CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 867)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2018 (the "Reporting Period").

Financial Highlights

- Turnover up 1.6% to RMB5,433.4 million (2017: RMB5,348.8 million); excluding the effect of the "two-invoice system", turnover up 10.0% to RMB6,134.5 million (2017: RMB5,578.6 million)
- Gross profit up 12.6% to RMB3,916.9 million (2017: RMB3,478.3 million); excluding the effect of the "two-invoice system", gross profit up 10.5% to RMB3,616.8 million (2017: RMB3,272.2 million)
- Profit for the year up 10.5% to RMB1,844.6 million (2017: RMB1,669.9 million)
- Basic earnings per share up 10.5% to RMB0.7441 (2017: RMB0.6734)
- As at 31 December 2018, the Group's bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million
- Proposed final dividend of RMB0.1434 per share, bringing the total dividend for the year ended 31 December 2018 to RMB0.2970 per share, representing an increase of 10.6% of last year (2017: final dividend of RMB0.1393 and total dividend of RMB0.2686 per share respectively)

**For Identification Only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Turnover	3	5,433,449	5,348,838
Cost of goods sold		(1,516,575)	(1,870,537)
Gross profit		3,916,874	3,478,301
Other gains and losses	4	(5,611)	(61,216)
Selling expenses		(1,672,595)	(1,382,150)
Administrative expenses		(243,265)	(221,974)
Finance costs	5	(71,885)	(82,250)
Share of results of associates		82,856	77,722
Profit before tax		2,006,374	1,808,433
Income tax expense	6	(161,776)	(138,494)
Profit for the year	7	1,844,598	1,669,939
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(14,065)	-
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates		23,168	(5,157)
Exchange differences arising from translation of foreign operations		211	-
Fair value loss on available-for-sale investments		-	(3,271)
Change in fair value on cash flow hedges			
- fair value gain		4,121	12,023
- deferred tax relating to change in fair value		(680)	(1,984)
Other comprehensive income for the year, net of income tax		12,755	1,611
Total comprehensive income for the year		1,857,353	1,671,550
Profit (loss) for the year attributable to:			
Owners of the Company		1,849,883	1,674,807
Non-controlling interests		(5,285)	(4,868)
		1,844,598	1,669,939
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,862,638	1,676,418
Non-controlling interests		(5,285)	(4,868)
		1,857,353	1,671,550
		RMB	RMB
Earnings per share	9		
Basic		0.7441	0.6734

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		478,268	479,080
Prepaid lease payments		61,667	58,868
Interests in associates		2,491,478	2,412,387
Intangible assets		2,554,075	2,720,326
Goodwill		1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income		241,232	-
Available-for-sale investment		-	23,020
Deposits paid for acquisition of intangible assets		95,262	72,142
Derivative financial instruments		32,866	12,023
Deferred tax assets	14	20,712	26,882
		7,360,095	7,189,263
Current assets			
Inventories		434,661	460,401
Trade and other receivables	10	1,718,754	1,487,392
Tax recoverable		8,296	5,135
Amount due from an associate		169,565	151,023
Bank balances and cash	11	815,081	855,629
		3,146,357	2,959,580
Current liabilities			
Trade and other payables	12	382,215	506,826
Contract liabilities		5,469	-
Bank borrowings	13	25,000	65,000
Deferred consideration payables		8,847	8,802
Tax payable		129,314	77,516
		550,845	658,144
Net current assets		2,595,512	2,301,436
Total assets less current liabilities		9,955,607	9,490,699
Capital and reserves			
Share capital	15	84,963	85,200
Reserves		8,270,823	7,189,483
Equity attributable to owners of the Company		8,355,786	7,274,683
Non-controlling interests		48,289	53,574
		8,404,075	7,328,257

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred tax liabilities	14	101,411	104,498
Deferred consideration payables		9,926	17,896
Bank borrowings	13	1,440,195	2,040,048
		1,551,532	2,162,442
		9,955,607	9,490,699

1. GENERAL

China Medical System Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of pharmaceutical products
- Promotion of pharmaceutical products

Information about the Group's performance obligations resulting from application of IFRS 15 is disclosed in note 3.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current liabilities				
Trade and other payables	(a)	506,826	(6,457)	500,369
Contract liabilities	(a)	-	6,457	6,457

Note:

(a) As at 1 January 2018, the date of initial application advance from customers of RMB6,457,000 in respect of sales of pharmaceutical products previously included in trade and other payables were reclassified to contract liabilities of RMB6,457,000 upon application of IFRS 15.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities			
Trade and other payables	382,215	5,469	387,684
Contract liabilities	5,469	(5,469)	-

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Operating activities			
Decrease in trade and other payables	(75,622)	(988)	(76,610)
Decrease in contract liabilities	(988)	988	-

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

In addition, the Group applied the hedge accounting prospectively. The Group elected to continue applying hedge accounting requirements under IAS 39.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale investment RMB'000	Equity instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017 - IAS39		23,020	-	(3,271)	4,153,177
Effect arising from initial application of IFRS 9:	(a)	(23,020)	23,020	-	-
Opening balance at 1 January 2018		-	23,020	(3,271)	4,153,177

(a) Available-for-sale ("AFS") investment

From AFS equity investment to FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investment previously classified as available-for-sale. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB23,020,000 was reclassified from available-for-sale investment to equity instrument at FVTOCI. The fair value losses of RMB3,271,000 relating to this investment previously carried at fair value continued to accumulate in investments revaluation reserve.

(b) Hedge accounting

At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts. As such, the application of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 RMB'000 (Audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (Restated)
Current assets				
Available-for-sale ("AFS") investment	23,020	-	(23,020)	-
Equity instruments at FVTOCI	-	-	23,020	23,020
Current liabilities				
Trade and other payables	506,826	(6,457)	-	500,369
Contract liabilities	-	6,457	-	6,457

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of approximately RMB11,217,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB879,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of- use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9, including the impairment requirements, to long- term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The application is not expected to have impact as the Group's existing accounting policies are consistent with the requirements clarified by the amendments.

3. TURNOVER AND SEGMENT INFORMATION

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

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

At a point in time	2018 RMB'000
Sales of pharmaceutical products	4,308,647
Promotion income	1,124,802
Total revenue	5,433,449

(ii) Performance obligations for contracts with customers

The Group sells and promotes pharmaceutical products to hospital and medical institutions throughout the PRC through distributors of direct network and agency network.

For sales of pharmaceutical products to customers, revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers, i.e. when the products are delivered and titles have passed to customers upon receipt by customers. For promotion of pharmaceutical products, revenue is recognised at a point in time when the Group satisfies its obligation to arrange for the pharmaceutical products to be provided by suppliers to distributors.

A contract liability represents the Group's obligation to sales of pharmaceutical products to customers for which the Group has received consideration (or an amount of consideration is due from) to customers while revenue has yet been recognised.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 RMB'000
Sales of goods	4,798,270
Promotion income	550,568
Total revenue	5,348,838

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue from external customers is attributed to the PRC and 99% of non-current assets excluding AFS investments and derivative financial instruments and deferred taxes of the Group are located in the PRC.

No single customer contributes over 10% of the total sales of the Group for both years.

4. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Interest income	26,076	17,654
Government subsidies (Note a)	11,299	26,499
Loss on disposal of property, plant and equipment	(1,697)	(21)
Net foreign exchange loss	(59,487)	(101,475)
Loss on disposal of inventory	-	(747)
Gain from changes in fair value of derivative financial instruments	16,722	-
Others	1,476	(3,126)
	(5,611)	(61,216)

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	70,029	79,524
Imputed interest on deferred consideration payables	1,856	2,726
	71,885	82,250

6. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
The PRC Enterprise Income Tax	153,939	134,328
Hong Kong Profits Tax	5,002	3,208
Malaysia Corporate Income Tax	33	37
	158,974	137,573
Underprovision in prior years:		
The PRC Enterprise Income Tax	399	95
Hong Kong Profits Tax	-	213
	399	308
Deferred taxation (note 14):		
- Current year	2,403	613
	161,776	138,494

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the rate of taxation applicable for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2017: 15%) granted by the local tax authority until 22 November 2021. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2017: 15%) granted by local tax authority until 4 September 2020. Starting from 1 January 2015, 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technoloy") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% (2017: 9%) granted by local tax authority until 31 December 2020.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2017 and 2018, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of MYR20,000 or 3% on net audited profits. For the years ended 31 December 2018 and 2017, CMS Pharma elected to pay a lump sum tax of MYR20,000 (equivalent to approximately RMB33,000 and RMB37,000, respectively).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the 'profit before tax' per the consolidated statements of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	2,006,374	1,808,433
Tax at the applicable tax rate (Note)	501,594	452,108
Tax effect of share of results of associates	(20,714)	(19,431)
Tax effect of expenses that are not deductible in determining taxable profit	39,595	24,056
Tax effect of income that is not taxable in determining taxable profit	(247)	(3,932)
Tax effect of tax losses not recognised	4,685	1,261
Tax effect of deductible temporary differences not recognised	10,307	-
Tax effect of tax concession	(74,982)	(73,672)
Effect on different applicable tax rates of subsidiaries	(2,462)	(2,225)
Effect of tax benefit arising from Labuan Tax Act	(299,051)	(234,754)
Underprovision in prior years	399	308
Utilisation of deducible temporary differences previously not recognised	-	(7,301)
Others	2,652	2,076
Income tax expense for the year	161,776	138,494

Note: The applicable PRC EIT rate of 25% (2017: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,062	1,060
Salaries and other benefits	7,492	2,208
Contribution to retirement benefits schemes	131	120
	8,685	3,388
Other staff costs	508,973	351,923
Contribution to retirement benefits schemes	42,921	26,822
Employee benefits expense (note 16)	9,000	30,000
Total staff costs	569,579	412,133
Auditor's remuneration	2,673	2,333
Allowance for credit losses	-	3,732
Allowance for inventories	34,471	2,952
Release of prepaid lease payments	1,745	1,673
Depreciation of property, plant and equipment	32,743	31,147
Amortisation of intangible assets (included in cost of goods sold)	166,251	165,271
Cost of inventories recognised as an expense	1,310,321	1,692,938
Minimum lease payment under operating lease in respect of property	13,841	10,584

8. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2018 Interim - RMB0.1536 (2017: 2017 interim dividend RMB0.1293) per share	382,041	321,601
2017 Final - RMB0.1393 (2017: 2016 final dividend RMB0.1164) per share	346,474	289,516
	728,515	611,117
Dividends proposed		
Dividends proposed during the year:		
2018 final - RMB0.1434 (2017: 2017 final dividend of RMB0.1393) per share	355,691	346,474

The Board of Directors have declared a final dividend of RMB0.1434 per ordinary share for the year ended 31 December 2018 (2017: RMB0.1393 per ordinary share).

9. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,849,883	1,674,807

	Number of ordinary shares as at 31 December	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,486,146,033	2,487,247,512

The Group has no outstanding potential ordinary shares as at 31 December 2018 and 2017 and during the years ended 31 December 2018 and 2017. Therefore, no diluted earnings per share is presented.

10. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	1,290,530	1,003,640
Less: Allowance for credit losses	(9,828)	(9,828)
	1,280,702	993,812
Bills receivables	291,621	349,633
Purchase prepayment	70,978	51,703
Value added tax receivable	-	35,237
Prepaid lease payment	1,878	1,425
Deposits paid for acquisition of intangible assets (Note)	95,262	72,142
Other receivables and deposits	73,575	55,582
	1,814,016	1,559,534
Current portion	1,718,754	1,487,392
Non-current portion	95,262	72,142
	1,814,016	1,559,534

Note:

The deposits mainly represent RMB72 million paid to a third party for acquisition of product right of Movicol which has been transferred to intangible assets subsequent to 31 December 2018.

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

	2018 RMB'000	2017 RMB'000
0 - 90 days	1,008,465	867,489
91 - 365 days	272,237	120,911
Over 365 days	-	5,412
	1,280,702	993,812

As at 31 December 2018, total bills received amounting to RMB291,621,000 (31 December 2017: RMB349,633,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than six months.

As at 31 December 2018, 85% (2017: 86%) the trade receivables that were neither past due nor impaired were of good credit quality because of satisfactory repayment history.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB187,659,000 (2017: RMB138,398,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable due to the long term relationship and good repayment record. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2018 RMB'000	2017 RMB'000
0 - 90 days	142,833	122,287
91 - 365 days	44,826	14,821
Over 365 days	-	1,290
	187,659	138,398

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for credit losses:

	Allowance for credit losses RMB'000
Balance at 1 January 2017	6,096
Impairment losses recognised on receivables	3,732
Balance at 31 December 2017 and 2018	9,828

11. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 2.75% (2017: 0.35% to 3%) per annum.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2018 RMB'000	2017 RMB'000
GBP	35,287	254
United States Dollar ("US$")	5,462	2,090
Euro ("EUR")	3,851	19,658
CHF	2,547	130
Hong Kong Dollar ("HK$")	2,081	2,361

12. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting periods is as follows:

	2018 RMB'000	2017 RMB'000
0 - 90 days	104,724	124,497
91 - 365 days	5	2,653
Over 365 days	1,405	2,861
Trade payables	106,134	130,011
Payroll and welfare payables	100,679	94,683
Other tax payables	51,252	28,518
Deferred promotion income in respect of purchase	-	42,587
Payables for acquisition of property, plant and equipment	15,618	16,001
Other payables	32,206	60,054
Advance from customers	-	6,457
Accrued promotion expenses	41,254	95,022
Accruals	35,072	33,493
	382,215	506,826

The credit period on purchases of goods is ranging from 0 to 120 days.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2018 RMB'000	2017 RMB'000
EUR	9,635	16,069

13. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans	1,465,195	2,105,048
	1,465,195	2,105,048

Analysed as:

Secured	105,000	165,000
Unsecured	1,360,195	1,940,048
	1,465,195	2,105,048

	2018 RMB'000	2017 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	25,000	65,000
Within a period of more than one year but not exceeding two years	1,440,195	488,010
Within a period of more than two years but not exceeding five years	-	1,552,038
	1,465,195	2,105,048
Less: Amounts due within one year shown under current liabilities	(25,000)	(65,000)
Amounts shown under non-current liabilities	1,440,195	2,040,048

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 5.22 to 5.23% per annum as at 31 December 2018 and from 4.99% to 5.23% per annum as at 31 December 2017)	105,000	165,000
Variable-rate borrowings (Note b)		
Denominated in US$ (3.53% as at 31 December 2018 and 31 December 2017) (Note a)	1,360,195	1,940,048
Total	1,465,195	2,105,048

Notes:

(a) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2018 (2017: range from London Interbank Offered Rate plus 1.5% to 2.25%).

(b) As at 31 December 2018, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,360,195,000 (2017: RMB1,940,048,000). The principal amount of the variable-rate bank borrowings will be repayable on 23 June 2020.

During the year, in respect of a bank loan with a carrying amount of RMB25,000,000 as at 31 December 2018, a subsidiary of the Company breached certain of the terms of the bank loan, which are primarily related to the debt-asset ratio of the subsidiary. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 December 2018, those negotiations had not been concluded. As at 31 December 2018, the bank borrowings of RMB25,000,000 has already been classified as a current liability based on the originally agreed repayment period. Up to the date of approval for issuance of the consolidated financial statements, the negotiations are still in progress. Based on the current financial position of the Group, the directors of the Company is confident that the Group has sufficient financial resources to repay the bank borrowings of RMB25,000,000 and there is no threat to the continuing operations of the Group.

As at 31 December 2018, the Group had unutilised banking facilities of approximately RMB1,904,740,000 (2017: RMB1,548,802,00).

14. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories RMB'000	Fair value Adjustments to assets acquired in business combinations RMB'000	Unrealised profit of equity instruments at FVTOCI RMB'000	Fair value gain on cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	29,343	(41,599)	(63,964)	-	1,201	(75,019)
(Charge) credit to profit or loss for the year (note 6)	(3,662)	3,049	-	-	-	(613)
Charge to other comprehensive income	-	-	-	(1,984)	-	(1,984)
At 31 December 2017	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)
(Charge) credit to profit or loss for the year (note 6)	(6,170)	3,767	-	-	-	(2,403)
Charge to other comprehensive income	-	-	-	(680)	-	(680)
At 31 December 2018	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	20,712	26,882
Deferred tax liabilities	(101,411)	(104,498)
	(80,699)	(77,616)

At 31 December 2018, the Group had unused tax losses of approximately RMB38,294,000 (2017: RMB19,550,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2018 are tax losses of approximately RMB22,935,000 (2017: RMB7,447,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2018, tax losses of approximately RMB698,000 (2017: RMB671,000) was expired.

As at 31 December 2018, the Group had deductible temporary differences of RMB599,167,000 (2017:RMB582,619,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB78,044,000 (2017: RMB102,724,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB521,123,000 (2017: RMB479,895,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB3,701,717,000 (2017: RMB2,834,141,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2017, 31 December 2017 and 31 December 2018	20,000,000	765,218
Issued and fully paid		
At 1 January 2017, 31 December 2017	2,487,247	85,200
Shares repurchased and cancelled (Note)	(6,839)	(237)
At 31 December 2018	2,480,408	84,963

Note: During the year, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share Highest	Price per share Lowest	Aggregated consideration paid
11 October 2018	1,122,000	HK$8.90	HK$8.78	HK$9,960,300
12 October 2018	150,000	HK$9.10	HK$9.07	HK$1,364,800
15 October 2018	150,000	HK$9.27	HK$9.24	HK$1,398,810
16 October 2018	500,000	HK$9.12	HK$9.03	HK$4,542,680
18 October 2018	500,000	HK$9.00	HK$8.90	HK$4,479,210
19 October 2018	500,000	HK$9.18	HK$9.16	HK$4,589,840
23 October 2018	500,000	HK$9.09	HK$8.93	HK$4,504,150
25 October 2018	500,000	HK$9.10	HK$8.97	HK$4,525,610
26 October 2018	500,000	HK$8.86	HK$8.75	HK$4,418,130
14 November 2018	500,000	HK$9.20	HK$9.12	HK$4,576,230
30 November 2018	800,000	HK$8.52	HK$8.52	HK$6,816,000
07 December 2018	1,117,000	HK$7.80	HK$7.64	HK$8,617,200

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

16. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subjected to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2018, the Company recognised an expense of RMB9,000,000 (2017: RMB30,000,000) on the Master Scheme based on the Group's financial performance. RMB9,000,000 (2017: RMB30,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is pleased to announce that for the year ended 31 December 2018, the Group recorded a turnover of RMB 5,433.4 million (2017: RMB 5,348.8 million), representing an increase of 1.6% over the same period last year; excluding the effect of the "two-invoice system", the turnover would have been up 10.0% to RMB 6,134.5 million (2017: RMB 5,578.6 million). Profit for the year reached RMB 1,844.6 million (2017: RMB 1,669.9 million), up 10.5% from the corresponding period last year. The basic earnings per share was RMB 0.7441 (2017: RMB 0.6734), representing an increase of 10.5% over the same period last year.

2018 is a year in which the Chinese pharmaceutical industry has undergone the major revolution and the structure of the pharmaceutical industry has been geared to the international standards in acceleration. The implementation and promotion of various policies, such as the national medical insurance spending control, procurement with volume, expansion of National Essential Drugs List ("NEDL"), consistency evaluation, the control of the weight of drug sales, and hierarchical diagnosis and treatment management, have far-reaching impacts on the entire pharmaceutical industry. Among them, the implementation of "Procurement with Volume in 11 Cities" highlighted the country's determination to further reduce the drug prices. At the same time, in terms of promoting the development of innovative drugs, from June 2018, the China National Drug Administration was elected as a member of the Management Committee of the ICH (International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use) to various attention attracting policies, such as the acquiescence system of the clinical trials application, acceleration in review and approval for overseas launched clinically urgently-needed new drugs, and the acceptance of overseas clinical trial data, have been continuously introduced, it is indicated that the market of innovative drugs has been booming in China. During the Reporting Period, the Group actively faced with the opportunities and challenges brought by the industry restructure. On the one hand, the Group has been consistently seeking for overseas cooperations and opportunities, speeding up the arrangement and development of innovative products, in order to provide sustainable driving force for the Group's growth in the long-term; on the other hand, grasping the dividend window for quality generic drugs, the Group has proactively expanded the arrangement path of the overseas quality generics. At the same time, the Group continued to focus on the differentiation promotion based on the advantages of existing products to stabilize the core market, and speed up the penetration of network and expansion of retail market. At the same time, through the digital marketing management system, the Group has consistently upgraded the carrying capacity of existing network to further improve the commercialization capacity for the products, aiming to maintain the sustainable growth. During the Reporting Period, the Group achieved the steady growth.

I. Driving Force for the Future Development

During the Reporting Period, after making a detailed assessment of the situations, the Group determined the

innovative research and development as its core strategic path. At the same time, the Group strengthened the commercialization development of overseas launched products in China, and continued to seek for the development of launched products in China, aiming to provide impetus for the sustainable development of the Group's performance. With the innovative research and development as its core strategy, the Group has the capability to facilitate the whole process for innovative products from the early arrangement in the research stage, customization of marketing strategy proposal before launching, to the commercialization in the Chinese market. During the Reporting Period, by utilizing the established overseas resources and reputation, the Group invested in the equities of overseas pharmaceutical R&D companies with the ability to do the research and development in the specialized field, and expanded different research areas by utilizing their rich experiences within pharmaceutical R&D industry and R&D teams with working experiences in multinational pharmaceutical companies, to make arrangement for the innovative products portfolio multi-dimensionally. In addition, for the commercialization development of overseas launched products in China, the Group officially opened a new chapter of the overseas high quality generics arrangement. By taking the advantages of the pharmaceutical technique and high quality standards of overseas matured pharmaceutical companies, the Group expected to directly introduce the overseas generic drugs with proven quality and affordable price to the domestic market with a relatively light-asset mode, aiming to earn a place in Chinese generics competition and create the incremental market. In addition, closely following the development trend of the industry, the Group continued to seek for the domestically launched products which were suitable for its development.

1. Innovative Research and Development

The Group is fully aware that pharmaceutical companies are empowered by innovative research and development, and has determined to accelerate the pace of innovative research and development by the combination of collaborative R&D and in-house R&D.

Collaborative R&D

During the Reporting Period, the Group acquired seven innovative patented products from overseas R&D companies with R&D capabilities in specific fields from the U.S., the U.K., France, Switzerland and Israel through equity investment and rights purchase, which expanded the number of the Group's innovative patented products (human clinical trial is ongoing/completed) to nine.

Equity Investment

PoNS (Portable Neurostimulation Device)

A&B (HK) Company Limited ("A&B"), wholly owned by Mr. Lam Kong (a controlling shareholder of the Company, as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), made an equity investment in Helius Medical Technologies Inc ("Helius"), a U.S. neurotech company focused on neurological wellness, and acquired the assets related to portable neurostimulation device PoNS for the China market (HK SAR, Macau

SAR and Taiwan incl.). In August 2018, the Group through its wholly-owned subsidiary entered into a framework asset transfer agreement with A&B relating to PoNS. The Group has agreed to acquire from A&B all assets related to the products in China (HK SAR, Macau SAR and Taiwan incl.). The Group's wholly-owned subsidiary and A&B will further negotiate and agree on the terms of the transaction at a later stage prior to the launch of the product in China. The parties expect that the consideration for the transaction will be calculated with reference to the net sales of the product in the China market.

As a class II medical device, PoNS is the only tongue delivered stimulator which stimulates the cranial nerves by acting on the tongue. Combined with exercise training, PoNS is being developed for the adjuvant treatment of balance disorders in patients with traumatic brain injury (TBI), stroke, cerebral palsy, etc. PoNS is a patented product. The invention patents, protecting the product equipment, have entered into the Chinese national phase via PCT international application, which will expire in 2035, if granted. Meanwhile, the product has design patents in China, which will expire in 2025. Helius has submitted the request to the U.S. Food and Drug Administration (FDA) for de novo classification and 510(k) clearance of the PoNS device for the treatment of chronic balance deficit due to mild- to moderate- TBI in September 2018, and the wholly owned subsidiary of Helius has received authorization from Health Canada to market PoNS in October 2018. The Group has been working on the relevant preparations of the registration and application and other related work for PoNS to launch in China. In China, there are more than 1.3 million people suffering from accidental injuries each year due to traffic accidents, which is the most common cause of TBI (accounts for 54% of TBI causes), and there is a large unmet treatment need for rehabilitation of TBI prognostic balance disorders. However, no drugs or methods are approved to solve this treatment difficulty in domestic and overseas currently. PoNS will provide patients with a new treatment mode to improve the balance disorders once approved.

NRL-1 (Intranasal Diazepam)

A&B, wholly owned by Mr. Lam Kong, a controlling shareholder of the Company, made an equity investment in Neurelis, Inc. ("Neurelis"), a U.S. specialty pharmaceutical company focused on central nervous system innovative therapies, and acquired the assets related to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 (intranasal diazepam) etc. and/or line extensions for the China market (HK SAR, Macau SAR and Taiwan incl.) from an entity. In August 2018, the Group through its wholly-owned subsidiary entered into a framework asset transfer agreement with A&B relating to NRL-1. The Group has agreed to acquire from A&B all assets related to the products in China (HK SAR, Macau SAR and Taiwan incl.). The Group's wholly-owned subsidiary and A&B will further negotiate and agree on the terms of the transaction at a later stage prior to the launch of the product in China. The parties expect that the consideration for the transaction will be calculated with reference to the net sales of the product in China. In November 2018, the Group made an equity investment in Neurelis through its wholly-owned subsidiary.

NRL-1 is a proprietary formulation of diazepam, delivered via a nasal formulation in a spray, being developed for the management of pediatric and adult patients who require intermittent use of diazepam to control bouts of increased seizure activity (also known as acute repetitive or cluster seizures). NRL-1's formulation incorporates the unique combination of a Vitamin E-based solvent and Intravail® absorption enhancement with the goal of obtaining unparalleled absorption, tolerability, and reliability in a nasal formulation. Compared with intravenous diazepam, the product shows 96% absolute bioavailability with low variability, and provides a treatment option which is more convenient and can be applied anytime and anywhere in patients. In addition, simple and rapid administration can shorten the duration of epileptic seizures and lead to better treatment outcomes for patients. In September 2018, Neurelis has submitted a New Drug Application (NDA) with U.S. FDA. The Group has been working on the relevant preparations of the registration and application and other related work for NRL-1 to launch in China. According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China, and only about 2 million patients with epilepsy who have received regular treatment, of which 20%-30% (about 0.4-0.6 million) are still out of effective control and are at risk of repetitive seizures. Once approved in China, NRL-1 will certainly become a long-term prepared and essential medicine for patients with acute repetitive seizures, and the market prospects are promising.

BB2603 (Terbinafine-nano)

In August 2018, the Group through its wholly-owned subsidiary made an equity investment in Blueberry Therapeutics Limited ("Blueberry Therapeutics"), a U.K. drug discovery and development company focused on development of innovative nanomedicines, and acquired all related assets to the leading product BB2603 (terbinafine-nano) in China (HK SAR, Macau SAR & Taiwan incl.), Republic of Korea, Democratic People's Republic of Korea and Mongolia.

BB2603 is a novel cutaneous spray of terbinafine hydrochloride with nanotechnology developed for the treatment of onychomycosis and tinea pedis. BB2603 aims to demonstrate equivalent efficacy and treatment duration but at a dose which is several thousand-fold lower than documented for oral terbinafine. In addition, for patients who are not suitable or in poor compliance with oral administration, BB2603 provides a better safety option. Two formulation patents for BB2603 have been applied in China with terms up to the year 2034 and 2036 if granted. BB2603 has completed its Phase I/II clinical trial in Germany, and Bluberry Therapeutics will initiate a large Phase IIb dose finding efficacy study for BB2603 in onychomycosis. Onychomycosis and tinea pedis are very common diseases with a high recurrence rate in China, the current topical drugs are difficult to penetrate nails resulting in a complete cure rate less than 20% of onychomycosis. BB2603 will have broad market prospects once approved.

ACT017 (Antiplatelet Humanized Antibody Fragment)

In July 2018, the Group through its wholly-owned subsidiary made an equity investment in Acticor Biotech, a French clinical-stage biotechnology company which focused on innovative treatment in the therapy of

acute thrombotic diseases, and acquired all assets related to ACT017 (antiplatelet humanized antibody fragment) and any follow-up products developed on the basis of the same compound in China (HK SAR, Macau SAR and Taiwan incl.) and other designated Asian countries (Japan, India and Western Asia countries excl.).

ACT017, a biological agent, is a high affinity humanized antibody fragment (Fab) directed against the platelet glycoprotein VI (GPVI), and is being developed for the treatment of the acute phase of ischemic stroke. Though thrombolytic therapy is the first treatment choice recommended by various guidelines all over the world, it still has problems such as short treatment time window, low rate of vascular recanalization, various contraindications, increasing risk of bleeding. Furthermore, current antiplatelet agents also have the disadvantage of increasing the risk of bleeding. Previous studies have shown that ACT017 can inhibit the collagen-induced platelet aggregation without increasing the risk of bleeding, which gives the candidate potential to increase the efficacy and safety profile in the treatment combined with thrombolysis therapy. Meanwhile, ACT017 is administered intravenously which ensures a rapid drug action. Therefore, when compared with existing oral antiplatelet drugs, ACT017 is more suitable to be used for in-hospital emergency treatment of ischemic stroke. The substance patent of ACT017 has entered into the Chinese national phase via PCT international application, which will expire in 2036, if granted. The phase I clinical trial of ACT017 has been completed in Europe, and the results showed that the primary endpoint was achieved. The phase I/II clinical trial of ACT017 is undergoing in Europe. It is estimated that nearly 2 million new strokes occur every year in China, resulting in approximately 1.2-1.6 million new cases annually. Ischemic stroke is characterized by high morbidity, disability and mortality. ACT017 has the potential to overcome the longstanding safety concerns about existing drugs in stroke and other serious vascular emergency situations and would become a first-class antithrombotic agent.

VXM01 (Oral T-cell immunotherapy)

In September 2018, the Group through its wholly-owned subsidiary made an equity investment in VAXIMM AG ("VAXIMM"), a Swiss/German biotech company which focused on Oral T-cell immunotherapies for patients suffering from cancer, and gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current products portfolio (the current leading product is VXM01) and line extension as well as designated products and line extension that will be solely owned and under the control of VAXIMM in China (HK SAR, Macau SAR and Taiwan incl.) and other designated Asian countries (Japan, India and Western Asia countries excl.).

VXM01 is an oral T-cell immunotherapy mainly being developed to treat patients with recurrent glioblastoma (GBM) currently. Oral administration gives VXM01 a high patient compliance. After several prime doses, VXM01 will evoke an antigen-specific immune response. VXM01 appeared to be safe and well tolerated. The phase I clinical trial of VXM01 has been completed in Europe and a phase I/II clinical trial evaluating the safety and efficacy of VXM01 in combination with Avelumab in patients with recurrent GBM

is undergoing. The production process patent of VXM01 has been granted in China, which will expire in 2032. In addition, two other method patents which have entered into the Chinese national phase and have an expected expiry of up to 2036, if granted. GBM is one of the most aggressive primary brain tumors and has the characteristics of high recurrence rate and low overall survival rate. VXM01 has the potential to be an innovative biological agent that improves the survival of patients with recurrent GBM.

Traumakine® (Recombinant Human Interferon beta-1a intravenous lyophilized preparation)

In May 2018, Faron Pharmaceuticals Ltd. announced the top-line data for Traumakine®'s Pan-European Phase III INTEREST trial. Traumakine® is the biological agent used for the treatment of acute respiratory distress syndrome. The INTEREST study did not meet the Day 28 (D28) primary efficacy composite endpoint of ventilator free days and survival rate with Traumakine® treatment. The Group believes that, under the current circumstances, Traumakine® would not be able to obtain the necessary regulatory approval for it to be marketed based on the above results. While the results of this clinical trial were disappointing, the Group does not believe that they would have any material impact on the financial performance of the Group.

Rights Purchase

CF101 & CF102 (Selective Agonists to the A3 Adenosine Receptor)

In August 2018, the Group through its wholly-owned subsidiary signed a License, Collaboration and Distribution Agreement with Can-Fite BioPharma Ltd. ("Can-Fite BioPharma"), an Israel clinical-stage biopharmaceutical company, and gained exclusive, perpetual, transferable, sub-licensable rights to develop, register, manufacture and commercialize its current products selective agonists to the A3 adenosine receptor (A3AR) CF101 and CF102 in China (HK SAR, Macau SAR and Taiwan incl.).

CF101 is an oral product developed for the treatment of autoimmune-inflammatory diseases including rheumatoid arthritis (RA) and psoriasis. Currently, MTX is recommended by guidelines for the treatment of RA, and it is also the most cost-effective drug for the treatment of plaque psoriasis, but there are many adverse reactions. CF101 will be possible to replace oral MTX as the first-line treatment for RA and will provide a new oral treatment for patients with plaque psoriasis. Phase III clinical trials of CF101 in the treatment of RA and psoriasis have been ongoing. In China, about 5 million people suffer from RA and approximately 6.5 million people suffer from psoriasis. CF101 will provide a new treatment for patients with RA and psoriasis once approved, and will have a good market prospect.

CF102 is developed for a second line treatment for hepatocellular carcinoma (HCC), and a treatment for non-alcoholic fatty liver disease (NAFLD) /non-alcoholic steatohepatitis (NASH). Phase II clinical trials of CF102 in the treatment of HCC and NAFLD/NASH have been ongoing. In HCC treatment, traditional cytotoxic drugs including monotherapy or combination therapy are not highly effective, but with severe toxicity and side effects, so their repeatability is poor; the long-term use of the targeted agents such as sorafenib may cause drug resistance, reduce the efficiency of clinical treatment, and shorten the median time

to progression and median survival time. CF102 is used in patients with disease progression after sorafenib treatment, providing patients with a new treatment option. Primary liver cancer is currently the fourth common malignant tumor in China and the third leading cause of death by cancer. HCC accounts for 85% to more than 90% of primary liver cancer. In addition, the prevalence of NAFLD in China has surpassed that in developed countries such as Europe and the U.S., posing a serious threat to national health and social development. There is no evidence of evidence-based medicine for the treatments of NAFLD/NASH so far. Once CF102 has been confirmed by clinical trials, it will provide patients with a new treatment option.

In- house R&D

CMS024 (Tyroserleutide)

The Group has taken the first step towards In-house R&D since 1998. CMS024 (Tyroserleutide), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group. Though the Phase III clinical trial unblinded on February 2014 failed to achieve the expected results, the subgroup with "no tumor thrombosis" in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a half-year "follow-up study" and achieved significant results. According to statistical data from the study, a statistical significance in survival time between the treatment group and the placebo group of the subgroup had been observed, indicating that CMS024 could prolong the survival time of liver cancer patients with "no tumor thrombosis" in the hepatic portal vein branches. Based on these positive results, the Group has decided to carry out a new extended phase III clinical trial for CMS024. During the Reporting Period, the extended phase III clinical trial of Tyroserleutide was still in the patient recruitment process. The costs of this clinical trial will continue to be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of the product's revenue to Kangzhe R&D as royalty fees after the successful commercialization of the product. If Tyroserleutide is successfully launched into the market, it will not only have great market potential in China, but also have a significant impact on human health.

The development process of innovative patented products (human clinical trial is ongoing/ completed):

Acquisition Method	R&D Company	Product	Indication	Ownership Territory	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application
Equity Investment	Helius Medical Technologies	PoNS （Medical Device ）	Physical Adjuvant Therapy for Balance Disorders Related Symptoms due to Mild to Moderate Traumatic Brain Injury (TBI)	China（HK SAR, Macau SAR& Taiwan incl.）				
	Neurelis, Inc	NRL-1	Acute Repetitive Seizures	China（HK SAR, Macau SAR& Taiwan incl.）				
In-house R&D	In-house R&D	CMS024	Primary Liver Cancer	China（HK SAR, Macau SAR & Taiwan incl.）				
Rights Purchase	Can-Fite BioPharma	CF101	Rheumatoid Arthritis (RA)	China（HK SAR, Macau SAR & Taiwan incl.）				
			Psoriasis					
		CF102	Hepatocellular Carcinoma (HCC)					
			Non-Alcoholic Fatty Liver Disease (NAFLD) / Non-Alcoholic Steatohepatitis (NASH)					
Equity Investment	Destiny Pharma	XF-73	Prevention of Post-surgical Staphylococcal Infections	China（HK SAR, Macau SAR& Taiwan incl.）and other Asian Countries (Japan excl.)				
	Blueberry Therapeutics	BB2603	Onychomycosis and Tinea Pedis	China（HK SAR, Macau SAR& Taiwan incl.), Korea, North Korea & Mongolia				
	Acticor Biotech	ACT017 （Biological Agent）	Acute Phase of Ischemic Stroke	China（HK SAR, Macau SAR& Taiwan incl.）and Other designated Asian Countries (Japan etc. excl.)				
	VAXIMM AG	VXM01 （Biological Agent）	Recurrent Glioblastoma(GBM)	China（HK SAR, Macau SAR& Taiwan incl.）and Other designated Asian Countries(Japan etc. excl.)				

*European Medicines Agency (“EMA”)

2. Commercialization Development of Overseas Launched Products in China

The Group acquired all assets of overseas launched products related to the China market mainly through asset purchase, and applied for the Import Drug License (“IDL”) for products according to the requirements of the National Medical Products Administration (“NMPA”).

Generics Portfolio

In July 2018, the Group through its wholly-owned subsidiary entered into an Asset Purchase Agreement with Venus Pharma GmbH (“Venus Pharma”) from Germany, a wholly owned subsidiary of Venus Remedies

Limited and acquired all assets of Venus Pharma's current product portfolio related to the market in China (HK SAR, Macau SAR and Taiwan incl.).

The transaction involved six injections, all of which are included in the National Reimbursement Drug List ("NRDL"). The four anti-tumor products are Gemcitabine Hydrochloride for Injection, Docetaxel for Injection, Pemetrexed disodium for Injection and Bortezomib for Injection, and are all commonly used drugs for clinical anti-tumor therapy and recommended by guidelines; the two antibiotic products are Meropenem for Injection and Imipenem-Cilastatin for Injection, with a wide range of antibacterial effects and being used to treat a variety of infections. The six generic injections were manufactured by Venus Remedies Limited. At present, the material preparation to apply for the IDL for the generics portfolio has been carried out in China. Specific product information is summarized in the following table:

	Product	**Category**	**Indication**
Anti-tumor Products	Gemcitabine Hydrochloride for Injection	Pyrimidine Analogue	Non-small cell lung cancer, pancreatic cancer and breast cancer
	Docetaxel Injection	Taxanes	Breast cancer, non-small cell lung cancer, prostate cancer and gastric cancer
	Pemetrexed disodium for Injection	Folic Acid Analogue	Non-small cell lung cancer and malignant pleural mesothelioma
	Bortezomib for Injection	Proteasome Inhibitor	Multiple Myeloma and mantle cell lymphoma
Antibiotic Products	Meropenem for Injection	Carbapenems	Pneumonia, urinary tract infection, gynecologic infections, skin and soft tissue infection etc.
	Imipenem-Cilastatin for Injection	Carbapenems	Intra-abdominal infection, lower respiratory infection, gynecologic infections and septicemia etc.

Other Overseas Products -- Products undergoing application process for Import Drug License

During the Reporting Period, the Group had three products undergoing the application process for IDL. They will contribute to the Group's revenue after they are officially issued an IDL by the NMPA. Key information about these products is listed below:

Product	Indication	Manufacturer	NMPA Pending Number	Registration Process
Budenofalk	For the treatment of Crohn's disease	Dr. Falk Pharma GmbH (Germany)	Material Preparation	Material Preparation
Ze 339	For the treatment of allergic rhinitis	Zeller Medical AG (Switzerland)	JXZL1500004	CDE Review
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

For more information on imported drug registration of the Group's products, please refer to the NMPA website (http://www.nmpa.gov.cn).

3. Development of Launched Products in China

In June 2018, based on the non-legally binding strategic cooperation memorandum previously reached, the Group through its wholly owned subsidiary signed a Business Promotion Delegation Agreement with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma"), a research-based health care innovator, for its product Elcitonin (Elcatonin Injection). According to the agreement, the Group gained exclusive promotion rights of the product in China (HK SAR, Macao SAR & Taiwan excl.). The promotion activities started from August 2018.

This strategic cooperation with Asahi Kasei Pharma was based on the trust of Asahi Kasei Pharma in the Group and the affirmation of the previous cooperation, in which the Group took a solid step in seeking and achieving strategic cooperation with its existing partners. In the future, the Group will actively seek to achieve a long-term and win-win cooperation with its existing partners, so as to work together to accumulate power for the development of the enterprise.

II. Existing Product Development

Main Products

Plendil (Felodipine Sustained Release Tablets)

The company owns the 20-year exclusive license for the commercialization of Plendil in China（HK SAR, Macau SAR & Taiwan excl.）. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Plendil is used to treat hypertension and stable angina pectoris and is in the NRDL. It was included in the NEDL in 2018. Plendil is the sustained release formulation of Felodipine,

which smoothly controls blood pressure with low occurrence rates of side effects. In 2018, the latest edition of "Chinese Guidelines for the Prevention and Treatment of Hypertension 2018 Revised" was released and continuously granted Felodipine the relevant recommendation based on the previous version (2010). During the Reporting Period, Plendil recorded a revenue of RMB 1,123.1 million, a decrease of 12.9% compared with the same period last year. If excluding the effect of the "two-invoice system", Plendil's revenue would increase by 5.2% to RMB 1,450.7 million compared with the same period last year, accounting for 23.6% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group adhered to use the differentiation promotion strategy to stabilize the core market, strengthening the brand image of " Choice of Antihypertensive in China with Cardiovascular and Cerebrovascular Protection", and continually penetrated the lower-tier market, bringing the normative diagnosis and treatment of high blood pressure to the lower-tier market. In addition, nationwide academic lectures of different directions were conducted to further enhance the linkage of national academic communication. Meanwhile, combined with Plendil's characteristics, the Group has started to promote and enhance the construction of retail team steadily, focusing on development and expansion of the retail market. For the year ended 31 December 2018, sales of Plendil covered around 28,000 hospitals and medical institutions throughout China.

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH ("Falk"), Germany. The product is used for the treatment of cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis and is in the NRDL. Based on IMS data in 2018, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranks first in sales among digestive products in the Chinese cholagogue market. In 2018, Ursodeoxycholic was recommended by "2018 the British Society of Gastroenterology/UKPBC Primary Biliary Cholangitis Treatment and Management Guidelines". During the Reporting Period, Ursofalk recorded a revenue of RMB 1,147.0 million, an increase of 19.6% compared with the same period last year. Ursofalk's revenue accounted for 18.7% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, benefiting from various recommendations of multiple guidelines and clinical papers, Ursofalk continued to be recognized by experts. In addition, on the basis of the steady promotion in several major departments such as traditional infection, hepatopathy and digestion, the Group actively promoted the use of Ursofalk in the treatment of drug-induced liver injury and surgery. The Group found a new growth trigger for Ursofalk with an integrated promotion with the Group's other products under digestive line. For the year ended 31 December 2018, sales of Ursofalk covered around 10,900 hospitals and medical institutions throughout China.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression, anxiety and psychosomatic affections, and is in the NRDL. Based on IMS data in 2018, Deanxit ranks first in the market share of antidepressant drugs in China. The Flupentixol and Melitracen was recommended by "Guidelines for the Diagnosis and Treatment of Common Diseases of the Nervous System with Depression" in 2018. During the Reporting Period, Deanxit recorded a revenue of RMB 1,013.4 million, an increase of 6.8% compared with the same period last year. Deanxit's revenue accounted for 16.5% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group constructed and optimized the existing promotion platform, solidified the traditional departments while strengthening the maintenance of key basic departments. In addition, the Group actively expand the community and county-level market. For the year ended 31 December 2018, sales of Deanxit covered around 23,000 hospitals and medical institutions throughout China.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) in which the Group holds 36.83% of the share, is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in the China market. XinHuoSu is included in the NRDL. Recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China and "2018 Guidelines for the Diagnosis and Treatment of Heart Failure in China" in 2018, XinHuoSu has gradually become the new generation medication for acute heart failure. During the Reporting Period, XinHuoSu recorded a revenue of RMB 334.9 million, a decrease of 18.7% compared with the same period last year. If excluding the effect of the "two-invoices system", XinHuoSu's revenue would increase by 36.0% to RMB 886.6 million compared with the same period last year, accounting for 14.5% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group continued to expand and penetrate the core expert network of the cardiology department. Meanwhile, through establishing and optimizing academic platforms related to the severe cases of cardiothoracic surgery, emergency medical care and geriatric department, the Group further enhanced the academic influence and the brand image of the product. Moreover, the comprehensive implementation of the national medical insurance, and policies issued by many provinces stating that XinHuoSu and other negotiated products are eliminated from the control of drug sales weight of the total revenue for hospitals, boosted the growth of XinHuoSu. For the year ended 31 December 2018, sales of XinHuoSu covered around 2,300 hospitals and medical institutions throughout China.

Salofalk (Mesalazine)

Dosage forms of suppositories and enemas of Salofalk are manufactured by Vifor AG Zweigniederlassung Medichmie Ettingen, Switzerland, which is the entrusted manufacturer of Falk, Germany; while enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany, which is the entrusted manufacturer of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis, including the treatment of acute exacerbations and also to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. Salofalk is in the NRDL and was also included in the NEDL in 2018. It is the Mesalazine with the widest dosage forms in China market. According to the "Consensus on the Diagnosis and Treatment of Inflammatory Bowel Disease (2018)", Mesalazine is still recommended as the first-line drug for the treatment of Ulcerative Colitis. During the Reporting Period, Salofalk recorded a revenue of RMB 340.9 million, an increase of 15.0% compared with the same period last year. Salofalk's revenue accounted for 5.6% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group continued to solidify the digestive core market while penetrating the expert network to expand the brand influence. Moreover, the Group found a new market growth trigger for Salofalk by exploring and developing in core fringe markets as well as enhancing the treatment level of relevant indications. For the year ended 31 December 2018, sales of Salofalk covered around 4,000 hospitals and medical institutions throughout China.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations. "The Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea" published in 2016 gave Bioflor the highest level of recommendations. In 2017, the World Gastroenterology Organization ("WGO") updated the "Probiotics and Prebiotics Guideline" and the authoritative recommendation of Bioflor for relevant indications remained as in the previous version (2011). During the Reporting Period, Bioflor recorded a revenue of RMB 262.7 million, a decrease of 0.2% compared with the same period last year. Bioflor's revenue accounted for 4.3% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, adhering to the academic-oriented differentiation promotion strategy, the Group cooperated with Biocodex to conduct various academic forums and conference tours, and organized product-related re-education activities in various regions, in order to explore the domestic evidence of evidence-based medicine. Meanwhile, with solidifying the pediatric field, the Group actively organized promotional activities with other products under the digestive line to reinforce the brand image of Bioflor in digestive field. For the year ended 31 December 2018, sales of Bioflor covered around 3,400 hospitals and medical institutions throughout China.

Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)

The Group owns Augentropfen Stulln Mono Eye Drops' related assets for the China (HK SAR and Macau SAR incl.) market, and has entrusted the manufacture to Pharma Stulln GambH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops in Chinese market for the treatment of macula degeneration and the representative drug for asthenopia, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye Drops recorded a revenue of RMB 225.4 million, and increase of 3.6% compared with the same period last year. Augentropfen Stulln Mono Eye Drops' revenue accounted for 3.7% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, through various levels of the ophthalmic academic conference, academic re-education platforms and digital marketing, the Group continued to solidify the promotional work in the related fields of ocular fundus disease and reinforce the promotional work in the related fields of asthenopia to further expand the brand influence. For the year ended 31 December 2018, sales of Augentropfen Stulln Mono Eye Drops covered around 7,700 hospitals and medical institutions throughout China.

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (HK SAR, Macau SAR and Taiwan excl.) market, and has entrusted the manufacture of the product to Mobilat Produktions GmbH (Germany). Hirudoid is used in the treatment of blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression, and the drug is proven to have broad effects and high safety. The active ingredient of Hirudoid is mucopolysaccharide polysulfate, which was recommended by the first edition of "Chinese Expert Consensus on Diagnosis and Treatment of Senile Skin Pruritus" in 2018. During the Reporting Period, Hirudoid recorded a revenue of RMB 149.3 million, an increase of 15.8% compared with the same period last year. Hirudoid's revenue accounted for 2.4% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group further solidified its national dermatological experts network and carried out refined promotion in dermatological indications. For the year ended 31 December 2018, sales of Hirudoid covered around 7,400 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (HK SAR, Macau SAR and Taiwan incl.) market and other designated countries or areas, and has entrusted the manufacture of the product to Nordmark Arzneimittel GmbH & Co.KG(Germany). The main ingredients of Combizym are extracts of pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes and is in the NRDL. In 2018, Combizym was recommended by the "2018 Standard Practice of Diagnostic and Treatment for Pancreatic Exocrine Insufficiency". During the Reporting Period, Combizym

recorded a revenue of RMB 86.5 million, an increase of 27.4% compared with same period last year. Combizym's revenue accounted for 1.4% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group determined the promotion strategy focusing on the core indications through deeply expoloring and comprehending the products' indications. Meanwhile, benefiting from various recommendations of multiple guidelines and clinical papers, the evidence of evidence-based medicine of the product was constantly enriched and updated. For the year ended 31 December 2018, sales of Combizym covered around 1,600 hospitals and medical institutions throughout China.

The related information of the rest of the products sold and promoted by the Group is listed below:

Product	Chemical Name	Main Indication	Revenue		Revenue excl. the effect of "two-invoice system"		
			2018 (RMB million)	Y-o-Y Change (%)	2018 (RMB million)	Y-o-Y Change (%)	As a % of Group's Revenue
DanShenTong		Antisepsis and anti-inflammation	146.5	-3.5%	146.5	-3.5%	2.4%
YiNuoShu	Ambroxol hydrochloride Injection	The expectorant product used for respiratory diseases	218.8	37.5%	87.9	-12.7%	1.4%
NuoDiKang		Boosting vital energy, activating blood circulation, freeing blood vessels and alleviating pain	29.0	-71.2%	77.2	-42.8%	1.3%
XiDaKang	Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate	Hypoproteinemia and kakotrophy, systemic failure and poor wound healing	194.6	0.0%	49.5	-16.0%	0.8%
GanFuLe		Primary liver cancer, cirrhosis and liver fibrosis	43.3	6.8%	43.3	6.8%	0.7%
Imdur	Isosorbide Mononitrate Sustained Release Tablets	Long-term treatment of coronary artery disease and prophylactic angina pectoris	41.8	4.4%	41.8	4.4%	0.7%
Parlodel	Bromocriptine Mesilate Tablets	Indications of endocrine and nervous system	29.1	6.9%	29.1	6.9%	0.5%
Elcitonin	Elcatonin Injection	Pain associated with osteoporosis	8.2	-	8.2	-	0.1%
Lamisil	Terbinafine Hydrochloride Tablets	Onychomycosis	8.2	-1.5%	8.2	-1.5%	0.1%
YinLianQingGan		Acute hepatitis A and chronic hepatitis B	3.4	-47.2%	1.7	-44.9%	0.0%
Other Products			27.2	-25.5%	78.6	-21.0%	1.3%

III. Network Development

With the gradual implementation of various national medical reform policies, the Group accelerated the strategic planning and upgrade of the academic network. During the Reporting Period, continually expanding the coverage of the academic network, the Group further refined the covered regions, and enhanced the carrying capacity of the network for the promotion of the existing products and the coming innovative products through resource restructuring and optimization. The Group fully encouraged the use of digital marketing tools to accelerate the innovation and upgrade of promotion mode, so as to improve the promotion efficiency of the team. At the same time, with the digital management system providing the data support for

internal management and external marketing, the Group created more refined and traceable business data and more standardized employee behavior management. In terms of team management, the Group trained the fresh recruits from the campus and social recruitment and the existing promotional staff classified in various of batches and stages, strengthening all kinds of medical knowledge, drug academic knowledge and compliance awareness of the promotional staff, in order to build up a more professional, compliant and efficient promotional team. For the year ended 31 December 2018, the Group's Direct Network had covered over 53,000 hospitals and medical institutions in China with around 2,800 professional marketing and promotional related staff; the Group had signed agreements with around 520 agencies or third-party sales representatives, and the Agency Network had covered around 11,000 hospitals and medical institutions across the country.

At the same time, the Group proactively promoted the expansion, development and training of the retail team, to steadily promote the arrangement and coverage of the retail business. Through the hierarchical management of chain pharmacies while matching the corresponding resources according to product characteristics, differentiation marketing strategies were adopted to promote the products by categories, in order to continuously dig in the potential of the retail market. In the mean time, the Group constantly improved the analysis management system of retail data and remuneration assessment system, in order to achieve the rapid arrangement and development of key products with retail attributes in the retail network through the flexible internal management.

Subsequent Events

Signing of a License, Collaboration and Distribution Agreement with Midatech Pharma and Making Equity Investment in It

The Group through its wholly-owned subsidiary has signed a License, Collaboration and Distribution Agreement (the "License Agreement") with Midatech Pharma PLC ("Midatech Pharma"). According to the License Agreement, the Group through its wholly-owned subsidiary has gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize Midatech Pharma's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech Pharma controls and which Midatech Pharma or its affiliates have given a codename within three years of the effective date of the agreement in China (including Hong Kong SAR, Macao SAR and Taiwan) and certain Southeast Asian countries selected by the Company (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Company once a regulatory approval is granted by the U.S. FDA, EMA or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland). At the same time, the Group through its wholly-owned subsidiary has made an equity investment in Midatech Pharma. For more information, please refer to the "Voluntary and Business Update Announcement Signing of a License, Collaboration and Distribution Agreement with Midatech Pharma and Making Equity Investment in It" published on 29 January 2019 and the "Voluntary and Business Update Announcement The

License, Collaboration and Distribution Agreement signed with Midatech Pharma Takes Effect and the Equity Investment in It Completes" published on 26 February 2019 by the Company, respectively.

Outlook and Future Development

The pharmaceutical industry in China has undergone years of reform and development, and its industrial structure has been constantly upgraded, bringing numerous opportunities and challenges. With the increase of the aging tendency of the society, the enhancement of people's awareness of health care and the change of disease spectrum, the Group believes that the demand of the pharmaceutical industry is still moving upward, maintaining a positive attitude towards the future prospect of the pharmaceutical industry. With the rich innovative product pipeline, comprehensive academic promotional network, proven Chinese market creativity and product commercialization capability, accumulated resources and good reputation from both domestic and overseas markets, the Group is confident to maintain its steady growth of the performance in the future.

In terms of product arrangement, the Group will mainly invest in equities of overseas R&D companies to constantly arrange the innovative products in the mode of collaborative research, aiming to satisfy China's unmet medical needs. At the same time, actively grasping the dividend window of generic drugs, the Group will seize the market share by means of making arrangement of the high-quality and affordable overseas generic drugs. Meanwhile, the Group will continually solidify the academic advantages of the existing products through the resource integration of existing product lines, aiming to establish a better brand image for the products.

When it comes to the development of marketing and promotional network, on the one hand, the Group will accelerate the penetration of the lower-tier markets in multi-directions and multi-dimensions, aiming to increase the depth of the existing network. At the same time, the Group will further expand the coverage of the Group's network by accelerating the expansion of the existing academic network and retail network. Meanwhile, the existing network will be constantly upgraded and optimized to improve the carrying capacity for the promotion of the coming innovative products.

As a pharmaceutical company with more than two decades of experience in the pharmaceutical industry, the Group has foreseen and constantly witnessed the innovation process of the pharmaceutical industry in China. The Group will continually explore the future driving forces in line with the market trend through the prospective perspective, boosting the sustainable growth of the performance. The Group believes that "no future without endurance, no development without accumulation", with the continuous self-revolution, CMS is bound to blaze a strategic path with quality and sustainability, creating value for customers, shareholders, society and employees.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements in the Annual Report.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover increased by 1.6% from RMB5,348.8 million for the year ended 31 December 2017 to RMB5,433.4 million for the year ended 31 December 2018. Excluding the effect of the "two-invoice system", turnover increased by 10.0% to RMB6,134.5 million for the year ended 31 December 2018 from RMB5,578.6 million for the year ended 31 December 2017, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.6% from RMB3,478.3 million for the year ended 31 December 2017 to RMB3,916.9 million for the year ended 31 December 2018; excluding the effect of the "two-invoice system", gross profit increased by 10.5% to RMB3,616.8 million for the year ended 31 December 2018 from RMB3,272.2 million for the year ended 31 December 2017, primarily reflecting an increase in turnover. Gross profit margin increased by 7.1 percentage points to 72.1% for the year ended 31 December 2018 from 65.0% for the year ended 31 December 2017; excluding the effect of the "two-invoice system", gross profit margin increased by 0.3 percentage point to 59.0% for the year ended 31 December 2018 from 58.7% for the year ended 31 December 2017, mainly due to a change in sales weight of products.

Selling Expenses

Selling expenses increased by 21.0% from RMB1,382.2 million for the year ended 31 December 2017 to RMB1,672.6 million for the year ended 31 December 2018; selling expenses as a percentage of turnover increased by 5.0 percentage points to 30.8% for the year ended 31 December 2018 from 25.8% for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover increased by 1.3 percentage points to 22.4% for the year ended 31 December 2018 from 21.1% for the year ended 31 December 2017, primarily reflecting an increase in human cost for providing a competitive salaries to the staff of the Group.

Administrative Expenses

Administrative expenses increased by 9.6 % from RMB222.0 million for the year ended 31 December 2017 to RMB243.3 million for the year ended 31 December 2018; administrative expenses as a percentage of turnover increased by 0.4 percentage point to 4.5% for the year ended 31 December 2018 from 4.1% for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover for the year ended 31 December 2018 maintained the same as 4.0% for the year

ended 31 December 2017, primarily reflecting the Group's effective expenses control.

Other Gains and Losses

Other gains and losses decreased by 90.8% from a loss of RMB61.2 million for the year ended 31 December 2017 to a loss of RMB5.6 million for the year ended 31 December 2018, mainly reflecting a difference in the exchange loss on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 6.6% from RMB77.7 million for the year ended 31 December 2017 to RMB82.9 million for year ended 31 December 2018, mainly reflecting an increase in shareholding percentage of the associate Tibet Pharmaceutical held by the Group.

Finance Costs

Finance costs decreased by 12.6% from RMB82.3 million for the year ended 31 December 2017 to RMB71.9 million for the year ended 31 December 2018, mainly reflecting an decrease in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 10.5% from RMB1,669.9 million for the year ended 31 December 2017 to RMB1,844.6 million for the year ended 31 December 2018, mainly due to the continuous growth in turnover.

Inventories

Inventories decreased by 5.6% from RMB460.4 million as at 31 December 2017 to RMB434.7 million as at 31 December 2018. Average inventory turnover days increased from 95 days for the year ended 31 December 2017 to 108 days for the year ended 31 December 2018, mainly due to the effect of the "two-invoice system".

Trade Receivables

Trade receivables increased by 28.9% from RMB993.8 million as at 31 December 2017 to RMB1,280.7 million as at 31 December 2018, mainly due to an increase in sales and the impact of conversion of settlement on sales under the "two-invoice system". Average trade receivables turnover days increased to 77 days for the year ended 31 December 2018 from 71 days for the year ended 31 December 2017, mainly due to the effect of the "two-invoice system".

Trade Payables

Trade payables decreased by 18.4% from RMB130.0 million as at 31 December 2017 to RMB106.1 million as at 31 December 2018. Average trade payables turnover days increased to 28 days for the year ended 31 December 2018 from 26 days for the year ended 31 December 2017, mainly due to the effect of the "two-

invoice system".

Liquidity and Financial Resources

As at 31 December 2018, the Group's bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million. As at 31 December 2017, the bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million.

As at 31 December 2018, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("Euro") and Hong Kong Dollars ("HK$").

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash from operating activities	1,754,565	2,071,798
Net cash used in investing activities	(239,690)	(354,099)
Net cash used in financing activities	(1,554,311)	(1,345,062)
Net (decrease) increase in cash and cash equivalent	(39,436)	372,637
Cash and cash equivalent at beginning of the year	855,629	482,451
Effect of foreign exchange rate changes	(1,112)	541
Cash and cash equivalent at end of the year	815,081	855,629

Net cash from operating activities

The Group's net cash generated from operating activities was RMB1,754.6 million for the year ended 31 December 2018 compared with RMB2,071.8 million for the year ended 31 December 2017, a decrease of 15.3% mainly due to the effect of an extension in settlement term on sales under the "two-invoice system".

Net cash used in investing activities

For the year ended 31 December 2018, the Group's net cash used in investing activities was RMB239.7 million compared with RMB354.1 million for the year ended 31 December 2017, a decrease of 32.3% mainly due to a decrease in equity investments and fixed assets expenditures.

Net cash used in financing activities

For the year ended 31 December 2018, the Group's net cash used in financing activities was RMB1,554.3 million compared with RMB1,345.1 million for the year ended 31 December 2017, an increase of 15.6%

mainly due to the repayment for part of bank borrowings and an increase in dividend payment during the current year.

Net Current Assets

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current Assets		
Inventories	434,661	460,401
Trade receivables	1,280,702	993,812
Other receivables	438,052	493,580
Tax recoverable	8,296	5,135
Amount due from an associate	169,565	151,023
Bank balances and cash	815,081	855,629
	3,146,357	2,959,580
Current Liabilities		
Trade payables	106,134	130,011
Other payables	281,550	376,815
Bank borrowings	25,000	65,000
Deferred consideration payables	8,847	8,802
Tax payable	129,314	77,516
	550,845	658,144
Net current assets	2,595,512	2,301,436

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means which the Company may from time to time consider appropriate.

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Deposits for acquisition of intangile assets	23,120	-
Purchase of prepaid lease payment	4,998	-
Purchase of property, plant and equipment	33,855	76,624
Capital injection to an associate	-	1,000,000
Purchase of equity instruments	230,953	26,291
	292,926	1,102,915

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Interest bearing bank borrowings	1,465,195	2,105,048

The Group had bank borrowings of RMB1,465.2 million as at 31 December 2018 (31 December 2017: RMB2,105.0 million). During the year ended 31 December 2018, the Group repaid part of bank borrowings.

As said above, along with the decrease in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 6.8 percentage points to 13.9% as at 31 December 2018 from 20.7% as at 31 December 2017.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business.

The Group is mainly exposed to currency risk of the US$, Euro and HK$. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the

foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2018, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk.

The Group will closely monitor the interest rate movements so as to mitigate the expected interest rate risk.

Pledge of Assets

As at 31 December 2018, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB77,548,000 and RMB27,151,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

On 20 June 2017, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower) (the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") as been made available to the Borrower for a term of 36 months from the first utilisation date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2018, Mr. Lam Kong (directly and indirectly) holds approximately 43.92% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2018, the Group paid an interim dividend for 2018 and a final dividend for 2017 of RMB382.0 million and RMB346.5 million, respectively. For the year ended 31 December 2017, the Group paid an interim dividend for 2017 and a final dividend for 2016 of RMB321.6 million and RMB289.5 million, respectively.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2018, the Company and its subsidiary have repurchased an aggregate of 6,839,000 ordinary shares of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$59,783,960. All of the purchased shares were cancelled on 21 December 2018. The Board believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position, and it will lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased*	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
October 2018	4,422,000	9.27	8.75	39,774,530
November 2018	1,300,000	9.20	8.52	11,392,230
December 2018	1,117,000	7.80	7.64	8,617,200
Total	6,839,000	-	-	59,783,960

* Note:

1. Of which 1,272,000 ordinary shares were purchased by a subsidiary of the Company on the Stock Exchange.

Save as disclosed above, none of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2018 to 31 December 2018, except for a deviation from the code provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the

execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Audit Committee

The Company established the Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun as the committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2018 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2018, the Audit Committee has held four meetings. At the meetings, the Audit Committee reviewed the annual results for 2017 with the external auditors, the interim results for 2018, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2018
Mr. Wu Chi Keung	4/4
Mr. Cheung Kam Shing, Terry	4/4
Mr. Leung Chong Shun	4/4

Cash Dividend

The Company has paid an interim dividend of RMB 0.1536 (equivalent to HK$0.176) per ordinary share of the Company (the "Share") for the six months ended 30 June 2018. The Board of Directors is pleased to recommend a final dividend of RMB0.1434 (equivalent to HK$0.168) per Share for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 May 2019 (the "Record Date"). The register of members of the Company will be closed on Thursday, 2 May 2019. The final dividend will be paid to shareholders in Hong Kong dollars about Thursday, 9 May 2019 after the shareholders' approval at the Annual General Meeting (the "AGM") of the Company dated on Thursday, 25 April 2019.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 18 April 2019 to Thursday, 25 April 2019 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 17 April 2019.

The register of members will be closed on Thursday, 2 May 2019, on which date no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Friday, 26 April 2019. Shareholders are reminded that in order to qualify for the final dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificate(s) and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 30 April 2019.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by the Company, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2018. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Disclosure of Information

The information provided in this announcement is only the summary of 2018 Annual Report of the Company. The 2018 Annual Report will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 18 March 2019

As at the date of the announcement, the directors of the Company comprise (i) Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; and (ii) Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun as independent non-executive directors