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 2018

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 2018 (the "Year") together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **_RMB'000_**	2017 *RMB'000*
Revenue	*3, 4*	**867,123**	790,286
Cost of sales		**(364,908)**	(365,255)
Gross profit		**502,215**	425,031
Other revenue	*5*	**11,731**	8,915
Other net income	*5*	**1,647**	853
Selling and distribution expenses		**(349,026)**	(262,777)
Administrative expenses		**(55,916)**	(51,523)
Other operating expenses		**(41,220)**	(46,942)
Profit from operations		**69,431**	73,557
Finance costs	*6(a)*	**(1,787)**	(3,229)
Profit before taxation	*6*	**67,644**	70,328
Income tax expense	*7*	**(16,580)**	(14,899)
Profit and total comprehensive income for the year		**51,064**	55,429
Profit and total comprehensive income for the year attributable to:			
Owners of the company		**48,089**	50,257
Non-controlling interests		**2,975**	5,172
		51,064	55,429
Earnings per share for profit attributable to the owners of the Company during the year			
Basic and diluted	*9*	**2.87 cents**	3.00 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**137,339**	121,968
Prepaid lease payments		**59,309**	60,879
Intangible assets		**107,152**	111,008
Deposit for acquisition of property, plant and equipment		**1,075**	4,425
Deferred tax assets	*13(b)*	**1,523**	1,719
		306,398	299,999
Current assets			
Inventories		**113,138**	146,468
Trade and other receivables	*10*	**242,983**	203,041
Cash and cash equivalents		**323,577**	350,724
		679,698	700,233
Current liabilities			
Trade and other payables	*11*	**131,579**	176,949
Contract liabilities		**13,378**	–
Interest-bearing bank borrowings	*12*	**–**	30,000
Entrusted loans from the immediate parent company		**9,000**	9,000
Deferred revenue		**401**	401
Current taxation	*13(a)*	**13,749**	13,220
		168,107	229,570
Net current assets		**511,591**	470,663
Total assets less current liabilities		**817,989**	770,662

	Notes	2018 *RMB'000*	2017 *RMB'000*
Non-current liabilities			
Deferred revenue		**2,243**	3,212
Deferred tax liabilities	*13(b)*	**16,914**	17,682
		19,157	20,894
Net assets		**798,832**	749,768
EQUITY			
Equity attributable to owners of the company			
Share capital		**167,800**	167,800
Reserves		**530,138**	482,049
Total		**697,938**	649,849
Non-controlling interests		**100,894**	99,919
Total equity		**798,832**	749,768

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Attributable to owners of the Company							
	Share capital	Share premium	Statutory reserve fund	Capital reserve	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 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)	–	–	–
At 31 December 2017	167,800	554,844	48,619	(188,494)	67,080	649,849	99,919	749,768
At 1 January 2018	**167,800**	**554,844**	**48,619**	**(188,494)**	**67,080**	**649,849**	**99,919**	**749,768**
Change in equity for 2018								
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**48,089**	**48,089**	**2,975**	**51,064**
Dividend paid from a subsidiary to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(2,000)**	**(2,000)**
Transfer to other reserves	**–**	**–**	**(196)**	**–**	**196**	**–**	**–**	**–**
At 31 December 2018	**167,800**	**554,844**	**48,423**	**(188,494)**	**115,365**	**697,938**	**100,894**	**798,832**

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 except for the adoption of the revised HKFRSs (which include individual Hong Kong Financial Reporting Standards, HKAS and Interpretations) as disclosed in note 2 to this consolidated financial statements and the accounting policy changes that are reflected in the current year annual financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for principal protected deposits which is stated at fair values.

2. Adoption of New and Amended HKFRSs

(a) New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2018

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 2018.

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.

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 "ECL model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of HKFRS 9 has impacted the following area:

– HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

Besides, upon initial adoption of HKFRS 9 (i.e. 1 January 2018), the Group applies the new ECL model to all financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

The Group applies the HKFRS 9's simplified approach to measuring ECL which uses a lifetime expected loss allowance for trade receivable and amount due from related parties (trade nature). The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings based on debtors' ageing.

For all other financial assets, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The credit losses calculated pursuant to the new requirement are not significantly different from the amount recognised under the current practices. Therefore, the Group considered no additional ECL adjustment upon initial application of HKFRS 9.

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) are summarised as follows:

	Measurement category			
	Original HKAS 39 category	**New HKFRS 9 category**	**31 December 2017 (HKAS 39)** *RMB'000*	**1 January 2018 (HKFRS 9)** *RMB'000*
Current financial assets				
Trade and other receivables	Amortised cost	Amortised cost	191,085	191,085
Cash and cash equivalents	Amortised cost	Amortised cost	350,724	350,724
Total financial asset balances			541,809	541,809

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

The details of new significant accounting policies of financial instruments are set out in note 2(c)(ii).

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 has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, HKFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	Carrying amount on 31 December 2017 under HKAS 18	**Reclassification**	**Carrying amount on 1 January 2018 under HKFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	176,949	(11,731)	165,218
Contract liabilities	–	11,731	11,731

The contract liabilities primarily relate to the receipt in advance of sales of goods, and treated as receipt in advance, for which revenue is recognised when the goods are delivered and the customer has accepted the goods. The full amount of approximately RMB11,731,000 recognised in contract liabilities at the beginning of the year.

The adoption of HKFRS 15 has no material impact on the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

The details of new significant accounting policies of revenue are set out in note 2(c)(i).

(b) Issued but not yet effective HKFRSs

The Group has not applied any new and amended HKFRSs that have been published by the HKICPA but are not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and amendments.

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 16 "Leases"

HKFRS 16 "Leases" replaced 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 lease liability and 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 office premises 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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to approximately RMB6,434,000 for office premises, the majority of which is payable within 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

(c) Significant accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements from the effects of applying HKFRS 15 and HKFRS 9.

(i) Revenue Recognition

Revenue arises mainly from manufacturing and selling of medicines and healthcare products.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer

2. Identifying the performance obligations

3. Determining the transaction price

4. Allocating the transaction price to the performance obligations

5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of goods

Revenue from manufacturing and selling of medicines and healthcare products for which control of assets is transferred at a point in time is recognised when the goods are delivered to customers. The Group provides sales return policies to customers, and the amount of sales return was insignificant.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Sales management services to pharmaceutical products

Revenue from the provision of services is recognised when the services is rendered.

(ii) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

– amortised cost;

– FVTPL; or

– fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other revenue, except for expected credit losses ("ECL") of trade receivables which is presented within other operating expenses.

Subsequent measurement of financial assets

Debt investments

<u>Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other revenue in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

<u>Financial assets at FVTPL</u>

Financial assets that are held within a difference business model other than "hold to collect" or "hold to collect and sell" are categorised at FVTPL. This category includes principal protected deposits.

Impairment of financial assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade and other receivables.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The adoption of HKFRS 9 do not have significant impact on the Group's consolidated financial statements.

Trade receivables

The Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under HKFRS 9 compared to HKAS 39, the Group's financial liabilities were not impacted by the adoption of HKFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include trade and other payables, interest-bearing bank borrowings, entrusted loans from the immediate parent company.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or other revenue.

Interest-bearing bank borrowings

Interest-bearing bank borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Interest-bearing bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and other payables and entrusted loans from the immediate parent company

Trade and other payables and entrusted loans from the immediate parent company are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3. Revenue

Revenue arises mainly from manufacturing and selling of medicines and the sales and distribution of medicines and healthcare products.

	2018	2017
	RMB'000	*RMB'000*
Manufacturing and selling of medicines	**433,453**	427,022
Sales and distribution of medicines and healthcare products*	**433,670**	363,264
	867,123	790,286

* For the year ended 31 December 2018, the revenue from sales and distribution of medicines and healthcare products included the revenue from sales management services of pharmaceutical products of approximately RMB15,857,000 (2017: 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, being the chief operating decision maker, 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 Poeple'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 current and non-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 EBT". To arrive at adjusted EBT, 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 EBT, the executive directors are provided with segment information concerning revenue (including inter-segment revenue), impairment loss of trade and other receivables, reverse of impairment loss on trade and other receivables, write down of inventories, reversal of write down of inventories, used by the segments in their operations. Inter-segment revenue are priced with reference to prices charged to external parties for similar orders.

The Group changed the measure for disclosing the reportable segment profit from adjusted earnings before interest, taxes, depreciation and amortisation to adjusted EBT. Therefore, certain comparative figures in the segment reporting have been reclassified.

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 2018 and 2017 is set out below:

For the year ended 31 December	Manufacturing and selling of medicines		Sales and distribution of medicines and healthcare products		Research & development services		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue								
Revenue from external customers	**433,453**	427,022	**433,670**	363,264	**–**	–	**867,123**	790,286
Inter-segment revenue	**36,662**	35,357	**966**	–	**–**	–	**37,628**	35,357
Reportable segment revenue	**470,115**	462,379	**434,636**	363,264	**–**	–	**904,751**	825,643
Reportable segment (loss)/profit (adjusted EBT)	**18,381**	29,021	**57,055**	47,925	**(4,576)**	(3,710)	**70,860**	73,236
Write down of inventories	**(3,394)**	(10,814)	**(2,576)**	(1,646)	**–**	–	**(5,970)**	(12,460)
Reversal of write down of inventories	**608**	85	**–**	222	**–**	–	**608**	307
Impairment of:								
– trade receivables	**14**	(350)	**(286)**	–	**–**	–	**(272)**	(350)
– other receivables	**–**	(1)	**–**	–	**–**	(401)	**–**	(402)
Reverse of impairment loss on:								
– trade receivables	**61**	3	**–**	49	**–**	–	**61**	52
– other receivables	**202**	129	**14**	8	**–**	–	**216**	137
Income tax expense	**(2,429)**	(2,975)	**(14,151)**	(12,024)	**–**	100	**(16,580)**	(14,899)
Reportable segment assets	**701,891**	734,733	**229,425**	183,303	**187,211**	184,448	**1,118,527**	1,102,484
Reportable segment liabilities	**214,675**	249,704	**63,170**	60,183	**14,043**	14,888	**291,888**	324,775

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

	2018 *RMB'000*	2017 *RMB'000*
Revenue		
Reportable segment revenue	**904,751**	825,643
Elimination of inter-segment revenue	**(37,628)**	(35,357)
Consolidated Revenue	**867,123**	790,286
Profit		
Reportable segment profit	**70,860**	73,236
Elimination of inter-segment profit	**(706)**	(631)
Reportable segment profit derived from the Group's external customers	**70,154**	72,605
Unallocated head office and corporate expense	**(2,510)**	(2,277)
Consolidated profit before taxation	**67,644**	70,328
Assets		
Reportable segment assets	**1,118,527**	1,102,484
Elimination of inter-segment receivables	**(133,954)**	(103,971)
	984,573	998,513
Deferred tax assets	**1,523**	1,719
Consolidated total assets	**986,096**	1,000,232
Liabilities		
Reportable segment liabilities	**291,888**	324,775
Elimination of inter-segment payables	**(135,287)**	(105,213)
	156,601	219,562
Current taxation	**13,749**	13,220
Deferred tax liabilities	**16,914**	17,682
Consolidated total liabilities	**187,264**	250,464

(c) Revenue from major products and services

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

	2018	2017
	RMB'000	*RMB'000*
Medicines and healthcare products	**851,266**	779,071
Sales management services of pharmaceutical products	**15,857**	11,215
	867,123	790,286

(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.

(e) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2018, the Group derives revenue from from manufacturing and selling of medicines and healthcare products at a point in time in type of customer:

	Hospital	**Pharmacy**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Manufacturing and selling of medicines	71,938	359,361	2,154	433,453
Sales and distribution of medicines and healthcare products	155,020	278,650	–	433,670
	226,958	638,011	2,154	867,123

5. Other Revenue and Other Net Income

	2018	2017
	RMB'000	*RMB'000*
Other revenue		
Interest income from bank deposits	**6,189**	3,603
Interest income from principal protected deposits	**1,655**	1,300
Government subsidies:		
– released from deferred revenue	**1,269**	1,280
– directly recognised in profit or loss	**2,375**	1,191
Others	**243**	511
Gain on disposal of prepaid lease payments	**–**	1,030
	11,731	8,915
Other net income		
Reverse of impairment loss on trade receivables	**61**	52
Reverse of impairment loss on other receivables	**216**	137
Reversal of write down of inventories	**608**	307
Net foreign exchange gains	**81**	77
Others	**681**	280
	1,647	853

6. Profit before Taxation

Profit before taxation is arrived at after charging the following:

	2018	2017
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank loans and other borrowings	**1,787**	3,229
(b) Staff costs (including directors' emoluments) *(note)*		
Contributions to defined contribution retirement plans	**14,502**	12,985
Salaries, wages and other benefits	**68,875**	58,526
	83,377	71,511

Note:

Staff cost of approximately RMB24,292,000, RMB17,992,000, RMB27,777,000 and RMB13,316,000* (2017: approximately RMB24,054,000, RMB16,202,000, RMB23,781,000 and RMB7,474,000) are included in cost of sales, selling and distribution costs, administrative expenses and other operating expenses respectively.

	2018	2017
	RMB'000	*RMB'000*
(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
	1,570	2,198
– intangible assets*	**3,968**	4,150
Depreciation	**14,101**	13,373
Impairment of:		
– trade receivables*	**272**	350
– other receivables*	**–**	402
Write down of inventories*	**5,970**	12,460
Loss on disposal of property, plant and equipment*	**303**	106
Auditor's remuneration	**1,122**	1,170
Auditor's non-audit services remuneration	**371**	425
Operating lease charges:		
minimum lease payment	**8,549**	8,548
Cost of inventories	**362,226**	355,062
Research and development costs*	**27,311**	29,386

* 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

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

	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**17,152**	16,339
Deferred tax		
Origination and reversal of temporary differences	**(572)**	(1,440)
	16,580	14,899

Hong Kong Profits Tax has not been provided for as the Group had no assessable profits to Hong Kong Profits Tax for the year (2017: Nil).

As at 31 December 2018 and 2017, 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% (2017: 25%) for the year ended 31 December 2018.

8. Dividends

The Directors do not propose the payment of any dividend for the year ended 31 December 2018 (2017: 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 RMB48,089,000 (2017: approximately RMB50,257,000) and the weighted average number of 1,678,000,000 ordinary shares (2017: 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	2018 RMB'000	2017 RMB'000
Trade receivables		**121,565**	121,790
Less: ECL allowance/allowance for impairment loss		**(2,133)**	(2,130)
		119,432	119,660
Bills receivables	*(i)*	**69,892**	53,036
		189,324	172,696
Amounts due from fellow subsidiaries	*(ii)*	**1,978**	1,897
Amounts due from related companies	*(ii)*	**11,054**	13,183
Amount due from the intermediate parent company	*(ii)*	**212**	138
Other receivables	*(iv)*	**7,246**	4,556
Value-added tax recoverable	*(iii)*	**257**	462
Prepayment and deposits	*(iv)*	**33,919**	11,337
Less: ECL allowance		**(1,007)**	(1,228)
		53,659	30,345
		242,983	203,041

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

Notes:

(i) As at 31 December 2018, the Group had discounted bank acceptance bills approximately RMB69,892,000 (2017: approximately RMB53,036,000). These bank acceptance bills matured within one year from date of issue. The Group considered the issuing banks of the bills are of good credit quality, therefore, the ECL of these receivables are considered as insignificant.

(ii) The amounts are unsecured, interest tree and repayable within one year.

(iii) 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.

(iv) Other receivable, prepayment and deposits mainly represent deposits prepaid in advance to suppliers approximately RMB29,763,000, these ageing within one year, the management have been considered the financial position of those supplier and with closely monitoring and communication with the suppliers, the Group considered the impact on ECL to be low, therefore, the impact on ECL is considered as immaterial.

(a) Ageing analysis

Based on the invoice date, which approximates the respective revenue recognition dates, the ageing analysis of the trade and bills receivables net of ECL (2017: net of allowance for impairment loss), was as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**133,535**	133,170
More than 3 months but less than 12 months	**54,235**	38,340
Over 12 months	**1,554**	1,186
	189,324	172,696

Trade and bills receivables are due within 30-180 days (2017: 30-180 days) from the date of billing.

(b) Impairment of trade receivables

The movement in the ECL allowance (2017: allowance for impairment loss) of trade receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
Balance at 1 January calculated under HKAS 39	**2,130**	2,282
ECL/allowance for impairment loss recognised during the year	**272**	350
ECL/allowance for impairment loss reversed during the year	**(61)**	(52)
Amount written off during the year	**(208)**	(450)
At 31 December	**2,133**	2,130

(c) Impairment of other receivables

The movement in the ECL allowance (2017: loss allowance) of other receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
Balance at 1 January calculated under HKAS 39	**1,228**	963
ECL/allowance for impairment loss recognised during the year	**–**	402
ECL/allowance for impairment loss reversed during the year	**(216)**	(137)
Uncollectible amount written off	**(5)**	–
At 31 December	**1,007**	1,228

11. Trade and Other Payables

	Notes	2018 RMB'000	2017 RMB'000
Trade and bills payables		**46,193**	70,718
Receipts in advance		**1,430**	13,160
Other payables and accruals	*(i)*	**55,139**	61,793
Amounts due to fellow subsidiaries	*(ii)*	**27,196**	31,262
Amounts due to the immediate parent company	*(ii)*	**23**	–
Amounts due to related companies	*(ii)*	**1,598**	16
Financial liabilities measured at amortised cost		**131,579**	176,949

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**13,748**	57,140
4 to 6 months	**27,676**	6,064
7 to 12 months	**2,348**	510
Over 1 year	**2,421**	7,004
	46,193	70,718

Notes:

(i) The balances are unsecured, interest-free and repayable on demand.

(ii) Other payables and accruals mainly represent security deposit, VAT payable, selling expense payable and other tax payables of approximately RMB20,866,000, RMB10,208,000, RMB3,786,000 and RMB13,673,000 (2017: approximately RMB24,741,000, RMB8,530,000, RMB3,678,000 and RMB10,886,000) respectively.

12. Interest-Bearing Bank Borrowings

	Effective interest rate	Maturity	2018 RMB'000	2017 RMB'000
Short-term bank loan – secured	Nil (2017: 4.35%)	within 1 year	**–**	30,000

The interest-bearing bank borrowings are carried at amortised cost. All of the Group's borrowings are denominated in RMB. All outstanding bank loans were repaid during the year ended 31 December 2018.

For the year ended 31 December 2017

At 31 December 2017, the Group have been pledged buildings and prepaid lease payments were stated at an aggregate value of approximately RMB33,159,000 and approximately RMB60,879,000 respectively. And the Group has available utilised banking facilities of RMB70,000,000.

For the year ended 31 December 2018

At 31 December 2018, the Group have been pledged buildings and prepaid lease payments were stated at an aggregate value of approximately RMB31,800,000 and approximately RMB59,309,000 respectively. And the Group has available utilised banking facilities of RMB100,000,000.

13. Income Tax in the Consolidated Statement of Financial Position

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

	2018	2017
	RMB'000	*RMB'000*
PRC EIT		
Provision for the year	**11,407**	10,878
Balance of tax provisions relating to prior years	**2,342**	2,342
	13,749	13,220

(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 2017	18,394	(991)	17,403
Credited to profit or loss	(712)	(728)	(1,440)
At 31 December 2017 and 1 January 2018	17,682	(1,719)	15,963
Credited to profit or loss	(768)	196	(572)
At 31 December 2018	**16,914**	**(1,523)**	**15,391**

	2018	2017
	RMB'000	*RMB'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**(1,523)**	(1,719)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**16,914**	17,682
At 31 December	**15,391**	15,963

(c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB65,920,000 (2017: approximately RMB88,638,000) 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 2018 (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 its production base ("Fuzhou Production Base") located in Jin'an District, Fuzhou, Fujian Province, the PRC, including Chinese medicines (which includes more than a dozen of dosage forms such as tablets, capsules, granules, oral solutions and tinctures) and chemical medicines (which includes various dosage forms namely tablets, capsules, granules, small volume injections, large volume injections of glass bottle, plastic bottle and soft bag), with nearly 500 approval documents being registered. 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 mainly fulfills the internal development demands of the Group through conducting independent research and development and cooperation with external research and development institutions. Two pharmaceutical manufacturing subsidiaries of the Group are recognized as high-tech enterprises in Fujian Province and entitled to enjoy preferential corporate income tax treatment for high-tech enterprises. The said subsidiaries currently possess various new drugs and exclusive products with self-owned intellectual property rights, including Tegafur, Gimeracil and Oteracil Potassium Tablets (the "TGOP Tablets" or 替吉奥片, 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 the immune system), Biyuan Capsules (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心肌保護停跳液, a Class III medical device). During the Year, the relevant subsidiary of the Group was selected as one of the 2018 Fujian Province Little Giant Leading Enterprises in Science and Technology and was granted a special fund as an award of additional tax deduction on research and development expenses. The applications for two invention patents of the said subsidiary were also accepted during the Year.

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 were selected to undergo the quality consistency evaluation for generic drugs in 2016. Currently, the relevant work is under orderly progress and one of the selected medicines has entered the relevant phase of examination and evaluation in the SFDA.

The sales of the Group's new anti-cancer drug TGOP Tablets performed well in 2017 and in the first quarter of 2018. However, as the supply of Tegafur, one of the active ingredients of TGOP Tablets, was tight across China during the Year, manufacturers of TGOP products (including capsules and tablets) in China were affected to various extents. During the Year, the production of TGOP Tablets by the relevant pharmaceutical manufacturing subsidiary of the Group was also affected. Currently, though the Group has found source of Tegafur supply, there are uncertainties about the reporting and approval procedures and the continuous supply of Tegafur. The Group will proactively push forward with the work and try to mitigate the impact on the production and sales of TGOP Tablets brought by insufficient Tegafur supply as soon as possible.

Under the impact of national policies, hospitals have restricted the use of antibiotics and gradually eliminated outpatient transfusion. In addition, there are more intensified drug tender competition and stricter inspections of drug production and quality. As a result, there is further pressure on the operation of pharmaceutical manufacturing enterprises. Meanwhile, as the results of tendering process in certain regions were unsatisfactory in 2017 and relevant pharmaceutical manufacturing subsidiary of the Group proactively implemented the "limiting production to guarantee quality" measure, product sales of the sales and manufacturing business of the Group decreased during the Year. In addition, the profit margin of the sales and manufacturing business of the Group has further decreased due to decrease in the selling price of the drugs, increase in the price of active ingredients, higher quality requirement for drugs, increased investment in the pharmaceutical enterprise drug quality assurance system and the increasing expenses for drug re-registration and quality consistency evaluation. The Group will proactively keep up with the national pharmaceutical policies and policies in key areas such as Fujian Province, and make proper arrangements for the next round of bidding and actively expand the product sales network, in order to restrict and reverse the decrease in sales volume and endeavour to strike a balance between the short-term results and the long-term development of relevant pharmaceutical manufacturing subsidiaries.

The Pharmaceutical GMP Certificate of a production line for large volume injections owned by a relevant pharmaceutical manufacturing subsidiary of the Group was withdrawn in the middle of August 2017. Upon stringent rectification, the relevant subsidiary of the Group has re-applied for the Pharmaceutical GMP Certification and has re-obtained the Pharmaceutical GMP Certificate during the Year upon meeting the pharmaceutical GMP requirements upon site inspection. In addition, during the Year, the pharmaceutical GMP certificates of relevant production lines of two subsidiaries of the Group have expired. At present, all of the relevant production lines have obtained new pharmaceutical GMP certificates after re-certification. For details of the certification, please refer to the announcements dated 27 June 2018 and 27 December 2018.

During the Year, a subsidiary of the Group received a Decision of Administrative Penalty from Fuzhou Administration for Market Regulation and was fined for RMB2.828 million. The Group has taken the incident very seriously and urged all subsidiaries to take it as a warning, and to strictly comply with the relevant laws, regulations and procurement procedures in their respective operation to prevent occurrence of similar events. For details of the incident, please refer to the announcement of the Company dated 21 August 2018.

Purchase and Sales of Medicines and Healthcare Food Products

Currently, the main products distributed by the Group are medicines and healthcare food products, which include 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 2017, Neptunus® Yinkeluo® Ginkgo Leaves Tablets was listed in the Rui Sub-List of China Pharmaceutical Brand List (中國製藥•品牌榜銳榜) sponsored by Menet (previously known as China Pharmaceutical Economic Information Network).

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 demand in domestic pharmaceutical retail and healthcare food products market, the increase in the number of products and categories distributed by the Group, the adoption of a flexible and diversified sales policy, and an in-depth optimization of the sales force etc. Following the extensive promotion and in-depth implementation of "two invoice system" (兩票制) and "one invoice system" (一票制) in the PRC, the business of selling drugs to ultimate medical institutions through professional sales promotion companies has passed its adjustment and transformation period and it is gradually recovering and taking on an increasing momentum.

In order to reduce the layers of intermediary within the distribution of pharmaceutical products, the PRC government has actively implemented "two invoice system" (兩票制) throughout the country and "one invoice system" (一票制) in certain provinces. Due to the impact of such policies, certain pharmaceutical products which were originally distributed through the Group are now required, in some provinces, to be directly supplied to hospitals or ultimate distributors by the pharmaceutical manufacturing enterprises. To adapt to the new policy environment, the Group has transformed relevant business into a pharmaceutical product sales management service business based on the existing purchase and sales business model and the needs of end-use consumers and manufacturing enterprises.

Environmental, Social 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 Company 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 an 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.

Event after Reporting Period

On 21 January 2019, the production lines for 15 dosage forms of a subsidiary of the Company acquired the Pharmaceutical GMP Certificate upon inspection and having complied with the requirements of Chinese Good Manufacturing Practices for Pharmaceutical Products (《藥品生產質量管理規範》) after the previous certificate expired. For details, please refer to the announcement dated 23 January 2019.

PROSPECTS AND OUTLOOK

With the Chinese government continuously driving the reform of 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 to 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 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 RMB867,123,000 (2017: RMB790,286,000), representing an increase of approximately 9.72% as compared with the corresponding period of last year. In relation to the Group's revenue, approximately RMB433,453,000, which amounted to approximately 49.99% of the Group's total revenue, was derived from the manufacturing and selling of medicines segment, while approximately RMB433,670,000, which amounted to approximately 50.01% of the Group's total revenue, was derived from the sales and distribution of medicines and healthcare products segment. During the Year, the Group's revenue from the manufacturing and selling of medicines segment increased by approximately 1.51% as compared with the corresponding period of last year, while the revenue of the sales and distribution of medicines and healthcare products segment increased by approximately 19.38%. Thereby the total revenue of the Group resulted in an overall increase. A portion of the Group's revenue under the sales and distribution of medicines and healthcare products derived from sales management services of pharmaceutical products in the Year was approximately RMB15,857,000, which amounted to approximately 3.66% 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 58% (2017: approximately 54%), representing an increase of approximately 4% as compared with the corresponding period of last year. The increase of gross profit margin was mainly attributable to the fact that (i) the sales expenses borne by the manufacturing and selling of medicines segment increased with the implementation of "two invoice system" (兩票制) in pharmaceutical circulation across the country, which led to the increase in prices for certain products, and such relevant impact on the sales expenses and increase in prices of certain products has gradually increased and emerged with the overall promotion and implementation of the "two invoice system"(兩票制); and (ii) due to the increase in market prices of certain products, the manufacturing and selling of medicines segment raised the prices of such products accordingly.

The Group's gross profit during the Year was approximately RMB502,215,000 (2017: RMB425,031,000), representing an increase of approximately 18.16% as compared with the corresponding period of last year. The increase was mainly attributable to the increase in the Group's total revenue and gross profit margin.

During the Year, the Group's selling and distribution expenses were approximately RMB349,026,000 (2017: RMB262,777,000), representing an increase of approximately 32.82% from the corresponding period of last year. The increase in selling and distribution expenses was mainly due to (i) increase in the sales scale of sales and distribution of medicines and healthcare products segment resulting in corresponding increase in sales expenses; (ii) the overall promotion and implementation of the "two invoice system"(兩票制) across the country which resulted in a significant increase in the sales expenses as compared the corresponding period of last year.

The Group's administrative expenses for the Year were approximately RMB55,916,000 (2017: RMB51,523,000), representing an increase of approximately 8.53% as compared with the corresponding period of last year. The increase in administrative expenses was mainly due to the increase in labour costs and rent expenses of the Group.

During the Year, the Group's other operating expenses amounted to approximately RMB41,220,000 (2017: RMB46,942,000), representing a decrease of approximately 12.19% as compared with the corresponding period of last year. The decrease in other operating expenses was mainly due to decrease in provisions for obsolete inventory and inventory written off and decrease in expensed research and development costs.

The Group's finance costs for the Year amounted to approximately RMB1,787,000 (2017: RMB3,229,000), representing a significant decrease of approximately 44.66% as compared with the corresponding period of last year. The decrease in finance costs was mainly due to the average principal amount of bank loans of the Group during the Year decreased significantly as compared with the corresponding period of last year, and finance costs decreased accordingly.

Due to the above reasons, the Group's profit after tax decreased from approximately RMB55,429,000 of the corresponding period of last year, to approximately RMB51,064,000 of the Year representing a decrease of approximately 7.87%. Profit attributable to the owners of the Company decreased from approximately RMB50,257,000 of the corresponding period of last year, to approximately RMB48,089,000 of the Year, representing a decrease of approximately 4.31%.

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 2018, the Group had no utilised banking facilities. 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", a controlling shareholder of the Company) 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 2018, the Group had net current assets of approximately RMB511,591,000. Current assets comprised cash and cash equivalents of approximately RMB323,577,000, inventories of approximately RMB113,138,000 and trade and other receivables of approximately RMB242,983,000. Current liabilities comprised trade and other payables of approximately RMB131,579,000, current tax of approximately RMB13,749,000, contract liabilities of RMB13,378,000, entrusted loan of RMB9,000,000 and deferred revenue of approximately RMB401,000. The net current assets increased approximately by RMB40,928,000 as compared with that of approximately RMB470,663,000 as at 31 December 2017. The increase in net current assets as compared to that on 31 December 2017 was mainly due to the fact that (i) trade and other payables decreased by approximately RMB45,370,000; (ii) interest-bearing bank borrowings decreased by RMB30,000,000; and (iii) trade receivables and other receivables increased by approximately RMB39,942,000.

PLEDGE OF ASSETS

As at 31 December 2018, the available utilised banking facilities of the Group of RMB100,000,000 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 RMB91,109,000.

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 2018, 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 2018, the Group has contracted commitments for future capital expenditure of approximately RMB3,356,000. 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 2018, 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 2018, the Group employed a total of 1,228 staff (2017: 1,231).

During the Year, the staff costs including directors' remuneration which amounted to approximately RMB83,377,000 (2017: approximately RMB71,511,000). 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 2017, 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 (2017: Nil).

DISTRIBUTABLE RESERVES

At 31 December 2018, 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 RMB98,440,000.

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, SALES 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 did not redeem, purchase or cancel any of their redeemable securities either.

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 2018, 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 ("SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the 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	1,850,000	0.07%
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 0.07% 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 2018, 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 2018, 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:

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 2018.

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' REMUNERATION

Directors' remuneration is subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee with reference to Directors' duties, responsibilities and performance and the results of the Company. Details of the remuneration of the Directors are set out in note 10 to the consolidated financial statements.

According to the service contracts entered into between the Company and its supervisors, (i) the Company shall pay Mr. Xiong Chu Xiong the remuneration of RMB30,000 per annum for his service as a supervisor; (ii) the Company shall pay Mr. Wang Bin the remuneration of RMB30,000 per annum for his service as a supervisor; and (iii) Ms. Cao Yang, the employee representative supervisor, is entitled to a supervisor's allowance of RMB20,000 per annum for her service as a supervisor.

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 the 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 except Rule E.1.2. Under Rule E.1.2, the chairman of the Board, Mr. Zhang Feng, should attend the annual general meeting. However, Mr. Zhang Feng was unable to attend the annual general meeting of the Company held on 25 June 2018 as he was on business trip for other important business engagement. But Mr. Zhang Feng appointed Mr. Liu Zhan Jun, an non-executive Director, to attend the meeting and take the chair for him.

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, 21 March 2019

* *For identification purpose only*

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.