

External auditors

The Company appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Company's international and statutory auditors respectively in 2018. The Company has not changed the auditors in the past three years. The fees on the audit services, non-audit services and related expenses of the Group for the year and the previous year are set out as follows:

Auditors	**Audit fees and non- fees in 2018**	Audit fees and non-audit fees in 2017
PricewaterhouseCoopers	**RMB 1,126,000**	RMB 1,103,000
PricewaterhouseCoopers Zhong Tian LLP	**RMB 1,260,000**	RMB 1,000,000
PricewaterhouseCoopers Business Consulting (Shanghai) Co. Limited	**RMB 100,000**	RMB 100,000
Other auditor	**RMB 210,542**	RMB 130,000

Details of the audit fees and non-audit fees are set out as follows:

	Fees in 2018	Fees in 2017
Audit fees		
Annual statutory audit	**RMB 2,383,000**	RMB 2,095,000
Other audit	**RMB 198,000**	RMB 130,000
Non-audit fees		
Environmental, Social and Governance ("ESG") Report	**RMB 100,000**	RMB 100,000
Counting services at annual general meeting and extraordinary general meeting	**RMB 16,000**	RMB 8,000

The Group has formulated the policy of appointment of auditors to provide non-audit services. The policy included the rules to ensure the independence of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for formulating the Group's remuneration policy, recommending and approving the remuneration of all the Directors and senior executives, including the annual allocation of share options under the share option scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

Salaries of various level staff of the Group have been determined by reference to those of the comparable companies, especially companies located in Shanghai and Zhangjiang Hi-tech Park which have direct comparability. In order to retain the expertise for the Company's successful operation, salary level of the Company has to be competitive, which normally comprises three parts, namely fixed portion, unfixed portion and statutory benefits. The fixed portion is the basic salary, which is mainly determined by reference to the level of salaries of similar type of works in comparable companies. Individual salaries may be different due to the difference in position, performance, skills and experience. Certain adjustments may be made each year to the basic salaries based on the performance of the Company's business, market competition and inflation. In addition to the fixed portion, bonus may also be released to the relevant people as an incentive to their performance and to enhance their loyalty to the Company. The Company also provides other benefits such as free lunch and transportation allowances. Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Board established the Remuneration Committee, and stipulated the "Principles of the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee is comprised of 3 members, who are Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kim (Independent Non-executive Director) and Mr. Yang Chun Bao (Independent Non-executive Director). The updated Principles of the Remuneration Committee were passed by the board on 30 May 2014.

The Remuneration Committee held one meeting during 2018 (held on 23 March 2018), the attendance of which was as follows:

Remuneration Committee	**Attendance in person/Times of meetings**	**Attendance rate**
Zhou Zhong Hui *(chairman)*	1/1	100%
Lam Yiu Kin	1/1	100%
Yang Chun Bao	1/1	100%

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and general meeting, the remuneration of some Directors and senior management of the Group have been modified during the year 2018. Refer to note 39 and note 46 to the consolidated financial statements for the emoluments of Directors and senior management for 2018.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to motivate and retain Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a director is not allowed to approve his own remuneration.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, share option (if appropriate), and statutory benefits. In determining guidelines for each compensating element, the Remuneration Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic salaries

Basic salaries are determined mainly by reference to the salary levels of comparable companies. There are some adjustments to the basic salaries for each year based on the Company's business performance, market competition, and inflation. The Remuneration Committee reviews the remunerations for Directors annually, under which circumstance that the Directors concerned should abstain.

Discretionary bonus

The computation of discretionary bonus is based on measurable performance contributions of business units headed by the respective Executive Directors.

Statutory benefits

Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds. The ratios of such benefits to the salaries are also subject to adjustments pursuant to relevant regulations.

During the year under review, none of the Executive Directors of the Company charged any Director's fee.

Remuneration for Non-executive Directors

The remuneration of Non-executive Directors is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at the Company meetings.

The Company has only paid remuneration to the Independent Non-executive Directors, and has not paid any statutory benefit to the Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; examining the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general legal counsel, chief economist, assistant to chief executive and secretary of Board and putting forward examination opinions and appointment recommendations; assessing the independence of Independent Non-executive Directors; making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; researching the standard, procedure and method of selection of directors, chief executive and other senior management of the Company and putting forward proposals to the Board; and other authority delegated to the Committee by the Board and matters assigned by the Board.

The Board of the Company established the Nomination Committee in April 2012 and approved the "Principles of the Nomination Committee" which stipulated the terms of reference for the Nomination Committee. The updated "Principles of the Nomination Committee" were passed by the Board on 30 May 2014. The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director) and Mr. Xu Qing (Independent Non-executive Director).

The Nomination Committee held one meeting during 2018 (held on 23 March 2018), the attendance of which was as follows:

Members of the Nomination Committee	Attendance in person/Times of meetings	Attendance Rate
Wang Hai Bo *(chairman)*	1/1	100%
Zhou Zhong Hui	1/1	100%
Xu Qing	1/1	100%

Pursuant to the Code Provision A.5.6 under Appendix 14 of the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the board of directors as well as all applicable regulations. During the year 2018, the Company Secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

Shareholders requisitioning the convening of extraordinary general meetings of shareholders or class meetings shall abide by the following procedures:

(1) Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign a written requisition in one or more counterparts in the same form and contents, requiring the board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. The board of directors shall as soon as possible after receipt of the requisition proceeds to convene a shareholders' extraordinary general meeting or a class meeting thereof.

    The amount of shareholdings of the requisitioning shareholders referred to in the preceding paragraph shall be calculated as at the date of the deposit of the requisition.

(2) If the board of directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may themselves convene such a meeting within 4 months of the receipt of the requisition by the board of directors. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of shareholders' general meetings to be convened by the board of directors.

All reasonable expenses incurred in connection with a meeting convened by any shareholders themselves by reason of the failure of the board of directors to convene a meeting pursuant to a requisition shall be borne by the Company and shall be set off against sums owed by the Company to the directors in default.

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

When the Company convenes a shareholders' annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place those matters in the proposed motions within the scope of the functions and powers of the shareholders' general meeting on the agenda.

RELATIONSHIP WITH INVESTORS

In recent years, the Company has attracted much higher attention from the capital markets. Investors at home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of communicating actively and information disclosure, the Company enhanced the efforts on the reception of investors to improve our market image. The Company has received visits of more than 90 analysts and representatives from investment institutions and individual investors focusing on the domestic and foreign medical industries.

As at 31 December 2018, the public float of the Company has increased to 29.19%. Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2018 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

For the year 2018, there is no change on the Articles of Association of the Company.

All the issues should be individually raised by resolutions and voted by poll at the annual general meeting. The Company's lawyers are required to attend the meeting and witness the results of voting, and issue their legal opinion.

In 2018, the Company has held an annual general meeting, details of which are as follows:

Time	10:00 a.m., 8 June 2018
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	General matters of the annual general meeting; To consider and approve the proposed profit distribution plan for the year ended 31 December 2017 and the final dividend distribution plan for the year ended 31 December 2017, and to authorize the Board to distribute such final dividend to its Shareholders; To consider and approve the extension of the validity period of the resolution in respect of the proposed issue of not more than 27,000,000 A shares with a nominal value of RMB 0.10 each (the "Issue of A Shares"), which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization, if the proposed extension to the authorization period is approved by the Shareholders at the AGM and the Class Meetings, shall be a period of 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings; To consider and approve the granting of a general mandate to the Board to issue the shares of the Company.

In 2018, the Company has held an extraordinary general meeting, details of which are as follows:

Time	10:00 a.m., 2 November 2018
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Extraordinary general meeting
Way of voting	Poll
Major issues	To approve, confirm and ratify the entering into of the Sales and Distribution Agreement dated 17 August 2018 between the Company and Shanghai Pharmaceuticals, and the proposed annual caps for the two years ending 31 December 2019 for the continuing connected transactions

In 2018, the Company has held one class meeting of holders of H Shares, details of which are as follows:

Time	11:00 a.m., 8 June 2018
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the extension of the validity period of the resolution in respect of the proposed Issue of not more than 27,000,000 A Shares with a nominal value of RMB 0.10eash (the "Issue of A Shares"), which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization, if the proposed extension to the authorization period is approved by the Shareholders at the AGM and the Class Meetings, shall be a period of 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings.

In 2018, the Company has held one class meeting of holders of Domestic Shares, details of which are as follows:

Time	11:30 a.m., 8 June 2018
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of Domestic Shares
Way of voting	Poll
Major issues	To consider and approve the extension of the validity period of the resolution in respect of the proposed Issue of not more than 27,000,000 A Shares with a nominal value of RMB 0.10 each (the "Issue of A Shares"), which will be listed on the Shanghai Stock Exchange. The valid period of the resolution on the Issue of A Shares is 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares. The term of the extended authorization, if the proposed extension to the authorization period is approved by the Shareholders at the AGM and the Class Meetings, shall be a period of 12 months from the date of the Shareholders' approvals at the AGM and the Class Meetings.

The attendance of individual directors at the general meeting during the year 2018 is set out in the table below:

Member of the Board	Attendance in person/Times of meetings	Attendance rate
Executive Director		
Wang Hai Bo *(chariman)*	2/2	100%
Su Yong	2/2	100%
Zhao Da Jun	1/2	50%
Non-executive Director		
Shen Bo	2/2	100%
Yu Xiao Yang	2/2	100%
Independent Non-executive Director		
Zhou Zhong Hui	2/2	100%
Lam Yiu Kin	2/2	100%
Xu Qing	2/2	100%
Yang Chun Bao	2/2	100%

Arrangements for the dates of the annual results in 2018, the interim results in 2019 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2018 results	28 February 2019
Annual general meeting	26 April 2019
Announcement of 2019 interim results	Around 15 August 2019

SOCIAL RESPONSIBILITY

Environment and Society

As a listed company, the Company has been active to fulfill its social responsibilities, focus on environmental protection for many years. We take into account this responsibility as an important factor in all aspect. This means that we not only focus on the production, but also focus on all the other aspect ranging from procurement to administration. The Group will adopt the best practice measures as far as possible and reasonable. The relevant functional departments will consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

During the year under review, the Group has always followed the environment policy, strictly complied with national laws and regulations and emission standards. The Group has been inspected many times by relevant government institutions on sewage discharge during the year and no violation of laws, regulations has been found. In addition, the Company also appointed a third party professional institution to assess the environmental indicators including noise, air and water regularly. Our objective is to control environment risks effectively and ensure the pollutant can reach the standard of discharge.

Details please refer to "Environmental, Social and Governance Report".

Social public welfare

During the year under review, the Group continued on the public welfare assistance program named "Looking for the kiss of Angel" to provide PWS patients with financial difficulties various preferential schemes, to aim at reducing the financial burden of patients, improve the quality of their life and help them get better treatment.

In order to support the development of Shanghai charity, the Company made donations to Shanghai Spring Teenagers Development Center ("Spring") on "Spring Dream Plan" project by Shanghai charity fund Pudong branch. The plan aimed at helping students develop multiple thinking, sound mind and exploring ability.

During the year under review, the Company prepared ESG report pursuant to Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
28 February 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. ("the Company" or "Shanghai FDZJ") hereby issues the Environmental, Social and Governance ("ESG") Report of the Company and its subsidiaries (hereinafter collectively the "Group" or "we"), to demonstrate Group's philosophy and practice for sustainable development and social responsibility to its stakeholders from both environmental and social areas.

The Group has adopted appropriate policies and procedures to evaluate and improve the functions of risk management and internal control. The Board is responsible for the deliberation of the design, implementation and supervision of the risk management and internal control systems. For detailed information, please refer to the Corporate Governance Report.

1.1. Reporting Scope

This report covers the Group's main businesses, including diagnostic reagent production and drug research for the period from 1 January 2018 to 31 December 2018 ("the reporting period"). The environmental key performance indicators ("KPIs") disclosed in the report cover Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou FDZJ") and Shanghai Tracing Bio-technology Co., Ltd. ("Shanghai Tracing") for the reporting period.

There is no significant adjustment to the reporting scope as compared to the Environmental, Social and Governance Report included in the *2017 Annual Report* of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

1.2. Reference and Principles

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*. This report is in compliance with the disclosure requirement of "comply or explain", and inapplicable disclosure rules have been interpreted.

➢ The principle of "Materiality": The Group determines important ESG topics with the involvement of stakeholders and by means of materiality assessment;

➢ The principle of "Quantitative": This report contains quantitative information of the Group's KPIs in environmental area;

➢ The principle of "Balance": This report provides an unbiased picture of the Group's performance in environmental and social areas;

➢ The principle of "Consistency": The statistical methods applied for the disclosure of KPIs in environmental area in this report are in consistency with those for the prior year.

1.3. Report Availability

This report is available in an electronic version and can be viewed on the website of the Company (http://www.fd-zj.com) and on the website of HKEXnews (http://www.hkexnews.hk).

1.4. ESG Strategy

We insist on pharmaceutical innovation with core concept of owning full intellectual property right. We respect basic human values for not only customers but also employees. We pursue our social meaning and emphasize our contribution and responsibilities to environment and society. In accordance with the sustainable ESG management policy, we are committed to providing employees with a safe and healthy working environment, as well as scientific and practical training plans. We are also committed to establishing a transparent, standard and environmental-friendly supply chain and a positive industry environment, and providing safe and healthy products for customers.

The Group has established an effective and sound ESG management system. The Board supports the Group's commitment to its corporate responsibilities to environment and society and takes full responsibility for the Group's ESG strategy and reporting. The Board regularly reviews the Group's ESG performance, and examines and approves the Group's annual ESG report.

The Board is responsible for evaluating and determining the Group's ESG risks, ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management of the Group reports ESG risks and opportunities to the Board, and provides the Board with confirmation as to whether these ESG systems are effective.

In order to carry out ESG management work in full coverage, the Group has established the ESG Panel which is comprised of major departments. The ESG Panel is responsible for implementing the Board's ESG strategy and policy, carrying out ESG management and reporting work, and reporting to the Group's senior management the progress of ESG management and reporting.

1.5. Communication with Stakeholders

We have always been convinced that effective participation and ongoing support from stakeholders play an important role for the Group's long-term development. We have established a stakeholder communication mechanism for stakeholders to express their opinions, comments and suggestions on the Group's sustainable performance and future development strategy. The Group's stakeholders are from different backgrounds, including consumers, employees, shareholders, suppliers, government and regulatory agencies, non-governmental organizations and local communities, whose opinions and suggestions are also the focus of this report.

- We disclose our contact information to distributors and customers and have established open channels for communication with them, so as to learn about their expectations and constantly optimise our service system based on their expectations;

- We communicate with suppliers by ways of in-person communication, business communication, regular meetings, etc., to ensure an excellent supply chain and build a faithful and win-win cooperation atmosphere;
- We actively improve our drug research technologies and participate in industrial activities such as industrial seminar and academic forum; we also focus on cutting-edge technologies and changes in industry supervision requirements;
- We have established an effective risk management system to ensure good return on investment; we also publish business announcement regularly and make active communication with investors and shareholders;
- We have built favourable working environment for employees and are always prepared to hear employees' voice through communication channels such as employee survey;
- We have applied the concept of green office and raised the efficiency of resources for environment protection.

1.6. Materiality Assessment

After discussion with the management and in combination with communication results with stakeholders, we have defined the following important and related ESG topics which exert substantial effect on the Group:

2. PRODUCT RESPONSIBILITY

With the tenet of More Exploring More Healthy, the Group constantly develops new drugs on multiple research and development platforms. To ensure product quality and safety, we are in strict compliance with the *Drug Administration Law of the People's Republic of China, the Regulations for Implementation of the Drug Administration Law of the People's Republic of China, the Law of the People's Republic of China on Product Quality*, the *Good Manufacturing Practice for Drugs* ("GMP"), the *Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations.

2.1. Quality Management Strategy

To provide the best products to customers, we have developed a full set of *GMP Documents* as the quality management system according to the GMP and the principle of quality management. The system covers all the factors affecting medicine quality, including personnel, equipment, materials, production, testing, quality assurance, ongoing monitoring, etc., to provide guidelines for management and operation of every step and minimise risks such as pollution, cross contamination, confusion and errors in drug production.

In the production process, we strictly control product quality which helps win the market. The small-dose injection (antineoplastic drugs), bulk drug (Aminolevulinic Acid Hydrochloric) and powders have got GMP certificates from the State Food and Drug Administration ("SFDA").

In 2018, GMP certificates for the Group's small-dose injection was verified and renewed as required by the SFDA.

2.2. Whole-process Management

We have established a sound quality risk management procedure which is applied to whole quality management in a systematic manner, and specified the product manufacturing process and responsibilities of every department, including supplier management, corrective and preventive measures, quality complaint, validation, production management, laboratory management, intermediate control, change control, etc.

➢ Supplier management: All suppliers which provide materials for the products to be marketed are audited. Only qualified and approved suppliers could provide products to the Group. For details of management measures, please refer to the Section "Supply Chain Management";

➢ Corrective and preventive measures: When receiving materials, Logistics Department is responsible for checking materials, and storing them according to specified conditions; Quality Management Department is responsible for sampling and testing, and finally determining whether the materials can be used;

➢ Production and validation: Manufacturing Department ensures that products are manufactured and packaged with satisfactory manufacturing techniques and equipment in satisfied environment, and stores them under appropriate conditions; Quality Management Department takes samples at key control points during production to test intermediate products or finished products; product release is decided by authorised personnel;

➢ Return and recall: Customers or distributors could file complaint or return products if they are not satisfied with the products in use or sales; the Group recalls the products in time if they find risks lying in products delivered to customers.

2.3. Material and Product Inspection Management

According to the *GMP* and the *Chinese Pharmacopoeia*, we have formulated the management procedure – *Material and Product Inspection*, to regulate inspection basis, requirements and result processing operation procedure for materials and products such as raw materials, packaging materials, intermediate products and finished products.

For materials and products, sampling inspection is carried out on site and physical and chemical inspection and microbiological inspection are finished in laboratory. Inspection procedures and related records should comply with GMP management regulations and relevant requirements in the *General Notice of Chinese Pharmacopoeia*. Inspection report should be prepared after inspection and quality certificate should be issued for finished products to ensure the quality of materials and products.

We strictly implement the *Materials and Products Destruction Management* developed according to the *GMP* to regulate and control the destruction procedure of materials and products.

2.4. Consumer Services

Upholding the principle of integrity, we try the best to provide accurate consumption information, protect consumer's right to know, and provide a reliable service environment for consumers. In accordance with the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and other laws and regulations, we have developed the management procedure of *Product Complaint* to regulate procedure of complaint registration, evaluation, investigation and treatment, under which problems from consumers should be solved immediately and effectively to improve consumers' satisfaction.

- Any department or personnel informed of customers' complaints should forward them to Sales Department and Quality Management Department;

- Quality Management Department takes charge of organizing investigation and treatment of customers' complaints, approving relevant corrective and preventive action plans, assisting Sales Department to reply to customers and reporting to competent authorities if necessary;

- Sales Department assists Quality Management Department to investigate complaints, provides and implements sales measures, communicates with customers and answers the complaints;

- Customers can file complaints by oral, telephone, mail, fax, visiting or in other forms;

- We regularly review analyse the trend of product complaints in product quality review.

We pay great attention to medical safety of patients and monitoring and reporting of adverse drug reactions. In accordance with the *Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations, we have developed relevant management regulations on reporting and monitoring of adverse drug reactions, established procedure of reporting and monitoring of adverse drug reactions. We actively monitor adverse reactions and report them to national adverse reaction monitoring centre in a timely manner.

The Group effectively protects customers' privacy by regarding their information as the Group's secret, keeping it secure through proper measures, and accessing to authorized personnel only.

3. CARE FOR EMPLOYEES

We always implement the management culture of "Human Oriented" and fully respect each employee, to create a harmonious working atmosphere for employees and build harmonious and win-win labour relations.

3.1. Protection of Employees' Rights and Interests

We strictly comply with the *Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China* and relevant laws and regulations, and have developed a series of staff management policies as follows, to protect the lawful rights and interests of the Group's employees:

- ➢ Labor Management Policy
- ➢ Employee Handbook
- ➢ Employee Compensation Management Policy
- ➢ Employee Evaluation Policy
- ➢ Attendance Management Policy
- ➢ Evaluation Policy for Department Managers
- ➢ Policy for Team Building

3.1.1. Recruitment and Dismissal

We make recruitment plan conforming to the principle of "capable, efficient and putting quality before quantity", and recruit talents through open recruitment and employee referral according to the principle of "compete openly and select the best". We select employees by work attitude, applicable ability, knowledge, experience, potential and teamwork. All employees of the Group are entitled to an employment contract according to relevant laws and regulations at the start of their employment. Resignation and dismissal are processed according to the standard procedures of work handover to meet requirements of relevant laws and regulations and internal policies.

3.1.2. Compensation and Promotion

We implement classified job subsidy system. The job subsidy levels are determined according to position responsibilities and ability requirements. The remuneration system consists of standard salary, subsidy, benefit, performance distribution and award.

In accordance with national regulations, we contribute to various public funds for each employee, including a public pension fund, a public housing fund, a medical insurance fund, an unemployment insurance fund, labor union expenditure, education expenditure, benefit expenditure and other commercial insurance and subsidies beside mandated benefits.

We perform evaluation on department managers and employees annually and comprehensively quantify the work completion, work quality and attitude through self-evaluation, mutual evaluation among superiors and subordinates and scoring by supervisors, as the basis of performance management and employee promotion.

3.1.3. Working Hours and Holidays

We employ the standard working hours system to regulate attendance management. Employees are entitled to overtime pay if they obtain prior approval. We provide employees with paid days off from work for national public holidays, maternity leave and accompanying maternity leave, compassionate leave, medical treatment period and sick leave, personal leave and injury leave. Employees working for more than one year are entitled to paid annual leave and marriage leave.

3.1.4. Anti-discrimination

In strict compliance with national and local regulations, every department, organization and personnel of the Group allow no biases against any employee based on race, gender, skin color, age, family background, tradition, religion, physical quality, national origin and other personal characteristics, so as to ensure that employees are treated in a fair and open manner in every aspect such as recruitment, duty performing, remuneration, training, promotion and compensation.

3.1.5. Caring for Employees

We pay close attention to demands of employees and organise meaningful events for employees, with an aim to share a warm family feeling among employees.

- We hold annual meeting every year to summarise and recognise the employees' work;
- We organise various group activities and a 3-5 day department-wide outing according to actual situation;
- Every department has team building expenditure every year;
- Every employee has tour expenditure every year;
- We also provide donations and help to employees who have difficulties due to illness.

In 2018, each department of Shanghai FDZJ organised tours to Beihai, Zhangjiajie, etc., to relieve employees from work pressure and improve the relationship between employees.

3.2. Occupational Health and Safety

We make efforts to safeguard employees' occupational health and safety, provide safe working environment and equipment, and implement safe working behaviours. We strictly observe the *Production Safety Law of the People's Republic of China, the National Emergency Plan for Work Safety Accidents* and other laws and regulations. In combination with the Group's operational characters, we have developed a sound emergency management system for safety accidents and a strict hazardous chemicals management procedure, continuously carry out safety education and emergency exercises, and provide employees with health examinations and examinations for occupational diseases, to ensure the safety of employees, equipment and assets.

During the reporting period, the Group did not commit violations related to occupational health and safety.

3.2.1. Health Examination

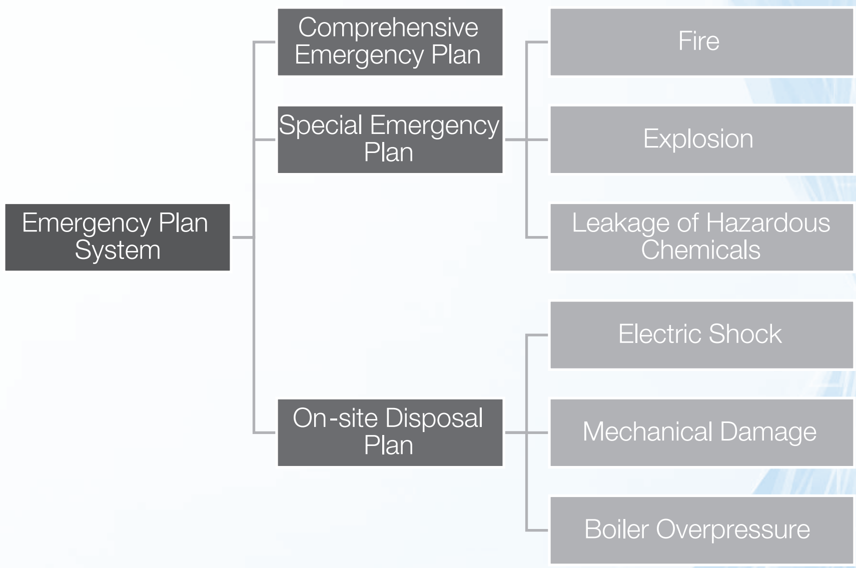
We provide health examination for employees per year, which includes orientation examination and on-the-job examination under the GMP as well as orientation, on-the-job and exit examinations to prevent employees from occupational diseases. We entrust qualified inspection and testing institution with regular inspection and testing on occupational hazard equipment, protection equipment and personal protection equipment. Occupational hazard factors testing report is provided by the institution.

In addition, for employees' physical fitness, we carry out sports activities and encourage employees' participation including swimming, badminton, table tennis, billiards, basketball, etc.

3.2.2. Emergency Management for Safety Accidents

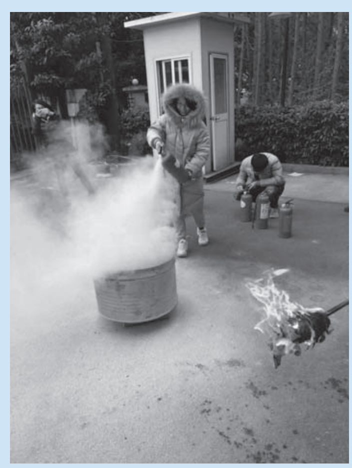
We have established an emergency command centre based on the principle of "reporting in time, responding rapidly and human oriented", to strengthen the organisation and management of emergency response activities. We popularise our accident emergency operation procedures among employees through the *Emergency Plan for Work Safety Accidents*, so that emergency rescue can be implemented rapidly, efficiently and orderly after an accident to protect employees' life safety and reduce property loss.

After risk assessment on hazardous sources, we have identified major hazardous elements and work places, and formulated emergency plan system.



3.2.3. Fire and Explosion Prevention

Conforming to the principle of "prevention first and human-oriented", we have developed the *Emergency Plan for Fire, Explosion and Chemical Accidents* and the *Hot Work Management Policy* and other regulations so that we can respond to and control accident rapidly and orderly, prevent pollution, protect production safety and employee life safety, and minimise loss and damage in case of any chemical, fire or explosion accident.



Fire Drill

We combine accident emergency response with prevention work, enhance management of hazardous sources, and carry out accident prevention, prediction, warning and forecast. We have equipped fire-fighting equipment at work places such as fire pump station, fire hydrant, fire hammer, fire telephone, voice-activated alarm, fire sprinkler, smoke detector, etc. We have also posted evacuation map at visible places. Supplies and equipment are checked once every month to ensure that employees could use nearest emergency supplies in case of emergency accident.

3.2.4. Management of Hazardous Materials

To standardise management regulations for hazardous materials and protect the safety of life, production and property, we have formulated the *Management Regulations for Toxic, Inflammable and Explosive Hazardous Materials* to regulate the purchase, acceptance, entering, storage, distribution and usage of hazardous materials as well as subsequent treatment and emergency treatment. We have developed standard safety protection operation procedures specifically for particular categories of hazardous materials.

- Hazardous materials should be managed by special personnel who have attend relevant training and obtained job skill certificate;
- Hazardous materials should be stored by category according to minimum safe storage amount, and enough safety distance should be arranged for passageway between stackings;
- Safety measures should be taken for places dedicated to holding chemicals, such as ventilation, anti-explosion, fire protection, lightning protection, extinguishment and sunblock according to materials' type and property;
- Hazardous chemicals, which easily burn, explode and produce toxic gas in case of fire or moist, should not be stored in any place which is open, humid, low-lying and easy to collect water.

3.2.5. Production Safety Education and Training

We ensure safe production and strengthen safety awareness education by implementing the *Management Policy for Production Safety Education and Training*. We organise emergency exercises to strengthen employees' safety awareness and emergency ability.

We have established a safety production leading group, which takes charge of propaganda of laws, regulations, prevention of production safety accidents, risk avoidance, disaster avoidance, and common sense of self-rescue and mutual-rescue among all employees and organises safety education and training irregularly.

We organise safety education and training on three levels, including company level (level 1), workshop or department level (level 2), and section or group level (level 3). Employees should take relevant training and pass the examination before taking up the posts.

Pressure vessel operator, electrician, high matches electrician, metering personnel, driver and other special operation personnel should take technical training and get certificates from competent authority before taking special operation.

In 2018, the Group arranged safety operation training for new employees, and safety training and special equipment operation training for hazardous chemicals operators to help them get relevant qualification certificates.

3.3. Development and Training

The Group respects talents and applies sound regulations to select talents and unlock employees' potential. Various types of training are provided based on work and employees' career need. *Management Policy for Education and Training* was formulated to regulate training and continuing education. The following types of training are already in place:

- Internal Training: Internal training includes routine training by internal trainer and external trainer.

- Induction Training: Within one week after any employee joins in the Group, Admin & HR department jointly with employing department conduct system trainings on policy and business.

- Professional Training: Arrangements are made for employees to take external professional trainings based on employees' technical and business development demand.

- Work License Training: Work license training and continuing education should be taken according to work demand.

Moreover, in order to promote employees' interpersonal communication and teamwork, Shanghai FDZJ has founded teamwork training fund to provide expenditure for every department, and developed *Regulations of Use of Teamwork Training Fund* to specify fund amount and usage.

3.4. Labour Standards

In accordance with the *Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour* and other laws and regulations, the Group avoided any use of child labour and forced labour. According to *Labour and Personnel Regulations*, all new employees' identification cards will be checked before they join in the Group to ensure their age meets requirements of laws and regulations.

Besides, according to *Attendance Regulations*, if any employee has to work overtime, he/she should apply to department manager and get the manager's approval.

In the reporting period, the Group did not use child labour and forced labour.

4. GREEN DEVELOPMENT

In accordance with the *Energy Conservation Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Water Pollution Prevention and Control Law of the People's Republic of China* and other relevant laws and regulations, the Group always pays much attention to environmental protection. A leadership team for environmental protection management has been set up to work with department heads and form a sound management network. The list of the team members is updated every year.

4.1. Emissions Reduction

The Group continuously improves design, uses clean energy and resources, adopts advanced technologies and equipment, improves management and comprehensive utilization in production, by which pollutions are reduced from the source, resources are used more efficiently, and generations and emissions of pollutants in production and services are reduced or avoided. The Group formulated *Environmental Protection Management Regulation to* guarantee the practical implementation of normalized measures and provide a basis for emission management.

Wastewater, exhaust gas, greenhouse gas, solid waste etc. consist of most of the pollutant discharge in the Group. In accordance with national standards, local standards and biopharmaceutical discharge standards, the Group invites qualified institutions to monitor effluents and air emissions. The Group has established environmental emergency response plans and emergency response flows for various discharges.

In the reporting period, the Group did not commit violations related to emissions.

4.1.1. Effluents and Air Emissions

Industrial effluents and domestic sewage from drug development and production consist of most of the wastewater in the Group. *Environmental Pollution Prevention Regulations and Standard Operation Regulation of Effluent Comprehensive Treatment Equipment* are developed to strictly control effluent emissions and comprehensively treat the effluents. Sewage is discharged into the municipal sewer system after being treated and reaching the discharge standards. In accordance with the *Discharge Standard of Pollutants for Bio-pharmaceutical Industry*, the Group adopts primary treatment to effluents which cannot be directly discharged and accepts irregular monitoring by relevant authorities.

Exhaust gas from drug development and production consists of most of the air emissions in the Group. In accordance with Industrial *Air Emissions Standard of Shanghai*, the Group developed *Standard Operation Procedures of Air Emission Treatment Equipment* to regulate and control operation of air treatment equipment to make the air emissions reach relevant standard.

During the reporting period, the Group's KPIs related to emissions are shown as below:

Types of Emissions	**2018**	2017
Wastewater (ton)	**46,910.90**	31,951.30
COD (kg)	**1,421.43**	1,818.11
Suspended Solid (kg)	**773.81**	562.41
N-NH3 (kg)	**69.42**	148.48
Methanol (kg)	**92.97**	17.87
Formaldehyde (kg)	**2.21**	1.49
Total chlorine (kg)	**0.52**	1.81
Animal and vegetable oils (kg)	**5.60**	1.19
Acetonitrile (kg)	**0.87**	0.39

Note:

1. In 2018, the Group's discharge amount increased compared with 2017 as a result of the dramatic increase in output;

2. In 2018, Taizhou FDZJ started to develop new experimental drugs, resulting in greater water consumption and wastewater discharge.

4.1.2. Greenhouse Gas

Energy Indirect greenhouse gas emissions (scope two) are mainly resulting from electricity consumption of production equipment and in workplaces of the Group. Direct greenhouse gas emissions (scope one) are resulting from natural gas used by boiler, naphtha and diesel oil used by vehicles and small number of fire extinguishers. The Group makes efforts to reduce greenhouse gas emissions by improving energy efficiency. Detail energy-conservation measures are shown in section "Resource Conservation".

During the reporting period, the Group's KPIs related to greenhouse gas emissions are shown as below:

Greenhouse gas	**2018**	2017
Direct Greenhouse Gas Emissions (Scope one) (tCO_2e)	**816.89**	1,054.00
Energy Indirect Greenhouse Gas Emissions (Scope two) (tCO_2e)	**7,609.91**	7,429.00
Total Greenhouse Gas Emissions (tCO_2e)	**8,426.80**	8,482.00
Intensity (tCO_2e/million RMB of revenue)	**11.38**	17.00

Note:

1. Greenhouse gas emissions are presented in CO_2e and accounted for according to the *Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises* issued by the NDRC.

2. The Group's greenhouse gas is mainly derived from indirect greenhouse gas emissions from energy consumption (Scope two), i.e. greenhouse gas emissions from purchased electricity. The Group's purchased electricity is mainly for use by air conditioners maintaining the ambient temperature, and does not contribute to the output. Therefore, the difference in energy consumption between 2018 and 2017 is small, resulting in a small difference in greenhouse gas emissions.

4.1.3. Wastes

Hazardous and non-hazardous wastes are produced from drug research and production by various departments in the Group.

The Group has registered with Solid Waste Management Information System in Shanghai and Taizhou to monitor the treatment of wastes, and conducts strict management over wastes as per *Regulations on Treatment and Management of Industrial Wastes* and *Regulations on Management of Wastes*. The Group requires departments to fill in the *Application Form for Industrial Waste Treatment* which requires material name, packing specification, chemical property, component, content, amount, waste form and waste reason. The form is checked and archived by dedicated management personnel. After being approved and signed by leader of competent authority, wastes are stored in specified waste storage room or neutralization tank.

The Group entrusts professional institutions which have *Shanghai Hazardous Wastes Disposal Permit* and hazardous treatment qualification certificate to treat hazardous wastes. These institution Non-hazardous wastes are collected and treated by sanitation department.

During the reporting period, the Group's KPIs related to hazardous and non-hazardous waste discharge are shown as below:

Hazardous Wastes	**2018**	2017
Organic Waste Liquid (ton)	**51.84**	38.92
Waste Alkali (ton)	**8.11**	3.30
Waste Acid (ton)	**3.66**	3.19
Waste Silica Gel (ton)	**0.88**	0.90
Waste Reagent Bottles (ton)	**0.22**	0.32
Waste Reagent (ton)	**0.18**	0.10
Hazardous Solid Waste (ton)	**0.15**	0.05
Total (ton)	**65.04**	46.76
Intensity (ton/million RMB of revenue)	**0.09**	0.20

Note: In 2018, the Group's hazardous waste discharge amount increased compared with 2017 as a result of the dramatic increase in output

Non-Hazardous Wastes	2018	2017
Household waste (ton)	**34.01**	34.01
Non-hazardous Waste Emissions in Total (ton)	**34.01**	34.01
Intensity (ton/million RMB of revenue)	**0.05**	0.07

Note: In accordance with the GRI G4 Sustainability Reporting Guidelines, the total amount of non-hazardous wastes of the Group is estimated based on the daily municipal solid waste disposal volume, so there is no significant difference between the current reporting period and the previous reporting period.

4.2. Resource Conservation

Resources used by the Group are principally electricity, water and natural gas. The Group has developed *Management Procedure of Energy and Resources* to use energy/resource effectively and reasonably, improve usage efficiency, reduce waste and implement the principles of saving energy, reducing consumption, reducing pollution, and improving efficiency.

LIBOd Production Site

The Group motivates departments to save energy through an energy-conservation performance management system. Historical data and the actual production conditions are considered to set energy-conservation target for departments. Department heads should develop energy-conservation target for their department according to the Group's energy-conservation target. Departments of using production resources should improve utilization of raw materials, take measures to reduce unqualified product rate, gradually reduce resources used for unit product, promote regular statistics and analysis on resources loss, make solutions and decide the agenda and responsible person. Resource consumption in departments is monitored and measured regularly. Reason analysis should be conducted for the projects which do not complete energy-conservation plan. Relevant measures should be made and the implementation of the measures should be supervised and examined.

The Group seasonally adjusts the high electricity consumption equipment such as air conditioner in clean plant to reduce load. After energy-conservation reconstruction, warm water generated in heat source of water equipment, such as heat exchange of cooling water in distilled water machine and pure steam generator, is used as boiler makeup water. This could recycle boiler water, reduce cooling water discharge, cut down boiler heat consumption, save energy and reduce emissions.

In 2018, Shanghai FDZJ magnified the production lot size of LIBOd, i.e. increasing the production volume of each lot, which greatly reduced the number of lots required for the same output, and reduced the usage of sterilization steam and water consumption for disinfection and cleaning in the production process, thereby improving energy efficiency and saving water.

During the reporting period, the Group's KPIs related to resource utilization are shown as below:

Energy Consumption	**2018**	2017
Diesel (MWh)	**0.02**	0.12
Gasoline (MWh)	**89.13**	88.33
Natural Gas (MWh)	**3,976.63**	5,161.05
Total Direct Energy (MWh)	**4,065.78**	5,249.50
Electricity (MWh)	**10,817.22**	10,559.41
Total Indirect Energy (MWh)	**10,817.22**	10,559.41
Total Energy Consumption (MWh)	**14,883.00**	15,808.92
Intensity (MWh/Million RMB of Revenue)	**20.01**	31.76

Water Consumption	**2018**	2017
Total Water Consumption (ton)	**82,137.00**	59,201.00
Intensity (ton/Million RMB of Revenue)	**110.93**	119.00

Packaging Materials	**2018**	2017
Packaging Boxes (ton)	**34.43**	28.04
Bottles (ton)	**5.54**	5.73
Rubber Stoppers (ton)	**0.92**	1.34
Aluminium-plastic Covers (ton)	**0.52**	0.50
ELISA Plate (ton)	**0.39**	0.39
Labels (ton)	**0.15**	0.12
Other Packaging Materials (ton)	**8.00**	7.61
Total (ton)	**49.95**	43.75

Note:

1. Total energy consumption is calculated based on the amount of electricity purchased and the consumption of natural gas, diesel and gasoline considering the default parameter values related to fossil fuel as shown in Attached Table 1 and default fuel densities as shown in Attached Table 2 to the *Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises* issued by the NDRC.

2. As the Group's production activities only involve the development and production of drugs and the Group does not use other environmental and natural resources, A3 The Environmental and natural resources and A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. is not disclosed in this report.

3. KPI A2.5 total packaging material used for finished products with reference to per unit produced is not disclosed in this report as the Group provides a large variety of products and it is difficult to accurately measure the total weight of the products. We will disclose such information where possible in the future.

4. The Group's purchased electricity is mainly for use by air conditioners maintaining the ambient temperature, and do not contribute to the output. Therefore, the difference in energy consumption between 2018 and 2017 is small.

5. In 2018, the Group's output increased significantly, and Taizhou FDZJ started to develop new experimental drugs, and therefore the water consumption increased compared with 2017.

6. In 2018, the Group's consumption of packaging materials increased compared with 2017 as a result of the dramatic increase in output.

5. OPERATING PRACTICE

5.1. Advertising and Labelling Management

The Group manages labelling and advertising by laws to protect consumers' rights and maintain brand image. The Group conforms to requirements of *Advertisements Law of the People's Republic of China, Regulations on Management of Medical Advertising, Drug Administration Law of the People's Republic of China, Provisions for Drug Advertisement Examination, Good Manufacturing Practices (2010 revision)* and other laws and regulations. The Group formulated Design and Change of Packing Materials to manage design and change of packaging materials used for new products or additional existing products to make the product package conform to characteristics of products, demand of market, technical conditions and provisions of national laws and regulations. Design draft of label, manual and package should include product specifications, packaging specifications, size requirements, material requirements, appearance requirements, packaging safety requirements and other specific contents which are reviewed by marketing department, manufacturing department, logistics department, quality management department and quality authorized personnel.

5.2. Supply Chain Management

Supplier management is one of the most important parts of quality management for pharmaceutical enterprises. Stability, safety and effectiveness of product is directly influenced by the selection of suppliers. The Group formulated *Supplier Management Policy* to regulate the operational procedures of evaluation and approval for material suppliers, and clarify the suppliers' qualification, selection principle, quality evaluation methods, evaluation standard, and approval procedure for material supplier. In the procedure of selecting suppliers, the Group requires the suppliers should have relevant qualification certificates and be able to guarantee uniform source and controllable quality. Priority is given to suppliers passing GMP examinations and suppliers with good reputations.

The Group conducts risk assessment for suppliers and assesses and controls suppliers based on the assessment result. Quality management department conducts nominal audit and on-site audit for material suppliers based on the result of risk assessment:

- Nominal Audit: Quality management department evaluates supplier based on information from completed supplier questionnaires.

- On-site Audit: Quality management department organizes related departments (logistics department and manufacturing department) to set up audit team. The audit covers personnel institutions, facilities and equipment, material management, production process and management, equipment, instruments and documents management of quality control laboratory. The audit verifies authenticity of qualification certificates and testing reports of suppliers, and checks if they have testing condition.

The Group conducts continuous testing to performance of approved suppliers, including annual review and regular audit. Annual review includes testing result of quality testing, quality complaints and unqualified management records etc., by which the risk of supplier is further assessed. The Group will increase audit frequency or change nominal audit to on-site audit or immediate audit in the circumstances where supplier have quality issues or their production condition, technology, quality standard, inspection methods and other significant factors influencing quality have great change.

In order to ensure that the suppliers of the Group have reduced environmental pollution in the production and storage process, and complied with relevant requirements of social responsibility, the Group formulated *Regulations on Environmental and Social Responsibility of Suppliers*, and raises strict requirements of environmental responsibility to suppliers. For instance, it is required that the pollutant discharged by suppliers should comply with relevant standards, and priority selection should be given to environmental-friendly and energy saving technologies. During storage and transportation process, the suppliers should ensure that the discharge meets relevant standards and the process is safe. In addition, for the suppliers' social responsibility, the Group requires all suppliers to prevent child and forced labour, ensure employees' health and safety, and strictly fulfil the responsibilities to their product.

The Group formulated *Supplier Questionnaire* for the evaluation of the suppliers' quality system. The questionnaire is set up to investigate and manage relevant qualifications of suppliers and investigate the environment, health and safety management situation of suppliers, requiring them to strengthen environmental and social risk management. The Group formulated *Materials Purchase Management* to regulate management and procedure of material purchase and control rationality and normalization of purchasing process. Besides, the Group developed *Regulations on Anti-Commercial Bribery* to guide stakeholders including suppliers to follow the law, resist corruptions and fulfil social responsibilities.

5.3. Anti-corruption

The Group continuously strengthens internal control and supervision mechanism, upholds integrity management, and strictly conforms to rules of fair competition. According to *Employee Handbook and Regulations on Anti-Commercial Bribery*, the Group requires the employees to be honest and self-disciplined, comply with regulations on anti-commercial bribery in *Anti-Unfair Competition Law of the People's Republic of China and Criminal Law of the People's Republic of China* and the Group's management regulations on honesty and self-discipline, follow principles of law-abiding, honest, fair and scientific, resolutely refuse to accept commercial bribery, accept bribery and commit other improper business practices. The Group will report personnel suspected of crimes to relevant authorities.

The Group's Admin & HR department makes arrangements for new employees to study regulations on anti-commercial bribery before induction, records the training and requires each new employee to sign on the record.

We actively participate in external training to improve compliance management capability. In June 2018, the directors, supervisors and senior management of the Group participated in the training of Good Practice Sharing on Anti-corruption and Anti-commercial Bribery Compliance Control organized by third party. The training content was also shared and implemented among the management.

Internal audit and control department is responsible for supervision of commercial bribery, internal dissemination and implementation of relevant national laws, regulations and policies on commercial bribery, and revision of the Group's relevant regulations in reaction to change of policies. In addition, it is also responsible for supervision and management personnel on important positions and practical implementation of anti-corruption and anti-commercial bribery work in business.

The Group follows the provisions of Notice of *National Health and Family Planning Commission General Office on Relevant Work of Implementation of Commercial Bribery Bad Record in Medical Procurement Area* when providing medical procurement services to medical and health institutions. It signs *Integrity Pharmaceutical Products Procurement Contract for Medical and Health Institutions* when signing the purchase contract, and signs Integrity Service Commitment according to requirements of local laws and regulations, committing no bribery and fraud in the whole process to further strengthen the construction of medical and health industry culture, standardize pharmaceutical sales to medical and health institutions, and create fair and honest marketing environment.

5.4. Community Investment

At the same time of creating value for shareholders and creating wealth for customers, the Group actively devotes itself to public services, pays attention to vulnerable groups and poverty-stricken people, fulfils social responsibilities, and promotes harmonious development of community, company and regional economy. The Group established Management *Regulations of Charity* and *Public Benefit Activities* to regulate community investment activities.

Chunhe Dream Plan is a public benefit project launched and operated by Shanghai Chunhe Youth Development Centre paying attention to training of scientific literacy and innovative thinking. The project fund is donated from the society. In 2016, the Group signed *Donation Agreement of Public Benefit Project* with Chunhe clarifying that the Group's donations would go to Yata Minority Middle School in Ceheng County, Qianxinan Prefecture, Guizhou Province. In 2018, Chunhe, under sponsorship of the Group, conducted on-demand training related to the course of Research-based Learning, paid a visit to schools, held Chunhe community work exchange meetings and exploration, thinking and sharing (ETS) conventions in an effort to help schools and teachers transform conventional education concepts and measures and build bridges for the students from poverty-stricken areas to keep abreast of the time, perceive technologies and understand the world.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Hai Bo, aged 58, was appointed as an Executive Director in November 1996. He is also the chairman of the Board and general manager of the Company. He is also the chairman of board of directors of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd.and Shanghai Ba Dian Medicine Co., Ltd. ("Ba Dian") as well as the director of Fernovelty Holding, which are the subsidiaries of the Company. He founded the Company in November 1996. He was an associate professor at Fudan University from May 1995 to June 1996. He has published numerous articles, earning him awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) and Technology Advancement Award of the Shanghai Municipality (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and master's degree in Biology in July 1986. He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600226).

Su Yong, aged 54, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company as well as the director of Ba Dian. He joined the Company in April 1997. He has been working in the field of genetic engineering for over twenty years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 48, was appointed as an Executive Director in January 2002. He is also the deputy general manager and an authorized representative of the Company. At the same time, he is the chairman of the board of directors of Shanghai Tracing Bio-technology Co., Ltd., and the director of Ba Dian Medicine which were the subsidiaries of the Company. He is a cofounder of the Company. He was a teaching assistant at the Law School of Fudan University from August 1995 to October 1996. He was awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He graduated from Fudan University with a bachelor's degree in Biology in July 1992, a master's degree in Biology in July 1995, and from University of Hong Kong with a master's degree in Business Administration in November 2001.

Non-executive Directors

Shen Bo, aged 46, was appointed as a Non-executive Director in June 2012. He has passed the PRC Certified Public Accountants examination. He is an Executive Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals, and concurrently appointed as Executive Director of China International Pharmaceutical (Holding) Corporation Limited, Chairman and Legal Representative of Shanghai Harvest Pharmaceutical Co., Ltd., Chairman of SPH Changzhou Pharmaceutical Co., Ltd. He used to be the deputy manager of the financial department of Shanghai Jinling Co., Ltd. from 1996 to 2000, the Chief Financial Officer of Shanghai Jinling Tai Ke IT Development Co., Ltd. from May 2000 to January 2001, General Manager of Finance Department, Shanghai Industrial United Holdings Co., Ltd. from January 2006 to November 2006, Chief Financial Officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd. from November 2006 to March 2010. He graduated from the Shanghai Institute of Construction Materials Industry with a bachelor's degree in Economics in July 1996, and from Chinese University of Hong Kong with a Master of Professional Accounting in December 2007.

Yu Xiao Yang, aged 62, was appointed as a Non-executive Director in May 2013. She has over 20 years of banking and investment experience. She is a founding partner of China New Enterprise Investment and was a founder of Victoria Capital Limited, a corporate finance advisory firm in 1998, and served as its managing partner. She was among the first mainland Chinese to embark on a professional career with major international financial institutions. She served at Paris Bank in Geneva, Dresdner Bank in Frankfurt, London and New York from 1980 to 1985, and Salomon Brothers from 1987 to 1991, working in the areas of mergers and acquisitions and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development, with a master's degree in Business Administration in May 1982.

Independent Non-executive Directors

Zhou Zhong Hui, aged 71, was appointed as an Independent Non-executive Director on 30 May 2013. He is a council member of the China Association of Chief Financial Officers, and a member of the Advisory Committee of the China Appraisal Society. He used to be the chief accountant of the China Securities Regulatory Commission from 2007 to 2011, a partner, the general manager and chief accountant of PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 1992 to 2007 and a professor of Shanghai University of Finance and Economics from 1989 to 1998. He has been an independent non-executive director of Shanghai Oriental Pearl Media Co., Ltd. (Formerly known as BesTV New Media Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600637)) since 23 December 2011 and resigned on 4 June 2015. He has been an independent non-executive director of Juneyao Airlines Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 603885) since 29 June 2014 and resigned on 28 June 2017. He has been an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 601601) and the Stock Exchange (Stock Code: 02601) since 31 May 2013. He has been an independent director of S.F. Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange (formerly known as Maanshan Dingtai Rare Earth & New Materials Co., Ltd., Shenzhen Stock Code: 002352) since 28 December 2016. He has been an independent non-executive director of COSCO SHIPPING Holdings Co. Ltd., a company listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange formerly known as China COSCO Holdings Co., Ltd., Shanghai Stock Code: 601919, Stock Code: 01919) since 25 May 2017. He graduated from Shanghai University of Finance and Economics with a master's degree in Economics in November 1983, and a Ph.D. in Economics in January 1993.

Lam Yiu Kin, aged 64, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants of Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers Hong Kong from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975 and he was awarded the honorary fellow of Hong Kong Polytechnic University in November 2002. He has been an independent non-executive director of Kate China Holdings Limited, a company listed on the Shanghai Stock Exchange (Stock Code: 8125) since 30 June 2014 and resigned on 17 September 2015. He has been an independent non-executive director of Mason Group Holdings Limited (Original: Mason Financial Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 0273) since 1 August 2015 and resigned on 24 May 2017. He has been an independent non-executive director of Vital Mobile Holdings Limited, a company listed on the Main Board of the Stock

Exchange (Stock Code: 6133) since 19 September 2014. He has been an independent non-executive director of Spring Asset Management Limited, which is the manager of Spring Real Estate Investment which units are listed on the Main Board of the Stock Exchange (Stock Code: 1426) since 12 January 2015. He has been an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8271) since 27 July 2015. He has been an independent non-executive director of Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0103) since 1 August 2015. He has been an independent non-executive director of COSCO Shipping Ports Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015. He has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2689) since 3 March 2016. And he has been an independent non-executive director of WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8069) since 16 December 2016. He has been appointed as an independent non-executive director of CITIC Telecom International, a company listed on the Main Board of the Stock Exchange (Stock Code: 1883) since 1 June 2017. And he has been appointed as an independent non-executive director of Bestway Global Holding Inc., a company listed on the Main Board of the Stock Exchange (Stock Code: 3358) since 18 October 2017.

Xu Qing, aged 54, was appointed as an Independent Non-executive Director on 29 May 2015. Mr. Xu was appointed as an independent Supervisor in May 2008. He is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Medical Oncology Department of Chang Zheng Hospital of The Second Military Medical University. He has been engaged in the fundamental and clinical research on tumor for a long time. He has published over 100 articles in medical journals both domestic and abroad. He did his postdoctoral research in the H.Lee. Moffitt Cancer Center of University of South Florida as a visiting scholar. He graduated from The Second Military Medical University in August 1989 with a bachelor's degree of medicine. He obtained a doctor's degree of internal medicine in August 1997.

Yang Chun Bao, aged 49, is a senior partner of Dentons Law Firm Shanghai Office. He was a practice lawyer successively in Shanghai Zhongjian Law Firm and Shanghai Haworth&Lexon Law Firm from 1995 to 2015. And he served as an in-house counsel in Southeast Branch of CMST Shanghai from 1992 to 1995. Mr. Yang is off-campus post-graduate supervisor of East China University of Political Science & Law and panel mediator with mediation center of CCPIT and CCOIC. He graduated from Fudan University with L.L.B in July 1992 and received J.M of East China University of Political Science and Law in June 2001 and L.L.M of University of Sydney Technology in May 2001.

SUPERVISORS

Zhou Xi, aged 45, was appointed as a shareholder representative Supervisor on 29 May 2015. He is the general manager of Shanghai Fudan Asset Management Co., Ltd. (上海復旦資產經營有限公司). He used to be the deputy secretary of youth communist league committee of Fudan University, assistant to director of the Enterprise Incubation and Equity Management Office of Fudan University, deputy director of Jiangwan campus construction office of Fudan University, vice dean of School of Computer Science and Software School of Fudan University. He graduated from Fudan University in 1996 with a bachelor's degree of science. He obtained a master's degree of science in 2002 and a doctor's degree of science in 2012.

Wang Luochun, aged 49, was appointed as an employee representative Supervisor on 22 February 2016. He is the R&D director of R&D center and chairman of the laour union of the Company. He joined the Company in March 1997 and has been engaged in the research and development for biopharmaceutical drugs. He graduated from Fudan University with a bachelor's degree in Biology in July 1992.

Liu Xiao Long, aged 61, was appointed as an independent Supervisor in May 2016. He is the chairman of the board and the chief executive officer of Jiuyou Capital Co., Ltd. (上海久有股權投資基金管理有限公司). He worked as the general manager of Shanghai Wai Gao Qiao Free Trade Zone New Development Co., Ltd. (上海市外高橋保税區新發展有限公司), the chairman of the board of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange whose stock code is 600895) and the deputy director of Shanghai Zhangjiang Hi-Tech Park management committee. He was also a member of the standing committee of Shanghai Association for Science and Technology. He graduated from Shanghai Jiao Tong University mechatronics branch campus with a bachelor degree.

Huang Jian, aged 49, is a Professor and Doctoral supervisor in Shanghai Jiao Tong University School of Medicine and reviewer of National Natural Science Foundation of China. He used to be a postdoctoral fellow in Institute of Shanghai Biochemistry and Cell Biology Chinese academy of Sciences and Karolinska Institute Stockholm Sweden. He works on Molecular Oncology with more than 30 published papers and several national, provincial and ministerial grants. He graduated from Fudan University with BS in 1992, MS in 1995 and PhD in 1999.

Yu Daiqing, aged 47, is the quality director of the Company. She joined the Company in November 2001, and was successively engaged in quality research and analysis of new drug development, quality control of pharmaceutical manufacturing, establishment of quality management system and daily operation management relating to pharmaceutical manufacturing. She graduated from Shandong University with a bachelor's degree in Chemistry in July 1995 and a master's degree in Analytical Chemistry in July 1998.

SENIOR MANAGEMENT

Li Jun, aged 50, as a deputy general manager of the Company, he is a cofounder of the Company. He has been responsible for several research projects of the Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He was a teaching assistant and lecturer at Fudan University from August 1993 to November 1996, during which he also served as deputy chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd. and was involved in the research and manufacture of three new drugs. He graduated from Fudan University with a master's degree in Biology in July 1993. Mr. Li Jun has not held any directorships in listed public companies in the past three years.

Yang Xiao Lin, aged 56, joined the Company in January 2006. He is a deputy general manager of the Company. He is also the chairman of board of directors of Derma Clinic, which is the subsidiaries of the Company. He has participated in and been in charge of several merger and acquisition projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be the marketing director of Fosun Pharmaceutical Group from December 2001 to January 2005, and the general manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. from January 2005 to January 2006. He graduated from Chinese Academy of Social Sciences with an MBA degree in 1999. Mr. Yang Xiao Lin has not held any directorships in listed public companies in the past three years.

Gan Yi Min, aged 56, joined the Company in 2010. He is a deputy general manager of the Company. He is also the directors and general manager of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd., which is the subsidiaries of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi'an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003, responsible for organizing and implementing a number of medium and large technological transformation projects. He obtained a bachelor's degree in Industrial Automation from Xi'an Technology University in December 1990, an MBA from Xi'an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master's degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 37, was appointed as company secretary in August 2010. She is also the Chief Financial Officer and an authorized representative of the Company. She is also the director of Derma Clinic and Fernovelty Holding, which are the subsidiaries of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (ACCA), and a member of the Chinese Institute of Certified Public Accountants (CICPA). She is qualified as an international certified internal auditor. She has extensive professional experience in accounting as well as experience in corporate compliance. She graduated from Shanghai University of Finance & Economics with a bachelor's degree in International Accounting in 2004 and from University of Hongkong with a master's degree in Business Administration in November 2018. Ms. Xue Yan has not held any directorships in listed public companies in the past three years.

Independent Auditor's Report

pwc

羅兵咸永道

To the Shareholders of
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.
(a joint stock company incorporate in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 99 to 178, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of cash flows for the year ended 31 December 2018;
- the consolidated statement of changes in equity for the year ended 31 December 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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pwc 羅兵咸永道

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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羅兵咸永道

KEY AUDIT MATTERS (continued)

The following key audit matter is identified in our audit:

Key Audit Matter	How our audit addressed the Key Audit Matter
Capitalisation of development costs *Refer to notes 2.28, 3(b)(iii) and 18 to the consolidated financial statements.* As part of its principal activities, the Group researches and develops various bio-pharmaceutical know-how and medical techniques for future commercialisation. The Group incurred total research and development expenditure of RMB 115.62 million during the year ended 31 December 2018, of which RMB 114.28 million was expensed whereas RMB 1.34 million was capitalised in accordance with the accounting policy set out in note 2.28. We focused on this area mainly due to the size of the research and development expenditure incurred, a portion of which being capitalised and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalisation of development costs for each individual project have been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits.	We obtained a detail listing of all individual research and development projects with expenditure incurred and amounts capitalised in the year, reconciled to the general ledger and agreed sample items to supporting evidence. For projects with amounts capitalised during the year, we challenged management's assessment as to why they considered those amounts were development costs to be capitalised in nature, in particular on technical feasibility and future economic benefits of the projects. We assessed the appropriateness of management's judgement on technical feasibility by reference to relevant available approval, certificate or registration from/with government authorities, technical milestone reports or the Group's past history of successful development projects. For management's judgement on future profitability, we challenged key assumptions used. We corroborated the key assumptions of market scale, market share, gross profit and challenged whether these were appropriate in light of historical experiences, relevant market studies or other similar products. We also evaluated the sensitivity analysis around the key assumptions used in the forecast to ascertain the extent of change in those assumptions that would have negative impacts on the future profitability. We found that management's accounting for capitalisation of development costs was properly supported by the available audit evidences.

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OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the Company's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	4	740,422	497,694
Cost of sales	6	(76,297)	(54,791)
Gross profit		664,125	442,903
Other income	5	45,725	53,812
Research and development costs	6	(114,284)	(110,426)
Distribution and marketing costs	6	(350,469)	(253,003)
Administrative expenses	6	(93,579)	(54,509)
Other expenses	6	(1,254)	(2,776)
Operating profit		150,264	76,001
Finance costs	7	(7,194)	(5,505)
Profit before income tax		143,070	70,496
Income tax expense	10	(13,304)	(10,337)
Profit for the year		129,766	60,159
Other comprehensive income/(losses):			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		164	(301)
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income		(13,775)	–
Total comprehensive income for the year		116,155	59,858
Profit attributable to:			
Shareholders of the Company		150,982	75,287
Non-controlling interests		(21,216)	(15,128)
		129,766	60,159
Total comprehensive income attributable to:			
Shareholders of the Company		137,371	74,986
Non-controlling interests		(21,216)	(15,128)
		116,155	59,858
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	13	RMB 0.1636	RMB 0.0816

The notes on pages 105 to 178 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Non-current assets			
Leasehold land payments	14	**29,388**	30,178
Property, plant and equipment	15	**297,328**	314,638
Goodwill	16	**–**	4,937
Intangible assets	17	**11,989**	13,927
Deferred costs	18	**40,877**	50,073
Investment in an associate	20	**–**	–
Investment in a joint venture	21	**24,000**	–
Deferred income tax assets	22	**31,198**	4,992
Financial assets at fair value through other comprehensive income	23	**–**	–
Available-for-sale financial assets	23	**–**	13,775
Other non-current assets		**4,436**	4,708
		439,216	437,228
Current assets			
Inventories	24	**32,038**	39,667
Trade receivables	26	**356,481**	170,816
Other receivables, deposits and prepayments	27	**37,627**	22,521
Amounts due from related parties	28	**5,780**	3,215
Restricted cash	29	**–**	3,543
Cash and cash equivalents	29	**588,221**	468,144
		1,020,147	707,906
Total assets		**1,459,363**	1,145,134

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred revenue	31	11,359	13,323
Current liabilities			
Trade payables	32	4,777	5,521
Other payables and accruals	33	260,030	81,367
Contract liabilities		2,306	–
Current income tax liabilities		28,767	1,116
Amount due to a related party	34	3,690	3,690
Borrowings	30	150,000	140,000
Deferred revenue	31	5,150	7,635
		454,720	239,329
Total liabilities		466,079	252,652
Capital and reserves attributable to shareholders of the Company			
Share capital	35	92,300	92,300
Reserves	36	889,771	780,090
		982,071	872,390
Non-controlling interests		11,213	20,092
Total equity		993,284	892,482
Total equity and liabilities		1,459,363	1,145,134

The notes on pages 105 to 178 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 99 to 178 were approved by the Board of Directors on 28 February 2019 and the consolidated balance sheet was signed on its behalf by:

Wang Hai Bo
Director

Zhao Da Jun
Director

Consolidated Statement of Cash Flows

For the year Ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations	37	189,425	66,637
Interest paid		(6,491)	(6,079)
Interest received		2,864	2,076
Income tax paid		(11,859)	(19,923)
Net cash generated from operating activities		173,939	42,711
Investing activities			
Acquisition of subsidiaries, net of cash acquired		–	15
Purchase of property, plant and equipment		(37,652)	(55,444)
Additions to deferred costs		(1,175)	(3,222)
Purchase of intangible assets		(137)	(5,497)
Additions to investment in a joint venture		(24,000)	–
Purchase of available-for-sale financial assets		–	(13,775)
Proceeds from disposal of property, plant and equipment		2,266	1,153
Investments in financial products		(1,869,900)	(1,606,900)
Cash received upon maturity of financial products		1,881,968	1,619,105
Net cash used in investing activities		(48,630)	(64,565)
Financing activities			
Capital contribution from non-controlling interests		12,294	5,165
Dividend paid to Company's shareholders		(27,690)	(46,150)
Proceeds from borrowings		150,000	140,000
Repayments of borrowings		(140,000)	(120,000)
Net cash used in financing activities		(5,396)	(20,985)
Net increase/(decrease) in cash and cash equivalents		119,913	(42,839)
Cash and cash equivalents at beginning of the year		468,144	511,284
Exchange gains/(losses) on cash and cash equivalents		164	(301)
Cash and cash equivalents at end of the year	29	588,221	468,144

The notes on pages 105 to 178 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year Ended 31 December 2018

	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 35) RMB'000	Capital accumulation reserve (Note 36) RMB'000	Statutory common reserve fund (Note 36) RMB'000	Retained earnings (Note 36) RMB'000	Other com-prehensive income (Note 36) RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	92,300	412,293	46,150	292,905	(94)	29,500	873,054
Profit/(loss) for the year 2017	–	–	–	75,287	–	(15,128)	60,159
Other comprehensive losses:							
Currency translation differences	–	–	–	–	(301)	–	(301)
Total comprehensive income/(loss) for the year 2017	–	–	–	75,287	(301)	(15,128)	59,858
Total transactions with owners, recognised directly in equity							
Capital contribution from non-controlling interests	–	–	–	–	–	5,720	5,720
Final dividend for the year 2016	–	–	–	(46,150)	–	–	(46,150)
Total transactions with owners, recognised directly in equity	–	–	–	(46,150)	–	5,720	(40,430)
Appropriation to statutory reserve	–	–	–	–	–	–	–
Balance at 31 December 2017	92,300	412,293	46,150	322,042	(395)	20,092	892,482

The notes on pages 105 to 178 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year Ended 31 December 2018

	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital (Note 35) RMB'000	Capital accumulation reserve (Note 36) RMB'000	Statutory common reserve fund (Note 36) RMB'000	Retained earnings (Note 36) RMB'000	Other com-prehensive income (Note 36) RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	92,300	412,293	46,150	322,042	(395)	20,092	892,482
Profit/(loss) for the year 2018	–	–	–	150,982	–	(21,216)	129,766
Other comprehensive income:							
Currency translation differences	–	–	–	–	164	–	164
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	–	(13,775)	–	(13,775)
Total comprehensive income/(loss) for the year 2018	–	–	–	150,982	(13,611)	(21,216)	116,155
Total transactions with owners, recognised directly in equity							
Capital contribution from non-controlling interests	–	–	–	–	–	12,294	12,294
Final dividend for the year 2017	–	–	–	(27,690)	–	–	(27,690)
Others	–	–	–	–	–	43	43
Total transactions with owners, recognised directly in equity	–	–	–	(27,690)	–	12,337	(15,353)
Appropriation to statutory reserve	–	–	–	–	–	–	–
Balance at 31 December 2018	92,300	412,293	46,150	445,334	(14,006)	11,213	993,284

The notes on pages 105 to 178 are an integral part of these consolidated financial statements.

1 BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB 5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000 and 12 September 2000 from the existing or the then shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB 5,295,000 to RMB 53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB 1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB 0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB 0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the share capital of the Company was increased to RMB 71,000,000.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares with a par value of RMB 0.10 each at a price of HKD 1.70, and the share capital of the Company was increased to RMB 85,200,000.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013 at a price of RMB 0.51 with a par value of RMB 0.10 each. Upon completion of the grants, the share capital of the Company was increased to RMB 92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

As at 31 December 2018, the Company had direct interests of 69.77%, 84.68%, 50.04%, 100% and 69.62% in five subsidiaries, namely Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), Shanghai Tracing Bio-technology Co., Ltd. ("Tracing Bio-technology"), Derma Clinic Investment Co., Ltd. ("Derma Clinic"), Fernovelty (Hong Kong) Holding Co., Ltd. ("Fernovelty Holding") and Shanghai Baosu Pharmaceutical Technology Co., Ltd. ("Baosu Pharmaceutical"), respectively.

The Company and its subsidiaries (together, the "Group") are principally engaged in the research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of medical products and providing other medical services in the PRC.

1 BACKGROUND INFORMATION (continued)

The address of the Company's registered office is 308 Cailun Road, Zhangjiang Hi-Tech Park, Pudong, Shanghai, PRC.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in accounting policies and disclosures:

(a) New and amended standards of IFRSs adopted by the Group

The following new amendments of IFRSs are relevant to the Group's operations and are mandatory for the first time for the Group's financial year beginning on 1 January 2018.

IFRS 2 (Amendments)	Amendments to "Share-based Payment" regarding classification and measurement of share-based payment transactions
IAS 28 (Amendments)	Amendments to "Investments in Associates and Joint Ventures" on allowing venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL)
IAS 40 (Amendments)	Amendments to "Investment Property" on clarifing that to transfer to, or from, investment properties there must be a change in use
IFRS 9	"Financial Instruments"
IFRS 15	"Revenue from Contracts with Customers"
IFRIC 22	"Foreign Currency Transactions and Advance Consideration"

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 9 and IFRS 15. Other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the amounts for the current or future period.

IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting IFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as of 1 January 2018 and that comparatives were not restated.

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

	31 December 2017 As originally presented RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	**1 January 2018 Restated RMB'000**
Non-current assets				
Leasehold land payments	30,178	–	–	**30,178**
Property, plant and equipment	314,638	–	–	**314,638**
Goodwill	4,937	–	–	**4,937**
Intangible assets	13,927	–	–	**13,927**
Deferred costs	50,073	–	–	**50,073**
Deferred income tax assets	4,992	–	–	**4,992**
Financial assets at fair value through other comprehensive income	–	13,775	–	**13,775**
Available-for-sale financial assets	13,775	(13,775)	–	**–**
Other non-current assets	4,708	–	–	**4,708**
	437,228	–	–	**437,228**
Current assets				
Inventories	39,667	–	–	**39,667**
Trade receivables	170,816	–	–	**170,816**
Other receivables, deposits and prepayments	22,521	–	–	**22,521**
Amounts due from related parties	3,215	–	–	**3,215**
Restricted cash	3,543	–	–	**3,543**
Cash and cash equivalents	468,144	–	–	**468,144**
	707,906	–	–	**707,906**
Total assets	1,145,134	–	–	**1,145,134**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

	31 December 2017 As originally presented RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 Restated RMB'000
Non-current liabilities				
Deferred revenue	13,323	–	–	**13,323**
Current liabilities				
Trade payables	5,521	–	–	**5,521**
Other payables and accruals	81,367	–	(1,851)	**79,516**
Contract liabilities	–	–	1,851	**1,851**
Current income tax liabilities	1,116	–	–	**1,116**
Amount due to a related party	3,690	–	–	**3,690**
Borrowings	140,000	–	–	**140,000**
Deferred revenue	7,635	–	–	**7,635**
	239,329	–	–	**239,329**
Total liabilities	252,652	–	–	**252,652**
Capital and reserves attributable to shareholders of the Company				
Share capital	92,300	–	–	**92,300**
Reserves	780,090	–	–	**780,090**
	872,390	–	–	**872,390**
Non-controlling interests	20,092	–	–	**20,092**
Total equity	892,482	–	–	**892,482**
Total equity and liabilities	1,145,134	–	–	**1,145,134**

There is no impact on the statement of comprehensive income and other comprehensive income by adopting IFRS 9 and IFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

(i) IFRS 9, Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB 13,775,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to IFRS 9.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustments arising from the new impairment rules are not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

The Group has trade receivables for sales of products that are subject to IFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under IFRS 9 for these receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any impact on the amounts reported in the opening balance sheet on 1 January 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

(i) IFRS 9, Financial Instruments (continued)

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

(ii) IFRS 15, Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustment were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	IFRS 15 carrying amount 1 January 2018 RMB'000
Other payables and accruals	81,367	(1,851)	79,516
Contract liabilities	–	1,851	1,851

The Group manufactures and sells medical products and provides medical services in the market.

A receivable is recognised when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The accounting treatments are the same before and after adopting the IFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards of IFRSs adopted by the Group (continued)

(ii) IFRS 15, Revenue from Contracts with Customers (continued)

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Due to the strict term for return, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, there is no accounting impact for refunds while applying IFRS 15.

The Group didn't introduce any customer loyalty programme which is likely to be affected by the IFRS 15.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

No additional cost occurs to fulfil the contract was identified.

As a result, other than certain reclassification of contract liabilities, the adoption of IFRS 15 did not result in any impact to the financial statements as the timing of revenue recognition on sales of products is not changed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations of IFRSs not yet adopted

The following new standards, amendments and interpretations of IFRSs which are relevant to the Group's operations have been issued but are not yet effective and have not been early adopted by the Group. The Group is still in the process of assessing the impacts on adoption of these new standards, amendments and interpretations and is yet to conclude whether or not it will result in substantial changes to the consolidated financial statements of the Group.

IFRS 9 (Amendments)	"Prepayment features with negative compensation"
IFRS 16	"Leases"
IFRS 17	"Insurance contracts"
IAS 19 (Amendments)	"Plan amendment, curtailment or settlement"
IAS 28 (Amendments)	"Long-term Interests in Associates and Joint Ventures"
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture
IFRIC 23	"Uncertainty over income tax treatments"

(i) IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB 46,741,000. Of these commitments, approximately RMB 84,000 relate to short-term leases and low value leases which will be both recognised on a straightline basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB 41,607,000 on 1 January 2019, lease liabilities of RMB 41,253,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations of IFRSs not yet adopted (continued)

(i) IFRS 16 "Leases" (continued)

The Group expects that profit before income tax will decrease by approximately RMB 1,486,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB 12,310,000 as repayment of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease).

Apart from IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.9).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing is also carried out according to Note 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Transaction with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For capital contribution by non-controlling interests to a subsidiary which does not result in the change of control, the difference between the capital contributed and the relevant share of the carrying value of net assets of the subsidiary is recorded in capital accumulation reserve.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2.5 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Joint ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "Finance costs".

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

2.8 Property, plant and equipment

Property, plant and equipment include plant and machinery, furniture, fixtures and computer equipment and motor vehicles and are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and machinery	3 to 20 years
Furniture, fixtures and computer equipment	5 to 8 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

Construction-in-progress represents properties under construction and is stated at cost less impairment. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2.9 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Intangible assets

Expenditure to acquire technical know-how is capitalised and amortised using the straight-line method over its estimated useful life, ranging from 5 years to 10 years. Where an indication of impairment exists, the carrying amount of the acquired technical know-how is assessed and written down immediately to its recoverable amount.

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.12 Financial assets

2.12.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

(i) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and

(ii) those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial assets (continued)

2.12.1 Classification (continued)

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial assets (continued)

2.12.2 Recognition and measurement (continued)

Debt instruments (continued)

(ii) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in finance costs and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

(iii) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.3 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial assets (continued)

2.12.4 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories:

(i) Loans and receivables

(ii) Available-for-sale financial assets

The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade receivables", "Other receivables", "Amounts due from related parties", "Restricted Cash" and "Cash and cash equivalents" in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial assets (continued)

2.12.4 Accounting policies applied until 31 December 2017

(ii) Recognition and measurement (continued)

Changes in the fair value of monetary and non-monetary securities and financial investment products classified as available for sale are recognised in other comprehensive income.

When securities and financial investment products classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as "gains and losses from available-for-sale investments".

Interest on available-for-sale securities and financial investment products calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

(iii) Impairment

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial assets (continued)

2.12.4 Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment (continued)

Assets carried at amortised cost (continued)

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for medical products, exclusive rights and technology transfer in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. For impairment of trade receivables, refer to Note 2.12.3.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash and bank balances, and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Deferred revenue

Deferred revenue includes:

(i) the proportion of contract revenues received from technology transfer that is related to future performance and the proportion of income relating to the unexpired period of the government grants and exclusive rights of products granted to customers, and

(ii) the proportion of payments that is related to the expenditures to be incurred on future research and development.

For recognition of deferred revenue, refer to Notes 2.19 and 2.25.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to past expenses are recognised directly in the consolidated statement of comprehensive income.

Government grants relating to future costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as “Deferred revenue” and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

The recognition period of government grants are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.20 Borrowings

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Also, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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.

2.22 Employee benefit expenses

The Group entities in Mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made.

The contributions are recognised as employee benefit expense when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2.25 Revenue recognition

(i) Sales of medical products are recognised when control of the products has transferred, which generally coincides with the time when the goods are delivered to customers and the title has passed. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.

(ii) Contract revenues from technology transfer are recognised over the fixed term of the contract or, where appropriate, as the related costs are incurred. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

Subject to the terms as stated in the technology transfer agreements and the buyers' success in commercialisation of the technology being transferred, the Group may receive additional royalty income or profit sharing income in the future. The royalty income or sharing of profit are recognised when the right to receive the income is established.

(iii) Service income is recognised when the services have been rendered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

(iv) Payments received under innovative pharmaceuticals research and development agreement are recognised as other income when the services are rendered, by reference to stage of completion of the specific performance requirements according to the contractual terms. Milestone payments in connection with research and development or commercialisation agreements are recognised when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

2.26 Dividend income

Dividends are recognised as other income in profit or loss when the right to receive payment is established.

2.27 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

2.28 Research and development

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects relating to the design and testing of the products for sales by the Group are recognised as deferred development costs when it is probable that the product will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years or the remaining life of the patent for the new drug.

Costs incurred on development projects with an intention of outright sales as technology transfer are recognised as deferred development costs when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Upon entering into sales contracts, development costs that have been capitalised are transferred to contracted work-in-progress and recognised as costs of sales in accordance with the performance requirements and contractual terms as stated in the contracts.

Where an indication of impairment exists, the carrying amount of the deferred development costs is assessed and written down immediately to its recoverable amount.

Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Leases

Leasehold land payments are up-front payments made to acquire long-term interests in the usage of land in the PRC. These payments are stated at cost and are amortised on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If the useful lives for property, plant and equipment had been 10% longer/shorter with all other variables held constant, profit before income tax would have been RMB 5,035,000 higher/lower.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the end of the reporting period. If the provision for impairment of trade and other receivables rate had been 10% higher/lower with all other variables held constant, profit before income tax would have been RMB 309,000 lower/higher.

(iv) Estimation of the fair value of certain financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(b) Critical judgements in applying the Group's accounting policies

(i) Impairment of investments in subsidiaries and an associate

The Group follows the guidance of IAS 36 to determine when investments in subsidiaries and an associate are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Critical judgements in applying the Group's accounting policies (continued)

(ii) Deferred income tax assets

Recognition of deferred income tax assets depends on the management's expectation of future taxable profit that will be available against which the deferred income tax assets can be utilised. The outcome of their actual utilisation may be different.

(iii) Development costs

The Group's management determines the capitalisation of development costs based on their commercial and technological feasibility. It could change significantly as a result of technological innovations and the change of estimated profit projections.

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections. Management assessed that there are adverse changes that will cause deferred development costs as at 31 December 2018 to be written off or written down, refer to Note 18.

(iv) Government grants

When government grants are recognised, management determines whether they relate to past expenses, future costs or assets based on the nature of the grants and their purpose intended to compensate, and applies relevant accounting policies accordingly.

Government grants relating to costs are deferred, and management determines a proper calculation method and a relevant time period to recognise each of the grants in the consolidated statement of comprehensive income according to the intention of the grants and nature, duration and progression of the related projects so as to match the grants with costs they are intended to compensate. The calculation method and time period are reviewed and adjusted if appropriate, at the end of each reporting period.

4 REVENUE

The Group is principally engaged in the research, development and selling of self-developed bio-pharmaceutical know-how, manufacturing and selling of medical products and providing other medical services in the PRC. Revenue recognised during the year are as follows:

	2018 RMB'000	2017 RMB'000
Sales of medical products	**729,102**	490,125
Services income	**9,672**	6,181
Others	**1,648**	1,388
	740,422	497,694

Timing of revenue recognition of the Group was at a point in time.

5 OTHER INCOME

	2018 RMB'000	2017 RMB'000
Cooperation agreement with Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals") (note (a))	**1,420**	12,898
Government grants	**27,295**	24,886
Gains on investments in financial products (note (b))	**12,068**	12,205
Interest income	**2,864**	2,076
Gains on disposal of property, plant and equipment	**473**	782
Others	**1,605**	965
	45,725	53,812

5 OTHER INCOME (continued)

(a) On 23 February 2011, the Company and Shanghai Pharmaceuticals signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group. The Agreement was renewed on 19 March 2013 and 10 May 2017 respectively. According to the Agreement, Shanghai Pharmaceuticals will pay 80% of the ongoing research and development ("R&D") expenses of these projects from 1 January 2011 (inclusive), and the Group and Shanghai Pharmaceuticals will share equally the future benefits generated from the commercialization of these projects. In addition, Shanghai Pharmaceuticals also agreed to pay 80% of the R&D expenses on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and 2018 as set out in the Agreement.

In 2018, the Company received total payments of RMB 2,090,000 (2017: RMB 13,609,000) from Shanghai Pharmaceuticals under the Agreement, and RMB 1,420,000 (2017: RMB 12,898,000) was recognised as related service income.

(b) The gains represented the gains on investments in financial products upon maturity. The effective rate of return on investments in financial products is 2.90%-5.20% per annum as at 31 December 2018 (31 December 2017: 2.80%-4.80%).

6 EXPENSES BY NATURE

	2018 RMB'000	2017 RMB'000
Amortisation of leasehold land payments (Note 14)	**790**	790
Amortisation of intangible assets (Note 17)	**2,075**	1,661
Amortisation of deferred costs (included in 'Cost of sales') (Note 18)	**3,577**	3,648
Auditors' remuneration		
– Audit services	**2,619**	2,225
– Non-audit services	**116**	108
Accrual of provision for impairment of trade receivables (Note 26)	**2,774**	284
Provision for impairment of inventories (Note 24)	**659**	66
Provision for impairment of other receivables, deposits and prepayments	**–**	–
Provision for impairment of goodwill (Note 16)	**4,937**	4,000
Provision for impairment of deferred costs (Note 18)	**–**	653
Provision for impairment of property, plant and equipment (Note 15)	**1,633**	–
Changes in inventories of finished goods and work in progress (Note 24)	**(2,870)**	(6,443)
Raw materials and consumables used	**35,879**	29,206
Depreciation of property, plant and equipment (Note 15)	**50,512**	42,371
Less: Amounts capitalised in deferred costs	**(160)**	(2,215)
	50,352	40,156
Losses on disposal of property, plant and equipment	**788**	2,224
Operating lease rentals in respect of land and buildings	**10,097**	7,812
Outsourced research and development costs	**22,744**	29,803
Employee benefit expenses (Note 8)	**169,565**	115,734
Less: Amounts capitalised in property, plant and equipment	**(13)**	(642)
Less: Amounts capitalised in deferred costs	**(234)**	(1,025)
	169,318	114,067
Marketing and sales promotion expenses	**272,347**	191,484
Quality inspection expenses	**9,710**	10,117
Others	**48,338**	43,644
Total cost of sales, research and development costs, distribution and marketing costs, administrative expenses and other expenses	**635,883**	475,505

7 FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expenses on bank borrowings	**6,491**	6,079
Net foreign exchange losses/(gains) on financing activities	**703**	(574)
	7,194	5,505

8 EMPLOYEE BENEFIT EXPENSES

	2018 RMB'000	2017 RMB'000
Wages and salaries	**138,185**	90,326
Housing subsidies	**7,841**	6,140
Social security costs	**7,730**	6,382
Retirement benefit costs (Note 9)	**15,809**	12,886
Employee benefit expenses including executtive directors', employee representative supervisors' and senior managements' emoluments	**169,565**	115,734

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include three (2017: three) directors whose emoluments are reflected in the analysis shown in Note 46. The emoluments payable to the remaining two individuals for the years ended 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**2,578**	1,498
Discretionary bonus	**1,520**	1,260
Retirement benefit costs	**100**	98
Social security costs	**90**	88
	4,288	2,944

8 EMPLOYEE BENEFIT EXPENSES (continued)

The emoluments fell within the following bands:

	2018	2017
Emolument bands (in HK dollar)		
HKD 1,500,001-HKD 2,000,000	–	2
HKD 2,000,001-HKD 2,500,000	2	–

9 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organised by the relevant government authorities whereby the Group is required to make monthly contributions to the plan at a rate of 19%-21% of the employees' total wages and salaries for the year, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plan were RMB 15,809,000 and RMB 12,886,000 for the years ended 31 December 2018 and 31 December 2017, respectively.

10 INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current income tax	39,510	10,396
Deferred income tax (Note 22)	(26,206)	(59)
	13,304	10,337

Effective from 1 January 2008 and except for Fernovelty Holding, the Company and its subsidiaries are required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and Tracing Bio-technology were recognised as high-tech enterprises, and the applicable tax rate of the Company and Tracing Bio-technology is 15% in 2018 (2017: 15%). The applicable tax rates of the other Mainland China subsidiaries are 25% in 2018 (2017: 25%).

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2017: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HK$2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2018 and 2017, Hong Kong profits tax has not been provided.

10 INCOME TAX EXPENSE (continued)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate in the PRC applicable to the Group as follows:

	2018 RMB'000	2017 RMB'000
Profit before income tax	143,070	70,496
Tax calculated at the applicable tax rate of 25%	35,768	17,624
Effect of tax rate reduction	(17,613)	(9,282)
Tax losses not recognised as deferred tax assets	11,509	12,851
Utilisation of previously unrecognised tax losses	(1,464)	(4,705)
Deductible temporary differences not recognised as deferred tax assets	432	4,125
Additional deduction of research and development expenditures	(14,729)	(8,025)
Reversal of previously tax losses recognised as deferred tax assets	–	246
Reversal of previously deductible temporary differences recognised as deferred tax assets	795	–
Expenses not deductible for income tax purposes	855	767
Differences of prior year income tax annual filing	289	(752)
Effect of eliminated unrealised profits on intra-group transactions	(2,538)	(2,512)
Tax charge	13,304	10,337

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB 136,426,000 (2017: RMB 92,274,000).

12 DIVIDEND

No interim dividend was declared by the Company in 2018 (2017: Nil).

On 28 February 2019, the Board of Directors recommends the payment of a final dividend of RMB 0.07 (2017: RMB 0.03) per ordinary share, totalling RMB 64,610,000 (2017: RMB 27,690,000) for the year ended 31 December 2018. The proposed final dividend in respect of the year ended 31 December 2018 is calculated based on the total number of shares in issue. The payment of the proposed final dividend is to be approved by the shareholders at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this as dividend payable.

12 DIVIDEND (continued)

	2018 RMB'000	2017 RMB'000
Proposed final dividend of RMB 0.07 (2017: RMB 0.03) per ordinary share	**64,610**	27,690

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**150,982**	75,287
Weighted average number of ordinary shares in issue ('000)	**923,000**	923,000
Basic earnings per share (RMB)	**0.1636**	0.0816

There is no difference between the basic and diluted earnings per share for the years ended 31 December 2018 and 2017 as there were no dilutive potential ordinary shares during the years then ended.

14 LEASEHOLD LAND PAYMENTS

Leasehold land payments represent the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period.

	2018 RMB'000	2017 RMB'000
Net book value at beginning of the year	**30,178**	30,968
Amortisation	**(790)**	(790)
Net book value at end of the year	**29,388**	30,178

The original lease terms of the land use rights of the Group held in the PRC are from 47 to 50 years, and the remaining lease periods are from 33 to 37 years.

15 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2017	433,575	7,608	3,394	2,974	447,551
Acquisition of subsidiaries	893	51	–	–	944
Additions	42,450	2,388	5	9,584	54,427
Transfer upon completion	5,434	–	–	(5,434)	–
Disposals	(19,519)	(448)	–	–	(19,967)
At 31 December 2017	462,833	9,599	3,399	7,124	482,955
Additions	33,847	465	2	3,102	37,416
Transfer upon completion	5,963	–	–	(5,963)	–
Disposals	(4,178)	(672)	–	(887)	(5,737)
At 31 December 2018	**498,465**	**9,392**	**3,401**	**3,376**	**514,634**
Accumulated depreciation					
At 1 January 2017	136,680	5,043	1,595	–	143,318
Charge for the year	41,001	1,160	210	–	42,371
Disposals	(17,019)	(353)	–	–	(17,372)
At 31 December 2017	160,662	5,850	1,805	–	168,317
Charge for the year	49,384	999	129	–	50,512
Disposals	(2,706)	(450)	–	–	(3,156)
At 31 December 2018	207,340	6,399	1,934	–	215,673
Impairment					
At 31 December 2017 and 1 January 2017					
Impairment loss	935	698	–	–	1,633
At 31 December 2018	**935**	**698**	**–**	**–**	**1,633**
Net book value					
At 31 December 2018	**290,190**	**2,295**	**1,467**	**3,376**	**297,328**
At 31 December 2017	302,171	3,749	1,594	7,124	314,638

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income and capitalised in the consolidated balance sheet as follows:

	2018 RMB'000	2017 RMB'000
Cost of sales	18,320	16,157
Research and development expenses	12,888	11,364
Distribution and marketing expenses	9,517	7,402
Administrative expenses	9,627	5,233
	50,352	40,156
Deferred costs	160	2,215
	50,512	42,371

16 GOODWILL

	2018 RMB'000
Cost	
At 31 December 2018 and 2017	8,937
Accumulated impairment	
At 1 January 2017	–
Impairment charge	(4,000)
At 31 December 2017	(4,000)
Impairment charge	(4,937)
At 31 December 2018	(8,937)
Net book value	
At 31 December 2017	4,937
At 31 December 2018	–

16 GOODWILL (continued)

The goodwill is monitored by the management at CGUs level as follows:

	2018 RMB'000	2017 RMB'000
Food diagnostic reagents	–	4,937

On 9 January 2015, the Company acquired 90% equity of Shanghai Youni Bio-tech Co., Ltd. ("Youni"), which were subsequently merged with and absorbed into Tracing Bio-technology on 30 September 2015. The goodwill of RMB 8,937,000 arose from a number of factors including expected synergies through combining a highly skilled workforce and obtaining greater production efficiencies through knowledge transfer; obtaining economies of scale by cost reductions from purchasing efficiencies, price reductions and greater volume rebates from suppliers; and unrecognised assets such as the workforce.

For the purposes of impairment test, goodwill has been allocated to the smallest individual of CGUs identified. The recoverable amount of a CGUs is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial budget made by the Directors, with reference to the prevailing market conditions, covering certain future period ("Period"). Cash flows beyond the Period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2018 are as follows:

	Food diagnostic reagents
Sales growth rate	14%
Gross profit margin of different reagents	25%-89%
Pre-tax discount rate	16%
Growth rate to extrapolate cash flows beyond the budget period	2.5%

Based on management's assessment, RMB 4,937,000 is provided for impairment of goodwill as at 31 December 2018.

17 INTANGIBLE ASSETS

	Acquired technical know-how RMB'000	Acquired licence RMB'000	Total RMB'000
Cost			
At 1 January 2017	11,725	3,391	15,116
Additions	5,852	–	5,852
At 31 December 2017	17,577	3,391	20,968
Additions	137	–	137
At 31 December 2018	**17,714**	**3,391**	**21,105**
Accumulated amortisation			
At 1 January 2017	5,254	126	5,380
Charge for the year	1,535	126	1,661
At 31 December 2017	6,789	252	7,041
Charge for the year	1,949	126	2,075
At 31 December 2018	**8,738**	**378**	**9,116**
Net book value			
At 31 December 2018	**8,976**	**3,013**	**11,989**
At 31 December 2017	10,788	3,139	13,927

As at 31 December 2018 and 2017, the management did not identify any impairment indication of intangible assets.

18 DEFERRED COSTS

	Deferred development costs RMB'000	Deferred costs of exclusive rights RMB'000	Total RMB'000
Cost			
At 1 January 2017	60,899	1,315	62,214
Capitalisation of costs	5,437	–	5,437
Written off	(3,566)	–	(3,566)
At 31 December 2017	62,770	1,315	64,085
Capitalisation of costs	1,335	–	1,335
Written off	(6,954)	–	(6,954)
At 31 December 2018	**57,151**	**1,315**	**58,466**
Accumulated amortisation and impairment			
At 1 January 2017	8,396	1,315	9,711
Amortisation charge	3,648	–	3,648
Impairment charge	653	–	653
At 31 December 2017	12,697	1,315	14,012
Amortisation charge	3,577	–	3,577
At 31 December 2018	**16,274**	**1,315**	**17,589**
Net book value			
At 31 December 2018	**40,877**	**–**	**40,877**
At 31 December 2017	50,073	–	50,073

19 SUBSIDIARIES

As at 31 December 2018, the Company held the following investments in principal subsidiaries which are all unlisted and limited liability companies:

Name	Place of incorporation, kind of legal entity and date of establishment	Registered capital	Attributable equity interest %	Direct or Indirect	Principal activities and place of operation
Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. (泰州復旦張江藥業有限公司)	PRC Limited liability company 13 March 2007	RMB 86,000,000	69.77	Direct	R&D of pharmaceutical projects and medical instruments and provision of related services in the PRC
Shanghai Tracing Bio-technology Co., Ltd. (上海溯源生物技術有限公司)	PRC Limited liability company 5 November 2012	RMB 24,800,000	84.68	Direct	R&D of medical diagnostic products, provision of related technical service and sales of daily necessities in the PRC
Derma Clinic Investment Co., Ltd. (德美診聯醫療投資管理有限公司)	PRC Limited liability company 27 July 2015	RMB 55,000,000	50.04	Direct	Medical investment management, health industry management, projects investment, assets management, investment and business consultation, medical and enterprise management consultation in the PRC
Fernovelty (Hong Kong) Holding Co., Ltd. (風屹(香港)控股有限公司)	Hong Kong Limited liability company 4 October 2016	USD 10,000	100.00	Direct	Cooperation and investment of R&D projects in overseas
Shanghai Baosu Pharmaceutical Technology Co., Ltd. (上海葆溯醫藥科技有限公司)	PRC Limited liability company 28 February 2018	RMB 20,000,000	69.62	Direct	Business consultation and provision of marketing services in the PRC

The English names of the subsidiaries are translation made by management of the Company as they do not have official English names.

The Group does not have any subsidiary with material non-controlling interests.

During the year, Shanghai Ba Dian Medicine Co., Ltd., a subsidiary of the Company was closed.

20 INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Unlisted equity investments, original cost		
At beginning and end of the year	**7,200**	7,200
Accumulated share of results		
At beginning and end of the year	**(6,867)**	(6,867)
Impairment charge		
At beginning and end of the year	**(333)**	(333)
Net book value		
At end of the year	**–**	–

During the year, the Company held the following investment in an associate:

Name	Country and date of establishment	Registered capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Lead Discovery Limited Company ("Lead Discovery")	PRC 27 November 2002	RMB 20,400,000	35	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

This associate is unlisted and immaterial to the Group.

21 INVESTMENT IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Non-current assets		
Unlisted securities		
– Equity securities (a)	24,000	–

(a) During the year, the Company subscribed for RMB 60,000,000 shares, accounting for 29.85% shares of Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund"). The registration and filing procedures with the relevant authorities regarding this transaction has been completed and the Company had paid RMB 24,000,000 to BVCF Fund by 31 December 2018.

22 DEFERRED INCOME TAX ASSETS

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than one year	26,830	759
– Deferred tax assets to be recovered within one year	4,368	4,233
	31,198	4,992

There is no deferred tax liabilities recognised as at 31 December 2018 (2017: Nil).

The movement in deferred income tax account is as follows:

	2018 RMB'000	2017 RMB'000
At beginning of the year	4,992	4,933
Credited to income tax expense (Note 10)	26,206	59
At end of the year	31,198	4,992

22 DEFERRED INCOME TAX ASSETS (continued)

A potential deferred income tax asset, which represents mainly certain temporary difference arising from unrealised profits on intra-group transactions, deductible temporary differences and tax losses carried forward, has not been recognised in the consolidated financial statements as, in the opinion of the Directors, it is uncertain that such asset will be realised in the foreseeable future. The unrealised profits, deductible temporary differences and tax losses not recognised by the Group amounted to RMB 251,582,000 and RMB 191,159,000 as at 31 December 2018 and 31 December 2017 respectively. The tax losses that are not recognised as deferred tax assets will expire in 5 years from the respective balance sheet date and are analysed as follows:

	2018 RMB'000	2017 RMB'000
Expire year		
2019	1,255	1,255
2020	10,159	8,137
2021	27,186	27,348
2022	51,501	52,183
2023	69,416	–
	159,517	88,923

The movement in deferred income tax assets during the year is as follows:

Deferred income tax assets (on gross basis)

	Accruals RMB'000	Provisions RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2017	4,669	18	246	4,933
(Charged)/credited to income tax expense	(436)	741	(246)	59
At 31 December 2017	4,233	759	–	4,992
Credited to income tax expense	22,596	3,610	–	26,206
At 31 December 2018	26,829	4,369	–	31,198

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Financial assets previously classified as available-for-sale financial assets (2017)

Available-for-sale financial assets included the following classes of financial assets:

	2018 RMB'000	2017 RMB'000
Non-current assets		
Unlisted securities		
– Equity securities (a)	–	13,775

(a) During the year ended 31 December 2017, Fernovelty Holding, a subsidiary of the Company, entered into the subscription agreement with an overseas biopharmaceutical company, Adgero Biopharmaceuticals Holdings, Inc. ("Adgero") to purchase ordinary shares and warrants with a total consideration of USD 2,000,000 (equivalent to approximately RMB 13,775,000). Adgero mainly focuses on research and development of photodynamic therapy drugs. During the year ended 31 December 2017, the Group had fully paid the consideration amounting to RMB 13,775,000 which is accounted for as available-for-sale financial assets.

As at 1 January 2018, the Group adopted IFRS 9 and reclassed the investment to financial assets at fair value through other comprehensive income.

As at 31 December 2018, the Group holds 400,000 ordinary shares of Adgero, which currently account for approximately 5.9% of the total issued share capital of Adgero. During the year ended 31 December 2018, the founder and CEO of Adgero who also leads the major development and research projects resigned from Adgero due to health reason, and limited progress has been reached for the research and development project, the management of the Group thereby considered the success of the development and research project of Adgero contains significant uncertainty and involved valuation institute to valuate the fair value of the investment in Adgero as at 31 December 2018. According to the valuation report, the fair value of Adgero was regarded as zero as of 31 December 2018, using a simulated liquidation model. The management of the Group accordingly adjusted down the investment in Adgero to zero, and charged the fair value difference to other comprehensive income.

24 INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	9,185	19,554
Production supplies and consumables	863	993
Work in progress	6,878	9,166
Finished goods	15,112	9,954
	32,038	39,667

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB 59,343,000 (2017: RMB 44,223,000).

As at 31 December 2018, the impairment provision for inventories was RMB 22,000 (2017: RMB 22,000). During the year, a provision of RMB 659,000 was made to inventories (2017: RMB 66,000) and a provision of RMB 659,000 was written off against the related inventory balances (2017: RMB 66,000).

25 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost	
	2018 RMB'000	2017 RMB'000
Assets as per balance sheet		
Trade receivables, other receivables and deposits excluding non-financial assets	374,213	176,346
Amounts due from related parties	5,780	3,215
Restricted cash	–	3,543
Cash and cash equivalents	588,221	468,144
	968,214	651,248

25 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial assets at fair value	
	2018	2017
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets at fair value through other comprehensive income	**–**	–
Available-for-sale financial assets	**–**	13,775
	–	13,775

	Financial liabilities at amortised cost	
	2018	2017
	RMB'000	RMB'000
Liabilities as per balance sheet		
Borrowings	**150,000**	140,000
Trade payables, other payables and accruals excluding non-financial liabilities	**205,459**	55,085
Amount due to a related party	**3,690**	3,690
	359,149	198,775

26 TRADE RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Accounts receivable (note (a))	**276,070**	116,143
Less: Provision for impairment	**(3,093)**	(405)
Accounts receivable – net	**272,977**	115,738
Notes receivable (note (b))	**83,504**	55,078
	356,481	170,816

As at 31 December 2018 and 2017, the fair value of the trade receivables approximated their carrying amounts, which are all denominated in RMB.

26 TRADE RECEIVABLES (continued)

(a) Accounts receivable are arisen from sales of products, with no interest charged. The credit period granted to customers is generally between 1 to 4 months. The ageing analysis of accounts receivable based on invoice date, before provision for impairment as at 31 December 2018 and 2017, are as follows:

	2018 RMB'000	2017 RMB'000
Accounts receivable – gross		
– Within credit terms	198,164	95,301
– Past due within 30 days	56,687	14,504
– Past due over 30 days and within 60 days	10,816	5,190
– Past due over 60 days and within 90 days	4,214	19
– Past due over 90 days and within one year	4,208	1,041
– Past due over one year	1,981	88
	276,070	116,143

As at 31 December 2018, accounts receivable of RMB 77,906,000 (2017: RMB 20,842,000) were impaired and adequately provided for. The amount of provision was RMB 3,093,000 (2017: RMB 405,000). As at 31 December 2018 and 2017, the accounts receivable ageing past due over one year were fully provided for.

Movements on the provision for impairment of accounts receivable are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of the year	405	121
Accrual of provision for impairment of receivables	2,774	284
Receivables written off during the year as uncollectable	(86)	–
At end of the year	3,093	405

Amounts charged to the provision account are generally written off against the receivable balances when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivables mentioned above. Accounts receivable are unsecured and interest free.

(b) Notes receivable are arisen from sales of products, with no interest charged. They are all bank acceptance notes with maturities less than six months.

27 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Prepayments	19,780	9,805
Deposits	2,633	2,506
Advances to employees	1,189	1,139
Value-added tax recoverable	114	7,186
Others	13,911	1,885
	37,627	22,521

28 AMOUNTS DUE FROM RELATED PARTIES

The balances represent trade balances due from subsidiaries of Shanghai Pharmaceuticals. The balances are unsecured, interest free and repayable on demand.

29 CASH AND BANK BALANCES

(i) Cash and cash equivalents

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	588,221	468,144
Cash and bank balances denominated in		
– RMB	584,795	464,862
– USD	3,412	3,267
– HKD	14	15
	588,221	468,144

The effective interest rate on cash placed with banks is 0.30%-3.10% per annum as at 31 December 2018 (31 December 2017: 0.30%-3.10%).

29 CASH AND BANK BALANCES (continued)

(ii) Restricted cash

In March 2015, Taizhou Pharmaceutical was prosecuted by a third party due to the delayed final payments of a machine. The reason of delayed final payments was due to the quality problems. RMB 3,543,000 of Taizhou Pharmaceutical were held at bank as guarantee for this pending litigation. As at 31 December 2018, Taizhou Pharmaceutical won the lawsuit and the restricted cash was released.

30 BORROWINGS

	2018 RMB'000	2017 RMB'000
Current		
Short-term bank borrowings, unsecured (note (a))	140,000	100,000
Short-term bank borrowing, secured (note (b))	10,000	40,000
	150,000	140,000

(a) As at 31 December 2018, an unsecured short-term bank borrowing of RMB 40,000,000 was taken by the Company, bore a floating interest rate at 4.5675% per annum and was due for repayment on 9 April 2019.

As at 31 December 2018, an unsecured short-term bank borrowing of RMB 60,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum and was due for repayment on 2 August 2019.

As at 31 December 2018, an unsecured short-term bank borrowing of RMB 40,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum and was due for repayment on 15 November 2019.

As at 31 December 2017, an unsecured short-term bank borrowing of RMB 40,000,000 was taken by the Company, bore a floating interest rate at 3.915% per annum and was due for repayment on 9 March 2018.

As at 31 December 2017, an unsecured short-term bank borrowing of RMB 60,000,000 was taken by the Company, bore a floating interest rate at 4.35% per annum and was due for repayment on 1 August 2018.

30 BORROWINGS (continued)

(b) As at 31 December 2018, a secured short-term bank borrowing of RMB 10,000,000 was taken by the Company and bore a fixed interest rate at 4.35% per annum. The borrowing was mortgaged by the Company's 7 intellectual properties and was due for repayment on 3 January 2019. These intellectual properties do not have any carrying value in the Group's financial statements.

As at 31 December 2017, a secured short-term bank borrowing of RMB 40,000,000 was taken by the Company and bore a fixed interest rate at 4.35% per annum. The borrowing was mortgaged by the Company's 7 intellectual properties and was due for repayment on 20 November 2018. These intellectual properties do not have any carrying value in the Group's financial statements.

The fair value of current borrowing equals its carrying amount, as the impact of discounting is not significant.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing date or maturity date which is earlier are as follows:

	2018 RMB'000	2017 RMB'000
Within three months	140,000	100,000

31 DEFERRED REVENUE

	2018 RMB'000	2017 RMB'000
Government grants	14,264	18,713
Technology transfer (note (a))	2,245	2,245
	16,509	20,958
Less: Amounts to be realised within one year	(5,150)	(7,635)
	11,359	13,323

31 DEFERRED REVENUE (continued)

	Government grants RMB'000	Technology transfer RMB'000	Total RMB'000
At 1 January 2017	28,316	2,245	30,561
Additions	15,283	–	15,283
Transfer to income	(24,886)	–	(24,886)
At 31 December 2017	18,713	2,245	20,958
Additions	1,900	–	1,900
Transfer to income	(6,349)	–	(6,349)
At 31 December 2018	**14,264**	**2,245**	**16,509**

(a) On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Amphotericin B Liposome for a total consideration of RMB 6,000,000, of which no amount was received in 2018 (2017: Nil). No revenue was recognised in 2018 (2017: Nil) as the Company did not complete any respective milestones of the transfer as specified in the contract during the year.

On 15 July 2014, the Company entered into a technology transfer contract with a pharmaceutical company to transfer Vincristine Sulphate Liposome ("LVCR") for a total consideration of RMB 16,800,000, of which no amount was received in 2018 (2017: Nil). LVCR is one of the four existing drug research projects the Group cooperated with Shanghai Pharmaceuticals, a shareholder of the Company (Note 5 (a)). According to the cooperation agreement, the Group and Shanghai Pharmaceuticals will share equally the future benefits generated from this project. No revenue was recognised in 2018 (2017: Nil) as the Company did not complete any respective milestone of the transfer as specified in the contract during the year.

32 TRADE PAYABLES

	2018 RMB'000	2017 RMB'000
Accounts payable (note (a))	4,777	5,521

As at 31 December 2018 and 2017, all trade payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

All the Group's trade payables are denominated in RMB.

(a) As at 31 December 2018 and 2017, the ageing analysis of accounts payable based on invoice date are as follows:

	2018 RMB'000	2017 RMB'000
– Within 30 days	3,481	4,310
– 31 days to 60 days	44	809
– 61 days to 90 days	81	243
– Over 90 days but less than one year	351	30
– Over one year	820	129
	4,777	5,521

33 OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payables for marketing and sales promotion expenses	133,848	15,808
Salary and staff welfare payables	46,390	19,833
Deposits payables	30,449	4,118
Payables for value-added tax and other taxes	12,958	10,119
Payables for post-marketing study expenses	11,028	8,405
Payables for purchase of property, plant and equipment	10,076	14,127
Advances from customers	–	1,851
Others	15,281	7,106
Total other payables and accruals	260,030	81,367

34 AMOUNT DUE TO A RELATED PARTY

The balance represents trade balance due to Shanghai Pharmaceuticals, and is unsecured, interest free and repayable on demand.

35 SHARE CAPITAL

Authorised, issued and fully paid:

	Number of shares '000	Amount RMB'000
At 31 December 2017 and 31 December 2018	923,000	92,300

36 RESERVES

	Capital accumulation reserve (note (a)) RMB'000	Statutory common reserve fund (note (b)) RMB'000	Retained earnings (note (c)) RMB'000	Other comprehensive income RMB'000	Total RMB'000
At 1 January 2017	412,293	46,150	292,905	(94)	751,254
Profit for the year 2017	–	–	75,287	–	75,287
Final dividend for the year 2016	–	–	(46,150)	–	(46,150)
Currency translation differences	–	–	–	(301)	(301)
At 31 December 2017	412,293	46,150	322,042	(395)	780,090
Profit for the year 2018	**–**	**–**	**150,982**	**–**	**150,982**
Final dividend for the year 2017	**–**	**–**	**(27,690)**	**–**	**(27,690)**
Changes in the fair value of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**(13,775)**	**(13,775)**
Currency translation differences	**–**	**–**	**–**	**164**	**164**
At 31 December 2018	**412,293**	**46,150**	**445,334**	**(14,006)**	**889,771**

36 RESERVES (continued)

(a) Capital accumulation reserve includes share premium arising from the issue of shares at a price in excess of their par value, the effect for transactions with non-controlling interests on changes in equity attributable to the shareholders of the Company. Costs related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital. No further appropriation was made in 2018 as the balance of the reserve fund had reached 50% of the Company's registered capital.

(c) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRSs, the amount of distributable reserve was RMB 560,860,000 as at 31 December 2018 (2017: RMB 452,124,000) (Note 45).

37 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(i) Reconciliation of profit before income tax to cash generated from operations

	2018 RMB'000	2017 RMB'000
Profit before income tax	**143,070**	70,496
Adjustments for:		
Amortisation of leasehold land payments (Note 14)	**790**	790
Amortisation of intangible assets (Note 17)	**2,075**	1,661
Amortisation of deferred costs (Note 18)	**3,577**	3,648
Provision for impairment of goodwill (Note 16)	**4,937**	4,000
Provision for impairment of inventories (Note 24)	**659**	66
Provision for impairment of deferred costs (Note 18)	**–**	653
Provision for property, plant and equipment (Note 15)	**1,633**	–
Written off deferred development costs (Note 18)	**6,954**	3,566
Provision for impairment of trade receivables (Note 26)	**2,774**	284
Depreciation of property, plant and equipment (Note 6)	**50,352**	40,156
Gains on investments in financial products (Note 5)	**(12,068)**	(12,205)
Losses on disposal of property, plant and equipment – net (Note 5 and Note 6)	**315**	1,442
Losses on closing of a subsidiary	**43**	–
Interest expenses (Note 7)	**6,491**	6,079
Interest income (Note 5)	**(2,864)**	(2,076)
Changes in working capital:		
– Trade and other receivables and amounts due from related parties	**(206,110)**	(26,716)
– Inventories	**6,970**	(16,024)
– Trade and other payables and amount due to a related party	**184,276**	420
– Deferred revenue	**(4,449)**	(9,603)
Cash generated from operations	**189,425**	66,637

37 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(ii) Total borrowings reconciliation

This section sets out an analysis of total borrowings and the movements in total borrowings for each of the years presented.

	2018 RMB'000	2017 RMB'000
Borrowings – repayable within one year	**150,000**	140,000

	Borrowings due within one year RMB'000
Total borrowings as at 1 January 2017	120,000
Net cash inflows	20,000
Foreign exchange adjustments	–
Other non-cash movements	–
Total borrowings as at 31 December 2017	140,000
Net cash inflows	10,000
Foreign exchange adjustments	–
Other non-cash movements	–
Total borrowings as at 31 December 2018	150,000

38 BUSINESS COMBINATIONS

No business combination occurred in 2018.

Business combinations occurred in 2017 were as follows:

Acquisition for 66% equity interest in Changsha Kuanhoutang Medical Management Co., Ltd. ("Kuanhoutang")

On 20 July 2017, Derma Clinic acquired 66% equity of Kuanhoutang, a company which provides general healthcare services, at a consideration of RMB 1. The acquisition is expected to help the Group further integrate the medical beauty clinics.

38 BUSINESS COMBINATIONS (continued)

The following table summarises the consideration paid for Kuanhoutang and the recognised amounts of the assets acquired and liabilities assumed at the acquisition date.

	20 July 2017 RMB'000
Purchase consideration	
– Cash paid	–
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	15
Property, plant and equipment	944
Inventories	46
Other receivables	583
Other payables and accruals	(1,566)
Total identifiable net assets	22
Gain arising from acquisition	22
	–
Acquisition-related costs (included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2017)	–
Outflow of cash to acquire business, net of cash acquired	
– cash consideration	–
– cash and cash equivalents in subsidiary acquired	15
Net cash inflow on acquisition	15

39 RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2018 and 2017.

(i) Transactions

	2018 RMB'000	2017 RMB'000
With subsidiaries of Shanghai Pharmaceuticals:		
Sales of medical products	**33,402**	13,037
With Shanghai Pharmaceuticals:		
Cash received under the Cooperation Agreement (Note 5(a))	**2,090**	13,609

Products are sold and services are provided based on the price lists in force and terms that would be available to third parties.

(ii) The related party balances as at 31 December 2018 and 31 December 2017 are disclosed in Note 28 and Note 34.

(iii) Key management compensation:

Key management includes executive directors, company secretary and other senior management. The compensation paid or payable to key management for employee services is shown below:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**9,127**	5,435
Discretionary bonus	**5,510**	3,870
Retirement benefit and social security costs	**649**	602
	15,286	9,907

40 SEGMENT INFORMATION

The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions.

In recent years, the Group has been focusing on the commercialization of its own drugs after research and development. The outcomes of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. As a result of such strategic shift in business focus, the revenue generated from technology transfer is not significant. Accordingly, the management considers that the Group only operates a single business segment and hence no segment information is presented.

The Company and all its subsidiaries except Fernovelty Holding operate in Mainland China and the Group's revenue is principally derived in Mainland China.

Revenues of approximately RMB 106,430,000 (2017: RMB 116,430,000) are derived from a single external customer. These revenues are attributable to the sales of medical products.

41 COMMITMENTS

(i) Operating lease commitments

As at 31 December 2018 and 2017, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of properties as follows:

	2018	2017
	RMB'000	RMB'000
No later than 1 year	**12,310**	7,824
Later than 1 year and no later than 5 years	**25,460**	25,800
Later than 5 years	**8,971**	14,729
	46,741	48,353

41 COMMITMENTS (continued)

(ii) Capital expenditure commitments

Capital expenditure contracted for as at 31 December 2018 and 2017 but not yet incurred by the Group are as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	3,037	4,154

42 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(1) Foreign exchange risk

The Group operates mainly in domestic market and is considered not to expose to any significant foreign exchange risks in the years ended 31 December 2018 and 31 December 2017.

(2) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for cash placed with banks (Note 29) and bank borrowings (Note 30).

The Group's interest rate risk arises from bank borrowings. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash placed with banks. Bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 30.

42 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(a) Market risk (continued)

(2) Cash flow and fair value interest rate risk (continued)

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

As at 31 December 2018, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, profit before income tax for the year would have been RMB 444,000 (2017: 10%, RMB 493,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

The carrying amount of cash at bank and on hand, restricted cash, trade receivables, amounts due from related parties and other receivables and deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of deposits and cash were placed in the Big Four State-owned banks* and other listed banks without significant credit risk.

The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

*Big Four State-owned banks: Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China.

42 FINANCIAL RISK MANAGEMENT (continued)

(i) Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the ability to apply for credit facilities if necessary. The Group finances its working capital requirements through a combination of funds generated from operations, government grants and bank borrowings.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At 31 December 2018					
Bank borrowings	**153,550**	**–**	**–**	**–**	**153,550**
Trade and other payables	**209,149**	**–**	**–**	**–**	**209,149**
At 31 December 2017					
Bank borrowings	143,359	–	–	–	143,359
Trade and other payables	58,775	–	–	–	58,775

(ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

42 FINANCIAL RISK MANAGEMENT (continued)

(ii) Capital risk management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents and restricted cash. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2018 and 2017, cash and cash equivalents is much more than total borrowings of the Group, therefore, the gearing ratio is not applicable.

(iii) Fair value estimation

Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

42 FINANCIAL RISK MANAGEMENT (continued)

(iii) Fair value estimation (continued)

Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 31 December 2018 and 31 December 2017:

	Unlisted equity securities RMB'000
At 1 January 2017	–
Additions	13,775
At 31 December 2017	13,775
Losses recognised in other comprehensive income	(13,775)
At 31 December 2018	–

43 SUBSEQUENT EVENTS

On 28 February 2019, the Company has entered into an equity acquisition agreement (the "Agreement") with Shenyang Bringspring-Roadtop Health Data Industrial Equity Investment LLP. ("Bringspring-Roadtop"), pursuant to which the Company has agreed to sell 30.04% of equity interest in Derma Clinic, a subsidiary of the Company, with a consideration of RMB16,522,000 (the "Disposal"). Meanwhile, other shareholders of Derma Clinic will also sell certain proportion of equity interest to Bringspring-Roadtop under the Agreement. Upon the completion of the Disposal, Bringspring-Roadtop will own 63% of equity interest in Derma Clinic while the Company will own 20% of equity interest in Derma Clinic.

44 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 28 February 2019.

45 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current assets		
Leasehold land payments	**3,438**	3,544
Property, plant and equipment	**121,399**	121,521
Intangible assets	**15,080**	26,287
Deferred costs	**2,137**	2,247
Investments in subsidiaries	**118,644**	124,354
Investment in a joint venture	**24,000**	–
Deferred income tax assets	**34,605**	4,796
Other non-current assets	**4,183**	3,373
	323,486	286,122
Current assets		
Inventories	**16,709**	27,792
Trade receivables	**334,093**	147,446
Other receivables, deposits and prepayments	**29,642**	10,259
Amounts due from related parties	**5,780**	3,215
Amounts due from subsidiaries	**176,282**	190,993
Cash and cash equivalents	**554,560**	458,835
	1,117,066	838,540
Total assets	**1,440,552**	1,124,662

45 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

Balance sheet of the Company (continued)

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current liabilities		
Trade payables	2,598	4,192
Other payables and accruals	237,651	63,794
Current income tax liabilities	28,767	1,116
Amount due to a related party	3,690	3,690
Amounts due to subsidiaries	–	88
Borrowings	150,000	140,000
Deferred revenue	2,551	5,223
	425,257	218,103
Total liabilities	425,257	218,103
Capital and reserves attributable to shareholders of the Company		
Share capital	92,300	92,300
Reserves (note (a))	922,995	814,259
Total equity	1,015,295	906,559
Total equity and liabilities	1,440,552	1,124,662

The balance sheet of the Company was approved by the Board of Directors on 28 February 2019 and was signed on its behalf by:

Wang Hai Bo
Director

Zhao Da Jun
Director

45 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

(a) Reserve movements of the Company

	Capital accumulation reserve RMB'000	Statutory common reserve fund RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2017	315,985	46,150	406,000	768,135
Profit for the year	–	–	92,274	92,274
Final dividend for the year 2016	–	–	(46,150)	(46,150)
At 31 December 2017	315,985	46,150	452,124	814,259
At 1 January 2018	**315,985**	**46,150**	**452,124**	**814,259**
Profit for the year	**–**	**–**	**136,426**	**136,426**
Final dividend for the year 2017	**–**	**–**	**(27,690)**	**(27,690)**
At 31 December 2018	**315,985**	**46,150**	**560,860**	**922,995**

46 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

(i) Details of emoluments in respect of the directors and supervisors of the Company

Total emoluments to the executive directors and supervisors are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**4,424**	2,664
Discretionary bonus	**2,540**	1,760
Fees	**200**	208
Retirement benefit costs	**141**	133
Social security costs	**136**	124
	7,441	4,889

RMB 600,000 of fees were paid or payable to the independent non-executive directors for the year (2017: RMB 538,000).

46 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(i) Details of emoluments in respect of the directors and supervisors of the Company (continued)

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2018 are as follows:

	Fee RMB'000	Salaries and allowances RMB'000	Dis-cretionary bonus RMB'000	Retirement benefit costs RMB'000	Social security costs RMB'000	Total RMB'000
Executive directors						
Mr. Wang Hai Bo	–	1,926	940	50	45	2,961
Mr. Su Yong	–	1,249	800	50	45	2,144
Mr. Zhao Da Jun	–	1,249	800	41	46	2,136
Independent non-executive directors						
Mr. Zhou Zhong Hui	150	–	–	–	–	150
Mr. Lam Yiu Kin	150	–	–	–	–	150
Mr. Xu Qing	150	–	–	–	–	150
Mr. Yang Chun Bao (appointed on 9 June 2017)	150	–	–	–	–	150
Independent supervisors						
Mr. Guo Yi Cheng (retired on 9 June 2017)	–	–	–	–	–	–
Mr. Liu Xiao Long	100	–	–	–	–	100
Mr. Huang Jian (appointed on 9 June 2017)	100	–	–	–	–	100
	800	4,424	2,540	141	136	8,041

46 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(i) Details of emoluments in respect of the directors and supervisors of the Company (continued)

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2017 are as follows:

	Fee RMB'000	Salaries and allowances RMB'000	Dis-cretionary bonus RMB'000	Retirement benefit costs RMB'000	Social security costs RMB'000	Total RMB'000
Executive directors						
Mr. Wang Hai Bo	–	1,926	–	49	44	2,019
Mr. Su Yong	–	1,249	–	49	44	1,342
Mr. Zhao Da Jun	–	1,249	–	35	36	1,320
Independent non-executive directors						
Mr. Zhou Zhong Hui	150	–	–	–	–	150
Mr. Lam Yiu Kin	150	–	–	–	–	150
Mr. Xu Qing	150	–	–	–	–	150
Mr. Yang Chun Bao (appointed on 9 June 2017)	88	–	–	–	–	88
Independent supervisors						
Mr. Guo Yi Cheng (retired on 9 June 2017)	50	–	–	–	–	50
Mr. Liu Xiao Long	100	–	–	–	–	100
Mr. Huang Jian (appointed on 9 June 2017)	58	–	–	–	–	58
	746	4,424	–	133	124	5,427

(ii) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2017: Nil).

(iii) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2017: Nil).

46 EMOLUMENTS OF DIRECTORS AND SUPERVISORS (continued)

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year (2017: Nil).

(v) Chief executive

The Company does not have a chief executive who is not also a director of the Company (2017: Same)

(vi) Inducement or waiver of emoluments

For the years ended 31 December 2018 and 2017, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.