深圳市海王英特龍生物技術股份有限公司

**SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED***

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

**(Stock code: 8329)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This announcement, for which the directors (the "Directors") of Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* *For identification purpose only*

## ANNUAL RESULTS

The board of Directors of the Company (the "Board") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year") together with the comparative figures for the year ended 31 December 2016 as follows:

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

*For the year ended 31 December 2017*

| | *Notes* | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| **REVENUE** | *3, 4* | **790,286** | 759,111 |
| **COST OF SALES** | | **(365,255)** | (371,905) |
| **GROSS PROFIT** | | **425,031** | 387,206 |
| **OTHER REVENUE** | *5* | **8,915** | 9,102 |
| **OTHER NET INCOME** | *5* | **853** | 3,674 |
| Selling and distribution expenses | | **(262,777)** | (225,786) |
| Administrative expenses | | **(51,523)** | (50,441) |
| Other operating expenses | | **(46,942)** | (29,200) |
| **PROFIT FROM OPERATIONS** | | **73,557** | 94,555 |
| Finance costs | *6(a)* | **(3,229)** | (3,886) |
| **PROFIT BEFORE TAXATION** | *6* | **70,328** | 90,669 |
| Income tax expense | *7(b)* | **(14,899)** | (17,852) |
| **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **55,429** | 72,817 |
| **Profit and total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **50,257** | 62,692 |
| Non-controlling interests | | **5,172** | 10,125 |
| | | **55,429** | 72,817 |
| **Earnings per share for profit attributable to the owners of the Company during the year** | | | |
| Basic and diluted | *9* | **3.00 cents** | 3.74 cents |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **121,968** | 140,111 |
| Prepaid lease payments | | **60,879** | 99,578 |
| Intangible assets | | **111,008** | 115,158 |
| Deposit for acquisition of property, plant and equipment | | **4,425** | 914 |
| Deferred tax assets | *13(b)* | **1,719** | 991 |
| | | **299,999** | 356,752 |
| **CURRENT ASSETS** | | | |
| Inventories | | **146,468** | 136,749 |
| Trade and other receivables | *10* | **203,041** | 210,918 |
| Fixed deposit | | – | 4,000 |
| Cash and cash equivalents | | **350,724** | 325,195 |
| | | **700,233** | 676,862 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *11* | **176,949** | 187,124 |
| Interest-bearing bank borrowings | *12* | **30,000** | 100,000 |
| Entrusted loans from the immediate parent company | | **9,000** | 9,000 |
| Deferred revenue | | **401** | 401 |
| Current taxation | *13(a)* | **13,220** | 14,664 |
| | | **229,570** | 311,189 |
| **NET CURRENT ASSETS** | | **470,663** | 365,673 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **770,662** | 722,425 |

| | Notes | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred revenue | | **3,212** | 4,492 |
| Deferred tax liabilities | *13(b)* | **17,682** | 18,394 |
| | | **20,894** | 22,886 |
| **NET ASSETS** | | **749,768** | 699,539 |
| **EQUITY** | | | |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | | **167,800** | 167,800 |
| Reserves | | **482,049** | 431,792 |
| **TOTAL** | | **649,849** | 599,592 |
| **NON-CONTROLLING INTERESTS** | | **99,919** | 99,947 |
| **TOTAL EQUITY** | | **749,768** | 699,539 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*As at 31 December 2017*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Statutory reserve fund** | **Capital reserve** | **(Accumulated losses)/ Retained earnings** | **Sub-total** | **Non-controlling interests** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2016 | 167,800 | 554,844 | 38,481 | (188,494) | (35,731) | 536,900 | 95,022 | 631,922 |
| **Change in equity for 2016** | | | | | | | | |
| Profit and total comprehensive income for the year | – | – | – | – | 62,692 | 62,692 | 10,125 | 72,817 |
| Dividend paid from a subsidiary to non-controlling interests | – | – | – | – | – | – | (5,200) | (5,200) |
| Transfer to other reserves | – | – | 5,268 | – | (5,268) | – | – | – |
| | – | – | 5,268 | – | (5,268) | – | (5,200) | (5,200) |
| **At 31 December 2016** | 167,800 | 554,844 | 43,749 | (188,494) | 21,693 | 599,592 | 99,947 | 699,539 |
| At 1 January 2017 | **167,800** | **554,844** | **43,749** | **(188,494)** | **21,693** | **599,592** | **99,947** | **699,539** |
| **Change in equity for 2017** | | | | | | | | |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **50,257** | **50,257** | **5,172** | **55,429** |
| Dividend paid from a subsidiary to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(5,200)** | **(5,200)** |
| Transfer to other reserves | **–** | **–** | **4,870** | **–** | **(4,870)** | **–** | **–** | **–** |
| | **–** | **–** | **4,870** | **–** | **(4,870)** | **–** | **(5,200)** | **(5,200)** |
| **At 31 December 2017** | **167,800** | **554,844** | **48,619** | **(188,494)** | **67,080** | **649,849** | **99,919** | **749,768** |

## 1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These consolidated financial statements also comply with the applicable disclosure requirements of the GEM Listing Rules ("GEM Listing Rules").

These consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the consolidated entities. All amounts are rounded to the nearest thousand except where otherwise indicated.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.

The consolidated financial statements have been prepared on the historical cost basis.

## 2. Adoption of New and Amended HKFRSs

**Amended HKFRSs that are effective for annual periods beginning on or after 1 January 2017**

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle | Disclosure of Interests in Other Entities |

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

**Amendments to HKAS 7 "Disclosure Initiative"**

The amendments require an entity to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is required to be disclosed. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

**Issued but not yet effective HKFRSs**

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contract[4] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term interest in associates and joint ventures[2] |
| Amendments to HKAS 28 | As part of the annual improvements to HKFRSs 2014-2016 cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014-2016 Cycle[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[2] |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective date not yet determined
4 Effective for annual periods beginning on or after 1 January 2021

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

**HKFRS 9 "Financial instruments"**

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

HKFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January, 2018.

**HKFRS 15 "Revenue from Contracts with Customers"**

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as "HKFRS 15") presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

***Timing of revenue recognition***

The Group's revenue recognition policies are disclosed in the consolidated financial statements. Currently, revenue arising from provision of services is recognised over time, whereas revenue from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) when the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) when the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sales of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognise revenue from sale of goods and service income.

The directors do not consider that the application of HKFRS 15 will likely to have significant financial impact on the Group's financial performance and financial position for the current and prior periods. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

**HKFRS 16 "Leases"**

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of land and buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to approximately RMB4,042,000 for land and buildings, the majority of which is payable either between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt HKFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

## 3. Revenue

Revenue represents the invoiced value of goods sold and services provided (net of value-added tax and after allowances for returns and trade discounts).

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Manufacturing and selling of medicines | **427,022** | 430,856 |
| Sales and distribution of medicines and healthcare products* | **363,264** | 328,066 |
| Research and development services income | **–** | 189 |
| | **790,286** | 759,111 |

* For the year ended 31 December 2017, the revenue from sales and distribution of medicines and healthcare products included the revenue from sales management services of pharmaceutical products of approximately RMB11,215,000.

## 4. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's executive directors for the purpose of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Manufacturing and selling of medicines;

(ii) Sales and distribution of medicines and healthcare products; and

(iii) Provision of research and development services of modern biological technology.

Currently, all the Group's activities above are carried out in the People's Republic of China (the "PRC"). No reportable operating segment has been aggregated.

The first segment derives its revenue from the manufacturing and sales of medicines.

The second segment derives its revenue from sales and distribution of medicines and healthcare products and providing sales management services of pharmaceutical products.

The third segment derives its revenue from the provision of research & development services.

**(a) Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's executive directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets. Segment liabilities include all current and non-current liabilities with the exception of current taxation and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segments profit is "adjusted EBITDA", that is "adjusted earnings before interest, taxes, depreciation and amortisaiton", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' fees and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the executive directors are provided with segment information concerning revenue (including inter-segment revenue), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation, impairment loss, reverse of impairment loss on trade and other receivables, write down of inventories, reverse of write down of inventories, reversal of overprovision of retirement benefits and additions to non-current segment assets used by the segments in their operations. Inter-segment revenue are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

| | Manufacturing and selling of medicines | | Sales and distribution of medicines and healthcare products | | Research and development services | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the year ended 31 December | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Segment revenue** | | | | | | | | |
| Revenue from external customers | **427,022** | 430,856 | **363,264** | 328,066 | **–** | 189 | **790,286** | 759,111 |
| Inter-segment revenue | **35,357** | 28,929 | **–** | – | **–** | – | **35,357** | 28,929 |
| **Reportable segment revenue** | **462,379** | 459,785 | **363,264** | 328,066 | **–** | 189 | **825,643** | 788,040 |
| **Reportable segment profit/(loss) (adjusted EBITDA)** | **42,654** | 67,911 | **47,504** | 38,262 | **(4,368)** | (913) | **85,790** | 105,260 |
| Interest income from bank deposits | **2,767** | 2,403 | **377** | 156 | **459** | 35 | **3,603** | 2,594 |
| Interest income from principal protected deposits | **1,300** | – | **–** | – | **–** | – | **1,300** | – |
| Interest expenses | **(3,229)** | (3,750) | **–** | – | **–** | (136) | **(3,229)** | (3,886) |
| Depreciation and amortisation: | | | | | | | | |
| – property, plant and equipment | **(12,195)** | (11,857) | **(91)** | (1,170) | **(1,087)** | (2,263) | **(13,373)** | (15,290) |
| – prepaid lease payments | **(1,570)** | (1,570) | **–** | – | **–** | – | **(1,570)** | (1,570) |
| – intangible assets | **(3,950)** | (4,231) | **(200)** | (201) | **–** | – | **(4,150)** | (4,432) |
| Write down of inventories | **(10,814)** | (2,179) | **(1,646)** | (2,585) | **–** | – | **(12,460)** | (4,764) |
| Reversal of write down of inventories | **85** | – | **222** | 1,860 | **–** | – | **307** | 1,860 |
| Impairment of: | | | | | | | | |
| – trade receivables | **(350)** | (73) | **–** | (238) | **–** | – | **(350)** | (311) |
| – other receivables | **(1)** | (191) | **–** | (57) | **(401)** | – | **(402)** | (248) |
| Reverse of impairment loss on: | | | | | | | | |
| – trade receivables | **3** | 92 | **49** | 194 | **–** | – | **52** | 286 |
| – other receivables | **129** | 67 | **8** | 7 | **–** | – | **137** | 74 |
| Reversal of overprovision of retirement benefits | **–** | – | **–** | 1,000 | **–** | – | **–** | 1,000 |
| Income tax expense | **(2,975)** | (7,137) | **(12,024)** | (9,834) | **100** | (881) | **(14,899)** | (17,852) |
| **Reportable segment assets** | **734,733** | 864,361 | **183,303** | 161,322 | **184,448** | 169,100 | **1,102,484** | 1,194,783 |
| Additions to non-current assets (other than financial instrument and deferred tax assets) | **30,823** | 22,978 | **3,419** | 269 | **69** | 5 | **34,311** | 23,252 |
| **Reportable segment liabilities** | **249,704** | 371,985 | **60,183** | 76,275 | **14,888** | 16,268 | **324,775** | 464,528 |

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenue.

**(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **825,643** | 788,040 |
| Elimination of inter-segment revenue | **(35,357)** | (28,929) |
| Consolidated revenue | **790,286** | 759,111 |
| **Profit** | | |
| Reportable segment profit | **85,790** | 105,260 |
| (Elimination)/Reversal of inter-segment profit | **(631)** | 84 |
| Reportable segment profit derived from the Group's external customers | **85,159** | 105,344 |
| Other revenue and other net income | **9,768** | 12,776 |
| Depreciation and amortisation | **(19,093)** | (21,292) |
| Finance costs | **(3,229)** | (3,886) |
| Unallocated head office and corporate expense | **(2,277)** | (2,273) |
| Consolidated profit before taxation | **70,328** | 90,669 |
| **Assets** | | |
| Reportable segment assets | **1,102,484** | 1,194,783 |
| Elimination of inter-segment receivables | **(103,971)** | (162,160) |
| | **998,513** | 1,032,623 |
| Deferred tax assets | **1,719** | 991 |
| Consolidated total assets | **1,000,232** | 1,033,614 |
| **Liabilities** | | |
| Reportable segment liabilities | **324,775** | 464,528 |
| Elimination of inter-segment payables | **(105,213)** | (163,511) |
| | **219,562** | 301,017 |
| Current taxation | **13,220** | 14,664 |
| Deferred tax liabilities | **17,682** | 18,394 |
| Consolidated total liabilities | **250,464** | 334,075 |

### (c) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Medicines and healthcare products | **779,071** | 758,922 |
| Research and development services | **–** | 189 |
| Sales management services of pharmaceutical products | **11,215** | – |
| | **790,286** | 759,111 |

### (d) Geographic Information

The Group's revenue and results from operations mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the year. Accordingly, no analysis by geographical segment is provided.

## 5. Other Revenue and Other Net Income

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Other revenue** | | |
| Interest income from bank deposits | **3,603** | 2,594 |
| Interest income from principal protected deposits | **1,300** | – |
| Government subsidies: | | |
| – released from deferred revenue | **1,280** | 753 |
| – directly recognised in profit or loss | **1,191** | 3,266 |
| Others | **511** | 845 |
| Gain on disposal of available-for-sales investment | **–** | 50 |
| Gain on disposal of a subsidiary | **–** | 1,594 |
| Gain on disposal of prepaid lease payments | **1,030** | – |
| | **8,915** | 9,102 |
| **Other net income** | | |
| Reverse of impairment loss on trade receivables | **52** | 286 |
| Reverse of impairment loss on other receivables | **137** | 74 |
| Reversal of overprovision of retirement benefit | **–** | 1,000 |
| Reversal of write down of inventories | **307** | 1,860 |
| Net foreign exchange gains | **77** | 4 |
| Others | **280** | 450 |
| | **853** | 3,674 |

## 6. Profit Before Taxation

Profit before taxation is arrived at after charging the following:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **(a) Finance costs** | | |
| Interest on bank loans | **3,229** | 3,622 |
| Interest on financial assistance from the immediate parent company | **–** | 264 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **3,229** | 3,886 |
| **(b) Staff costs (including directors' emoluments)*** | | |
| Contributions to defined contribution retirement plans | **12,985** | 12,706 |
| Salaries, wages and other benefits | **58,526** | 61,261 |
| | **71,511** | 73,967 |
| **(c) Other items** | | |
| Amortisation: | | |
| – prepaid lease payments | | |
| – charged to consolidated statement of profit or loss and other comprehensive income | 1,570 | 1,570 |
| – transfer to construction-in-progress | 628 | 783 |
| | 2,198 | 2,353 |
| – intangible assets* | 4,150 | 4,432 |
| Depreciation: | | |
| – assets held for own use under leases | 3,549 | 3,725 |
| – other assets | 9,824 | 11,565 |
| Impairment of: | | |
| – trade receivables* | 350 | 311 |
| – other receivables* | 402 | 248 |
| Write down of inventories* | 12,460 | 4,764 |
| Loss on disposal of property, plant and equipment* | 106 | 221 |
| Auditor's remuneration | 1,170 | 1,341 |
| Auditor's non-audit services remuneration | 425 | 319 |
| Operating lease charges: | | |
| minimum lease payment | 8,548 | 8,897 |
| Cost of inventories | 355,062 | 365,019 |
| Research and development costs* | 29,386 | 18,148 |

* These amounts are included in "Other operating expenses" presented on the consolidated statement of profit or loss and other comprehensive income.

## 7. Income Tax Expense

### (a) Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current taxation** | | |
| PRC Enterprise Income Tax ("EIT") | **16,339** | 18,747 |
| Over provision for PRC EIT in respect of prior years | **–** | (635) |
| Deferred tax | | |
| Origination and reversal of temporary differences | **(1,440)** | (260) |
| | **14,899** | 17,852 |

Hong Kong Profits Tax has not been provided for as the Group had no assessable profits to Hong Kong Profits Tax for the year (2016: Nil).

As at 31 December 2017 and 2016, two subsidiaries of the Group established in the PRC are qualified as high technology enterprise. In accordance with the applicable Enterprise Income Tax Law of the PRC, these subsidiaries are subject to the PRC EIT at a preferential rate of 15%.

The Company and other PRC subsidiaries are subject to the PRC EIT at a rate of 25% (2016: 25%) for the year ended 31 December 2017.

### (b) Reconciliation between income tax expense and accounting profit at the applicable tax rates:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **70,328** | 90,669 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned | **14,970** | 17,264 |
| Tax effect of non-deductible expenses | **1,057** | 1,325 |
| Tax effect of non-taxable income | **(2,192)** | (2,195) |
| Tax effect of unused tax losses not recognised | **1,064** | 1,212 |
| Over provision in prior years | **–** | (635) |
| Reversal of temporary difference | **–** | 881 |
| Income tax expenses | **14,899** | 17,852 |

## 8. Dividends

The directors do not propose the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

## 9. Earnings Per Share

**Basic earnings per share**

The calculation of basic earnings per share has been based on the profit attributable to owners of the Company of approximately RMB50,257,000 (2016: approximately RMB62,692,000) and the weighted average number of 1,678,000,000 ordinary shares (2016: 1,678,000,000 ordinary shares) in issue during the year.

**Diluted earnings per share**

Diluted earnings per share equals to basic earnings per share as there were no potential dilutive ordinary shares outstanding for both years presented.

## 10. Trade and Other Receivables

| | Notes | 2017<br>*RMB'000* | 2016<br>(Restated)<br>*RMB'000* |
|---|---|---|---|
| Trade and bills receivables | | **174,826** | 178,303 |
| Less: allowance for impairment loss | | **(2,130)** | (2,282) |
| | | **172,696** | 176,021 |
| Amounts due from fellow subsidiaries | *(i)* | **1,897** | 3,265 |
| Amounts due from related companies | *(i)* | **13,183** | 9,026 |
| Amount due from the intermediate parent company | *(i)* | **138** | 138 |
| Other receivables | | **3,728** | 5,093 |
| Value-added tax recoverable | *(ii)* | **462** | 579 |
| Loans and receivables | | **192,104** | 194,122 |
| Prepayment and deposits | | **10,937** | 16,796 |
| | | **203,041** | 210,918 |

All of the trade and other receivables classified as current assets are expected to be recovered within one year.

*Notes:*

(i) The amounts are unsecured, interest-free and repayable within one year.

(ii) Value-added tax recoverable is value-added tax paid by the Group eligible for offsetting value-added tax payable to arise on future revenue streams in accordance with relevant PRC tax laws.

**(a) Aging analysis**

The following is an aging analysis of trade and bills receivables, presented based on the invoice date, which approximates the respective revenue recognition dates:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **133,170** | 142,804 |
| More than 3 months but less than 12 months | **38,340** | 28,059 |
| Over 12 months | **1,186** | 5,158 |
| | **172,696** | 176,021 |

Trade and bills receivables are due within 30-180 days (2016: 30 days) from the date of billing.

**(b) Impairment of trade receivables**

Impairment loss in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

**Movements in the allowance for impairment loss:**

| | | **2017** | 2016 |
|---|---|---|---|
| | *Notes* | ***RMB'000*** | *RMB'000* |
| At 1 January | | **2,282** | 2,453 |
| Impairment loss recognised | *(i)* | **350** | 311 |
| Recovery of impairment loss | *(ii)* | **(52)** | (286) |
| Uncollectible amount written off | *(iii)* | **(450)** | (196) |
| At 31 December | | **2,130** | 2,282 |

*Notes:*

(i) As at 31 December 2017, trade receivables of the Group amounting to approximately RMB350,000 (2016: approximately RMB311,000) were individually determined to be impaired and allowance had been made. These individually impaired receivables were outstanding for over 1 year as at the end of the reporting period or were due from customers with financial difficulties.

(ii) Approximately RMB52,000 (2016: approximately RMB286,000) of the trade receivables previously impaired was recovered during the year. Therefore, the impairment loss was reversed.

(iii) As at 31 December 2017, a bad debt of approximately RMB450,000 (2016: approximately RMB196,000) was written off against trade receivables directly as the Group assessed that the recovery of the amount is remote.

(iv) The Group does not hold any collateral over these balances.

### (c) Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | **126,618** | 142,804 |
| Past due but not impaired: | | |
| 1 to 3 months past due | **39,735** | 28,059 |
| Over 3 months past due | **6,343** | 5,158 |
| | **172,696** | 176,021 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 11. Trade and Other Payables

| | | 2017 | 2016 |
|---|---|---|---|
| | | | (Restated) |
| | *Notes* | *RMB'000* | *RMB'000* |
| Trade and bills payables | | **70,718** | 67,198 |
| Receipts in advance | | **13,160** | 7,464 |
| Other payables and accruals | | **61,793** | 70,538 |
| Amounts due to fellow subsidiaries | *(i)* | **31,262** | 37,800 |
| Amount due to the immediate parent company | *(i)* | **–** | 4,111 |
| Amounts due to related companies | *(i)* | **16** | 13 |
| Financial liabilities measured at amortised cost | | **176,949** | 187,124 |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. An aging analysis of trade and bills payables at the end of the reporting period, presented based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **57,140** | 37,878 |
| 4 to 6 months | **6,064** | 14,224 |
| 7 to 12 months | **510** | 6,630 |
| Over 1 year | **7,004** | 8,466 |
| | **70,718** | 67,198 |

*Notes:*

(i) As at 31 December 2017, the balances are unsecured, interest-free and repayable on demand.

## 12. Interest-bearing Bank Borrowings

| | **Effective interest rate** | **Maturity** | **2017** | 2016 |
|---|---|---|---|---|
| | | | ***RMB'000*** | *RMB'000* |
| Short-term bank loan – secured | 4.35% (2016: 4.85%) | within 1 year | **30,000** | 100,000 |

The interest-bearing bank borrowings are carried at amortised cost. All of the Group's borrowings are denominated in RMB.

RMB30,000,000 facility for issue of bills and RMB100,000,000 loan facility were obtained from a bank on 18 May 2015 and 22 July 2015 respectively. On 4 August 2016, the loan facility and bill facility were renewed and combined into one bank facility of RMB100,000,000. The renewed bank facility is shared by loan and issue of bill, secured by pledge of buildings and prepaid lease payments of a subsidiary, and carries common profitability and gear ratio covenants on that subsidiary. Issue of bill, in addition to the aforementioned pledge, requires at least 50% pledge of bank deposit. Bill payable, if it is issued, carries no interest.

**For the year ended 31 December 2016**

At 31 December 2016, the bank facility was fully utilised and loan of RMB100,000,000 was outstanding and the pledged buildings and prepaid lease payments were stated at an aggregate value of approximately RMB103,633,000. No bills were issued.

**For the year ended 31 December 2017**

At 31 December 2017, the total bank facility was utilised to the extent of RMB30,000,000 and the Group has available utilised backing facilities of RMB70,000,000. The pledged buildings and prepaid lease payments were stated at an aggregate value of approximately RMB33,159,000 and approximately RMB60,879,000 respectively. No bills were issued.

## 13. Income Tax in the Consolidated Statement of Financial Position

### (a) Current taxation in the consolidated statement of financial position represents:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **PRC EIT** | | |
| Provision for the year | **10,878** | 12,322 |
| Balance of tax provisions relating to prior years | **2,342** | 2,342 |
| | **13,220** | 14,664 |

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year as follows:

| | **Fair value change of non-current assets** | **Others** | **Total** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| At 1 January 2016 | 19,098 | (1,435) | 17,663 |
| (Credited)/charged to profit or loss | (704) | 444 | (260) |
| At 31 December 2016 and 1 January 2017 | 18,394 | (991) | 17,403 |
| Credited to profit or loss | (712) | (728) | (1,440) |
| **At 31 December 2017** | 17,682 | (1,719) | 15,963 |

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net deferred tax assets recognised on the consolidated statement of financial position | **(1,719)** | (991) |
| Net deferred tax liabilities recognised on the consolidated statement of financial position | **17,682** | 18,394 |
| **At 31 December** | **15,963** | 17,403 |

### (c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB88,191,000 (2016: approximately RMB102,477,000) available for offset against future profits that may be carried forward for five years for PRC EIT purposes. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the year ended 31 December 2017 (the "Year"), the Group was principally engaged in the research and development, manufacturing and selling of medicines, and the purchase and sales of medicines and healthcare food products in the PRC. The medicines being sold by the Group mainly cover four therapeutic areas which are oncology, cardiovascular system, respiratory system and digestive system.

### Research and Development, Manufacturing and Selling of Medicines

Currently, the Group manufactures its own medicines through the production base ("Fuzhou Production Base") located in Jin'an District, Fuzhou, Fujian Province, the PRC, including herbal medicine, generic drugs, transfusion, anti-tumor drugs and other drugs. The Fuzhou Production Base is the only narcotic production base in Fujian Province designated by the State and also the only medicine production base for army reserves in Fujian Province for the General Logistics Department of the Chinese People's Liberation Army.

Currently, the Group's research and development work is mainly serving by the way of independent research and development and cooperation with external research and development institutions to meet the internal development demands of the Group. Two pharmaceutical manufacturing subsidiaries of the Group are high-tech enterprises. They currently possess various new drugs and exclusive products with self-owned intellectual property rights, including Tegafur, Gimeracil and Oteracil Potassium Tablets (the "TGOP Tablets" 替吉奧片, a new drug for anti-gastric cancer), Xiaozheng Yigan Tablets (消症益肝片, an anti-liver-cancer drug), Proteoglycan Tablets (多糖蛋白片, for enhancing immune system), Biyuan Capulses (鼻淵膠囊, an anti-rhinitis medicine), Amaranth Berberine Capsules (莧菜黃連素膠囊, a drug for acute diarrhea) and HTK Myocardial Protection Cardioplegic Solution (HTK心肌停跳液, a Class III medical device). Among the aforesaid products, the research and development of HTK Myocardial Protection Cardioplegic Solution of a relevant subsidiary was awarded "Fujian Enterprise Excellent Innovation Achievement Prize" in the Year by Fujian Province Enterprise and Entrepreneur Union (福建省企業與企業家聯合會); and Amaranth Berberine Capsules was the top seller among the antidiarrheal Chinese patent medicines in urban retail drugstores of China in 2016 with a market share of approximately 33% according to the information released in August 2017 by Menet (previously known as China Pharmaceutical Economic Information Network), a pharmaceutical information web portal.

Under the national policy in relation to quality consistency evaluation for generic drugs promulgated in 2016, appropriate types of medicines were proactively selected by a pharmaceutical manufacturing subsidiary of the Group and the first batch of selected medicines was selected to proceed the quality consistency evaluation for generic drugs in 2016, and the relevant work is under orderly progress.

During the Year, the sales of the large-capacity injection series products were affected by the unsatisfactory results of tendering process in some regions of Fujian Province. Given the situation, the Group will proactively keep up with pharmaceutical policies of Fujian Province, make proper arrangements for the bidding, strive to win bidding in more areas and actively expand the product sales network in 2018, thereby restrict and reverse the decrease in sales volume of the relevant products.

Meanwhile, at the end of the Year, certain provisions for obsolete inventory and inventory write off were respectively made by the Group against the large-capacity injection products that were previously produced in a large scale to cope with the Designated Production of Injections Policy (輸液定點生產政策) in Fujian Province.

The Pharmaceutical GMP Certificate of a production line for large volume injections of glass bottles owned by a subsidiary of the Group, which has the smaller production capacity, was withdrawn in the middle of August 2017. The withdrawal of the certificate did not significantly affect the production and operation and the results of the Group for the Year. According to the current regulations of the PRC, if the Pharmaceutical GMP Certificate of a production line has been withdrawn, the pharmaceutical manufacturer can re-apply for the GMP certification for such production line after proper rectification and reforms. In light of this, the subsidiary will strive to re-obtain the Pharmaceutical GMP Certificate for relevant production line. At the same time, the Group will increase its investment in pharmaceutical manufacturing and quality assurance systems in 2018 for ensuring and upgrading the Group's product quality.

Thanks to the State's support for the development of herbal medicine industry, as well as the increasing demand for herbal medicine products, the sales revenue of the herbal medicine products during the Year continued its positive growth. In addition, the TGOP Tablets have won the bids in Fujian Province and Guangdong Province, and the sales of which is good. The sales revenue of the TGOP Tablets for the Year recorded substantial growth as compared with that of last year. The Group will continue to increase the promotion of herbal medicine products and the TGOP Tablets in 2018.

The Group obtained the land use rights in respect of two pieces of lands located at Aojiangyuan District, Lianjiang County, Fuzhou City, Fujian Province, the PRC (the "Lands") through the listing for sales (掛牌出讓) organized by the Bureau of Land Resources of Lianjiang ("Lianjiang Land Bureau") on 19 April 2012 to build a pharmaceutical production base ("Lianjiang Project"). After the delivery of the Lands to the Group by Lianjiang Land Bureau in March 2015, the Group had been proactively conducting preliminary construction preparation work on the Lands in respect of the Lianjiang Project, but due to various factors, the construction progress had been slow. In light of this, the Group had actively communicated with the relevant government departments of Lianjiang County. On 19 October 2017, two subsidiaries of the Group, Neptunus Fuyao Pharmaceutical (Lianjiang) Co., Ltd. ("Neptunus Fuyao Lianjiang") and Neptunus Jinxiang Chinese Pharmaceutical (Lianjiang) Co., Ltd. ("Neptunus Jinxiang Lianjiang") respectively entered into a land resumption agreement with Lianjiang County Land Development Centre and Lianjiang Economic Development District Management Committee, pursuant to which Lianjiang County Land Development Centre redeemed the Lands for a total consideration of RMB63,869,886. As the Lianjiang Project was still in its early stage of construction with only preparatory work, the infrastructure was not completed and no actual operation commenced, thus the resumption of the Lands will not bring any material impact on the Group's normal course of production and operation. The proceeds from the resumption of the Lands will be used for more suitable new construction project or business development project. In the middle of November 2017, the Group received all consideration of the resumption of the Lands. Meanwhile, Neptunus Fuyao Lianjiang and Neptunus Jinxiang Lianjiang handed over the Lands and their ancillary assets to Lianjiang County Land Development Centre. The resumption of the Lands did not significantly impact on the Group's result of the Year.

**Purchase and Sales of Medicines and Healthcare Food Products**

Currently, the main products distributed by the Group are medicines and healthcare food products, including the well-known product series of the Neptunus Ginkgo Leaves Tablets (海王銀杏葉片) and Neptunus Jinzun (海王金樽). In the Year, Neptunus® Yinkeluo® Ginkgo Leaves Tablets was listed in the Rui Sub-List of China Pharmaceutical Brand List (中國制藥•品牌榜銳榜) sponsored by Menet. The brands listed were the brands recorded high growth rate by the three great terminals of Menet in the most recent year and were selected into the Rui Sub-List through a stringent procedure. During the evaluating process, many professional research institutions, professionals and academics of the industry and entrepreneurs provided plenty of professional advice and the Rui Sub-List was of relatively great influence in China pharmaceutical industry.

During the Year, the purchase and sales of medicines and healthcare food products business continued to grow. Among which, the sales volume through large and medium-sized chain drugstores continued to grow due to reasons such as the increase in demands in domestic pharmaceutical retail market and healthcare food products market, the increase in the number of products and categories distributed by the Group, adoption of a flexible and diversified sales policy, in-depth optimization of the sales force etc.. Due to the implementation of "two invoice system" (兩票制) and "one invoice system" (一票制) in the PRC, the marketing model of drugs that were sold to terminal medical institutions through professional sales promotion companies is still in the adjustment stage and the sales revenue of the relevant business remains substantially unchanged. The overall sales revenue of the purchase and sales of medicines and healthcare food products business continued to maintain positive growth.

In order to reduce the intermediate links in pharmaceutical circulation, the PRC government has progressively implemented "one invoice system" (一票制) or "two invoice system" (兩票制) in the relevant provinces. Due to the impact of such policies, certain pharmaceutical products which were originally distributed through the Group are now needed to be directly supplied to hospitals or terminal distributors by the pharmaceutical manufacturing enterprises. To offset the impact on sales revenue brought by the decrease in the quantities of the pharmaceutical products distributed by the Group, the Group has proactively adjusted its business model and has started to provide sales management services of pharmaceutical products to relevant pharmaceutical manufacturing enterprises. So far, the business is being carried out progressively.

In 2018, the Group will proactively leverage on the opportunities and challenges in the pharmaceutical circulation business brought by the national medical policies as well as strive the impact of unfavourable conditions, so as to maintain the growth of the purchase and sales of medicines and healthcare food products business.

**Environment, Society and Governance**

The Group has been giving emphasis and taking actions in the aspects of environment, society and governance, including: constantly improving production efficiency, conserved resources and enhanced employees' awareness of environmental protection. Regarding production, the output corresponding to unit carbon emission increases, the pollution and the emission of hazardous substance which are in violation of laws and regulations are banned. Regarding office management, office supplies and energy consumption are conserved. Also, the Group actively improved the working environment and committed to social responsibility.

During the Year, the Company engaged a professional third party institution to assist the Group in conducting the comprehensive communication (from various dimensions) with stakeholders by way of face-to-face communication, telephone interview, questionnaire and survey. The relevant results are not only the important reference to which we review and promote the sustainable development agenda of the Group, but also provide a powerful basis for the material selection and preparation of our environmental, social and governance report.

The environmental, social and governance report prepared by the Company pursuant to Appendix 20 of the GEM Listing Rules will be published within three months following the release of the Company's annual report.

## PROSPECTS AND OUTLOOK

With the Chinese government's continual reforms on the pharmaceutical industry, pharmaceutical enterprises will face more stringent regulations. Although this may create short-term operating pressures, the Group believes that a better regulated market will ultimately bring opportunities to pharmaceutical enterprises in China and keep the pharmaceutical industry grow in the long term. The Group believes that the growth of the pharmaceutical industry in China is supported by a combination of favourable factors, including the ageing population, the overall two-child policy, Chinese government's continual investment of resources and funds in the pharmaceutical industry, and the rising income level and better affordability of domestic consumers. Going forward, the Group will leverage on the opportunities and challenges in the pharmaceutical and healthcare industry brought by the national policies, as well as strive to eliminate the impact of unfavourable conditions. Meanwhile, the Group will also allocate more resources to the research and development of new drugs, quality consistency evaluation for generic drug and product quality assurance system, ensuring the sustainable and healthy development of the Group's pharmaceutical manufacturing and sales business.

## FINANCIAL REVIEW

The Group's revenue for the Year was approximately RMB790,286,000 (2016: approximately RMB759,111,000), representing an increase of approximately 4.11% as compared with the corresponding period of last year. For the revenue, approximately RMB427,022,000 which amounted to approximately 54.03% of the revenue was derived from the manufacturing and selling of medicines segment, while approximately RMB363,264,000 which amounted to approximately 45.97% of the revenue was derived from the sales and distribution of medicines and healthcare products segment. During the Year, the revenue from the manufacturing and selling of medicines segment remained basically the same as compared with last year's while the revenue of the sales and distribution of medicines and healthcare products segment increased by approximately 10.73%. Thereby the total revenue of the Group had an overall increase. In the Year, as relevant provinces in the mainland China progressively implemented "one invoice system" (一票制) or "two invoice system" (兩票制) in pharmaceutical circulation, certain relevant businesses of the Group's sales and distribution of medicines and healthcare products segment were gradually changed from the purchase and distribution business model to pharmaceutical sales management service business model. The Group's revenue derived from sales management services of pharmaceutical products in the Year was approximately RMB11,215,000, which amounted to approximately 3.09% of the revenue of the sales and distribution of medicines and healthcare products segment.

During the Year, the Group's gross profit margin was approximately 54% (2016: approximately 51%), representing a slight increase of approximately 3 percentage points as compared with the corresponding period of last year. The increase in gross profit margin was mainly due to the fact that (i) after many provinces in the mainland China progressively implemented "two invoice system" (兩票制) in pharmaceutical circulation in the Year, pharmaceutical manufacturers' invoiced sales revenue increased, thereby the gross margin increased accordingly. And with the overall promotion and implementation of the "two invoice system" (兩票制), relevant influence will gradually grow and reflect; and (ii) affected by the change of tender policy in Fujian Province, the sales structure of the Group's manufacturing and selling of medicines segment has changed, and there was a relative decline in sales volume of products with lower profit margin during the Year and there was a relative increase in sales volume of products with higher profit margin during the Year.

During the Year, the Group's gross profit was approximately RMB425,031,000 (2016: approximately RMB387,206,000), representing an increase of approximately 9.77% as compared with the corresponding period of last year. The increase in gross profit was mainly due to (i) the increase in the Group's gross profit margin during the Year; and (ii) an overall increase in the Group's revenue, as a result of the increase in the sales scale of the sales and distribution of medicines and healthcare products segment.

During the Year, the Group's selling and distribution expenses were approximately RMB262,777,000 (2016: approximately RMB225,786,000), representing an increase of approximately 16.38% as compared with the corresponding period of last year. The increase in selling and distribution expenses was mainly due to the fact that (i) as the sales scale of the sales and distribution of medicines and healthcare products segment increased, its sales expenses increased accordingly; and (ii) the successive implementation of the "two invoice system" (兩票制) across the country and the implementation of the "one invoice system" (一票制) in Fujian province resulted a significant increase in sales expenses as compared with the corresponding period of last year.

During the Year, the Group's administrative expenses were approximately RMB51,523,000 (2016: approximately RMB50,441,000), which increased approximately 2.15% as compared with the corresponding period of last year.

During the Year, the Group's other operating expenses amounted to approximately RMB46,942,000 (2016: approximately RMB29,200,000), representing a significant increase of approximately 60.76% as compared with the corresponding period of last year. The increase in other operating expenses was mainly due to the fact that (i) during the Year, the Group accelerated the process to push forward the quality consistency evaluation for generic drugs. The relevant expenses incurred from the quality consistency evaluation for generic drugs were very high and reckoned in the research and development costs during the Year, which caused a significant increase in research and development costs as compared with the corresponding period of last year; and (ii) after the Fujian government launched the Designated Production of Injections Policy (輸液定點生產政策) in 2015, the Group's manufacturing and selling of medicines segment over-produced injection products to ensure supply. But the policy was cancelled later, which caused inventory backlog of the injection products. Certain provisions for obsolete inventory and inventory write off were made respectively against relevant overstocked injection products by the end of the Year.

During the Year, the Group's finance costs amounted to approximately RMB3,229,000 (2016: approximately RMB3,886,000), representing a significant decrease of approximately 16.91%. The decrease in finance costs was mainly because the Group has repaid part of the bank borrowings and the average loan rate decreased slightly.

Due to the above reasons, the Group's profit after tax decreased from approximately RMB72,817,000 of the corresponding period of last year, to approximately RMB55,429,000 of the Year. Profit attributable to the owners of the Company decreased from approximately RMB62,692,000 of the corresponding period of last year, to approximately RMB50,257,000 of the Year, representing a decrease of approximately 19.84%.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group usually finances its operating and investing activities with its internal financial resources and bank loans. The Group's transactions are mainly denominated in Renminbi and the Group reviews its working capital and finance requirements on a regular basis.

### Banking Facilities

As at 31 December 2017, the Group's short-term bank borrowings amounted to RMB30,000,000. Details of banking facilities please refer to note 12.

### Shareholder's Entrusted Loan

The Company obtained a shareholder's entrusted loan of RMB9,000,000 from Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") through an entrusted arrangement with a bank. Neptunus Bio-engineering had undertaken to the Company that it would not demand repayment of the above-mentioned shareholder's entrusted loan unless and until: (1) the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or its business objectives as set out in the prospectus published by the Company on 29 August 2005 (the "Prospectus"); (2) each of the independent non-executive Directors was of the opinion that the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus, and the Company would make an announcement in respect of the decision of the independent non-executive Directors made under (2); and (3) the Company had a positive cash flow and had retained profits in the relevant financial year.

## NET CURRENT ASSETS

As at 31 December 2017, the Group had net current assets of approximately RMB470,663,000. Current assets comprised cash and cash equivalents of approximately RMB350,724,000, inventories of approximately RMB146,468,000, trade and other receivables of approximately RMB203,041,000. Current liabilities comprised trade and other payables of approximately RMB176,949,000, interest-bearing bank borrowings to be repaid within one year of RMB30,000,000, current tax of approximately RMB13,220,000, entrusted loan of RMB9,000,000 and deferred revenue of approximately RMB401,000. The net current assets increased approximately by RMB104,990,000 as compared with that of approximately RMB365,673,000 as at 31 December 2016. The increase in net current assets as compared to that on 31 December 2016 was mainly due to the fact that (i) as sales scale of the Group increased, cash and cash equivalents aggregately increased by approximately RMB25,529,000; (ii) trade and other payables decreased by approximately RMB10,175,000; and (iii) interest-bearing bank borrowings decreased by RMB70,000,000.

## PLEDGE OF ASSETS

As at 31 December 2017, banking facilities of the Group of RMB30,000,000 were secured by pledge of its buildings and prepaid lease payments and the pledged buildings and prepaid lease payments were stated at an aggregate value of approximately RMB94,038,000.

## FOREIGN CURRENCY RISK

During the Year, the Group's operating revenue, major selling costs and capital expenditure were denominated in RMB. As at 31 December 2017, the Group's cash and cash equivalents were mainly denominated in RMB. As such, the foreign currency risk facing the Group is limited. Currently, the Group has not adopted any financial instrument for hedging purposes.

## SEGMENT INFORMATION

Segment revenue and segment results by business and region of the Group for the Year are set out in note 4.

## CAPITAL COMMITMENTS

As at 31 December 2017, the Group has contracted commitments for future capital expenditure of approximately RMB430,000. The Board believes that such capital expenditure can be financed by the Group's bank deposits and bank borrowings.

## CONTINGENT LIABILITY

As at 31 December 2017, the Group had no significant contingent liability.

## MAJOR INVESTMENT PLANS

During the Year, the Group did not make major investments.

## HUMAN RESOURCES

As at 31 December 2017, the Group employed a total of 1,231 staff (2016: 1,251).

During the Year, the staff costs including directors' remuneration which amounted to approximately RMB71,511,000 (2016: approximately RMB73,967,000). The salaries and fringe benefits of the Group's employees remained competitive. The employees' incentives were reviewed and determined annually pursuant to the remuneration and bonus policies of the Group based on the performance of the employees. The Group also provided various other benefits to its employees.

Compared with 31 December 2016, there was no significant movement in the number of employees of the Group at the end of the Year.

The Group monitored closely the remuneration and fringe benefits of the employees and rewarded employees in accordance with the Group's business performance. In addition, training and development opportunities for the employees were also provided by the Group.

## DIVIDENDS

The Directors do not recommend the distribution of any dividends for the Year (2016: Nil).

## DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had no distributable reserves, while its accumulated loss, calculated in accordance with the Company's articles of association and relevant rules and regulations, amounted to approximately RMB102,047,000.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed shares during the Year. The Company and its subsidiaries also did not redeem, purchase or cancel any of their redeemable securities.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE LISTED SECURITIES

As far as the Directors or supervisors of the Company are aware, as at 31 December 2017, the interests and short position of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance), which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the Securities and Futures Ordinance ("SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be and were recorded in the register to be kept by the Company, or were required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company:

| Director | Capacity | Type of interests | Number of domestic shares held | Approximate percentage of all the domestic shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Mr. Song Ting Jiu *(Note (a))* | Beneficial owner | Personal | 1,521,500 | 0.12% | 0.09% |

*Notes:*

(a) Non-executive Director of the Company

Long positions in shares of associated corporations of the Company:

| Director/Chief Executive | Capacity | Type of interests | Name of associated corporation | Number of shares in associated corporation | Approximate percentage of associated corporation's issued share capital |
|---|---|---|---|---|---|
| Mr. Zhang Feng *(Note (a))* | Beneficial owner | Personal | Neptunus Bio-engineering | 1,331,093 | 0.05% |
| Mr. Liu Zhan Jun *(Note (b))* | Beneficial owner | Personal | Neptunus Bio-engineering | 8,883,793 | 0.34% |
| Ms. Yu Lin *(Note (c))* | Beneficial owner | Personal | Neptunus Bio-engineering | 2,144,660 | 0.08% |
| Mr. Song Ting Jiu *(Note (d))* | Beneficial owner | Personal | Neptunus Bio-engineering | 1,516,200 | 0.06% |
| Mr. Zhao Wen Liang *(Note (e))* | Beneficial owner | Personal | Neptunus Bio-engineering | 700,000 | 0.03% |
| Ms. Mu Ling Xia *(Note (f))* | Beneficial owner | Personal | Neptunus Bio-engineering | 656,000 | 0.02% |

*Notes:*

(a) Mr. Zhang Feng, chairman of the Board of the Company and deputy chairman of the board of directors of Neptunus Bio-engineering, was beneficially interested in approximately 0.05% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Shenzhen Neptunus Oriental Investment Company Limited ("Neptunus Oriental").

(b) Mr. Liu Zhan Jun, non-executive Director of the Company and director and president of Neptunus Bio-engineering, was beneficially interested in approximately 0.34% of the entire issued capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

(c) Ms. Yu Lin, non-executive Director of the Company, was beneficially interested in approximately 0.08% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

(d) Mr. Song Ting Jiu, non-executive Director of the Company, was beneficially interested in approximately 0.06% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

(e) Mr. Zhao Wen Liang, non-executive Director of the Company, was beneficially interested in approximately 0.03% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

(f) Ms. Mu Ling Xia, vice general manager of the Company, was beneficially interested in approximately 0.02% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

Save as disclosed above, as at 31 December 2017, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required, pursuant to section 352 of the SFO, to be and were recorded in the register to be kept by the Company, or were required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the Directors and supervisors of the Company are aware, as at 31 December 2017, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified to the Company were as follows:

Long positions in the shares of the Company:

| Name of Substantial Shareholder | Capacity | Number of domestic shares held | Approximate percentage of all the domestic shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|
| Neptunus Bio-engineering *(Note (a))* | Beneficial owner | 1,181,000,000 | 94.33% | 70.38% |
| | Interest in controlled corporation | 52,464,500 | 4.19% | 3.13% |
| Shenzhen Neptunus Group Company Limited ("Neptunus Group") *(Note (b))* | Interest in controlled corporation | 1,233,464,500 | 98.52% | 73.51% |
| Shenzhen Neptunus Holding Group Company Limited ("Neptunus Holding") (Previously known as "Shenzhen Yinhetong Investment Company Limited") *(Note (c))* | Interest in controlled corporation | 1,233,464,500 | 98.52% | 73.51% |
| Mr. Zhang Si Min *(Note (d))* | Interest in controlled corporation | 1,233,464,500 | 98.52% | 73.51% |
| Ms. Wang Jin Song *(Note (e))* | Interest of spouse | 1,233,464,500 | 98.52% | 73.51% |

*Notes:*

(a) Neptunus Bio-engineering was deemed to be interested in the 52,464,500 domestic shares of the Company held by Neptunus Oriental as the entire issued share capital of Neptunus Oriental was beneficially owned by Neptunus Bio-engineering. Neptunus Bio-engineering was also directly interested in 1,181,000,000 domestic shares of the Company. Therefore, Neptunus Bio-engineering was directly and indirectly interested in 1,233,464,500 domestic shares of the Company.

(b) Neptunus Group was deemed to be interested in the 1,233,464,500 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 45.96% of the entire issued share capital of Neptunus Bio-engineering.

(c) Neptunus Holding was deemed to be interested in 1,233,464,500 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Neptunus Holding was beneficially interested in approximately 59.68% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 45.96% of the entire issued share capital of Neptunus Bio-engineering.

(d) Mr. Zhang Si Min ("Mr. Zhang") was deemed to be interested in 1,233,464,500 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Mr. Zhang was beneficially interested in 70% of the entire issued share capital of Neptunus Holding and the entire issued share capital of Shenzhen Haihe Investment and Development Company Limited ("Haihe"), which in turn was beneficially interested in approximately 59.68% and 20% of the entire issued share capital of Neptunus Group respectively. Neptunus Group was beneficially interested in approximately 45.96% of the entire issued share capital of Neptunus Bio-engineering.

(e) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 1,233,464,500 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Ms. Wang is the spouse of Mr. Zhang and was taken to be beneficially interested in any shares held by Mr. Zhang.

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO as at 31 December 2017.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company with a term up to 24 June 2020 and is subject to termination by either party giving not less than three months' prior written notice to the other.

None of the Directors or supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for the service contracts of the Directors and supervisors of the Company as disclosed above, there were no transactions, arrangements or contracts of significance to which the Company or its controlling shareholder was a party and in which a Director or supervisor of the Company had a material interest, either directly or indirectly, subsisting at the end of the Year or at any time during the Year.

## COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into an agreement with the Company containing undertakings relating to non-competition and preferential rights of investments (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering had undertaken to the Company and its associates (among others), that as long as the securities of the Company are listed on GEM (previously known as Growth Enterprise Market):

1. it will not, and will procure its associates not to, whether within or outside the PRC, directly or indirectly (other than those indirectly held as a result of the equity interest in any listed company or its subsidiaries), participate in or operate any business in whatever form, or produce any products (the usage of which is the same as or similar to that of the products of the Company) which may constitute direct or indirect competition to the business operated by the Company from time to time; and

2. it will not, and will procure its associates not to, hold any interest, whether within or outside the PRC, in any company or organization (directly or indirectly, other than those indirectly held as a result of its equity interest in any listed company or its subsidiaries) when the business of such company or entity will (or may) compete directly or indirectly with the business of the Company.

Pursuant to the Non-Competition Undertakings, at a time when the Non-Competition Undertakings are subsisting, whenever Neptunus Bio-engineering or any its associates enters into any negotiations, within or outside the PRC, in relation to any new investment projects which may compete with the existing and future business of the Company, the Company shall have a preferential rights of investments in such new investment projects.

Neptunus Bio-engineering has confirmed with the Company that it has complied with the Non-competing Undertakings during the Year.

## CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code was effective for accounting periods commencing on or after 1 January 2005. The Company put strong emphasis on the superiority, steadiness and rationality of corporate governance. The Board is of the view that the Company has complied with the requirements set out in Appendix 15 "Corporate Governance Code and Corporate Governance Report" of the GEM Listing Rules throughout the Year.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Year, the Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the "required standard of dealings" as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, all the Directors have confirmed that they have complied with the "required standard of dealings" and the Company's internal code of conduct regarding securities transactions by the Directors during the Year.

## REVIEW OF FINANCIAL INFORMATION

The audit committee of the Company has reviewed the Group's annual results for the Year. The figures in respect of the preliminary announcement of the Group's results for the Year have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "Auditor"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

By Order of the Board
**Shenzhen Neptunus Interlong Bio-technique Company Limited***
**Zhang Feng**
*Chairman*

Shenzhen, the PRC, 23 March 2018

*As at the date of this announcement, the executive Directors are Mr. Zhang Feng and Mr. Xu Yan He; the non-executive Directors are Mr. Liu Zhan Jun, Ms. Yu Lin, Mr. Song Ting Jiu and Mr. Zhao Wen Liang; and the independent non-executive Directors are Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Zhang Jian Zhou.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from its date of publication and on the Company's website at www.interlong.com.*

* *For identification purpose only*