复旦张江
FUDAN-ZHANGJIANG

上 海 復 旦 張 江 生 物 醫 藥 股 份 有 限 公 司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

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

(Stock code:1349)

Annual Results Announcement
For the year ended 31 December 2019

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

FIVE YEARS FINANCIAL DATA HIGHLIGHTS

RESULTS

	Year ended 31 December				
	2019	**2018**	2017	2016	2015
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)			
Revenue	**1,029,295**	**741,841**	497,694	621,870	579,463
Profit before income tax	**246,312**	**93,890**	70,496	150,838	145,950
Income tax expense	**(25,657)**	**(2,977)**	(10,337)	(20,830)	(18,903)
Profit for the year	**220,654**	**90,913**	60,159	130,008	127,047
Profit attributable to:					
Shareholders of the Company	**227,358**	**112,129**	75,287	138,708	127,723
Non-controlling interests	**(6,704)**	**(21,216)**	(15,128)	(8,700)	(676)
Total comprehensive income for the year	**220,710**	**77,303**	59,858	129,914	127,047
Total comprehensive income attributable to:					
Shareholders of the Company	**227,414**	**98,519**	74,986	138,614	127,723
Non-controlling interests	**(6,704)**	**(21,216)**	(15,128)	(8,700)	(676)
EBITDA	**312,279**	**157,173**	122,256	185,970	182,070
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB**	**RMB**	RMB	RMB	RMB
	0.2463	**0.1215**	0.0816	0.1503	0.1384

FIVE YEARS FINANCIAL DATA HIGHLIGHTS (CONTINUED)

ASSETS AND LIABILITIES

	As at 31 December				
	2019	**2018**	2017	2016	2015
	RMB'000	***RMB'000***	RMB'000	RMB'000	*RMB'000*
		(Restated)			
Total assets	**1,564,824**	**1,469,691**	1,145,134	1,120,753	1,020,265
Total liabilities	**(631,676)**	**(515,259)**	(252,652)	(247,699)	(254,425)
	933,148	**954,432**	892,482	873,054	765,840
Capital and reserves attributable to:					
Shareholders of the Company	**931,525**	**943,218**	872,390	843,554	732,630
Non-controlling interests	**1,623**	**11,214**	20,092	29,500	33,210
	933,148	**954,432**	892,482	873,054	765,840

As the Company is facilitating its issue of A shares (the "Issue of A Shares"), to improve efficiency and to reduce costs in auditing and disclosure, the Company adopted the China Accounting Standards for Business Enterprises to prepare its overseas financial statements since the year ended 2019, approved by the extraordinary general meeting (the "EGM") on 24 February 2020 and made relevant restatement on its consolidated financial statements for the year 2018 according to China Accounting Standards for Business Enterprises. The consolidated financial statements of the Company for the years 2017, 2016 and 2015 were prepared in accordance with the International Financial Reporting Standards and no adjustments were made thereto.

The board of Directors (the “Board”) of the Company presents the consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2019 as follows:

CONSOLIDATED INCOME STATEMENTS
YEAR 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Consolidated	2018 Consolidated (Restated)
Revenue	5	1,029,294,769	741,841,425
Less: Cost of sales	5,6	(73,340,503)	(70,793,000)
Taxes and surcharges		(5,297,439)	(5,503,998)
Selling expenses	6	(530,571,185)	(399,648,905)
General and administrative expenses	6	(54,933,261)	(83,573,756)
Research and development expenses	6	(127,821,947)	(114,284,250)
Financial expenses-net		(5,627,946)	(4,546,358)
Including: Interest expenses		(6,298,820)	(6,491,172)
Interest income		2,086,043	2,866,314
Add: Other income		14,035,376	27,295,199
Investment income		11,058,615	12,566,656
Including: Share of loss of associates and joint ventures		(6,921,098)	-
Credit impairment losses		(2,519,741)	(2,773,985)
Asset impairment losses		(7,585,524)	(7,229,452)
Gains/(Loss) on disposals of assets		790,301	(334,482)
Operating profit		247,481,515	93,015,094
Add: Non-operating income		1,086,695	994,454
Less: Non-operating expenses		(2,256,628)	(119,860)
Total profit		246,311,582	93,889,688
Less: Income tax expenses	7	(25,657,487)	(2,976,512)
Net profit		220,654,095	90,913,176
Classified by continuity of operations			
Net profit from continuing operations		220,654,095	90,913,176
Net profit from discontinued operations		-	-
Classified by ownership of the equity			
Attributable to equity owners of the Company		227,357,983	112,129,171
Minority interests		(6,703,888)	(21,215,995)

CONSOLIDATED INCOME STATEMENTS (CONTINUED)
YEAR 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	2019 Consolidated	2018 Consolidated (Restated)
Other comprehensive income, net of tax			
Other comprehensive income that will not be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		-	(13,774,800)
Other comprehensive income that will be reclassified to profit or loss			
Translation differences on translation of foreign currency financial statements		56,181	164,485
		56,181	(13,610,315)
Total comprehensive income		220,710,276	77,302,861
Attributable to equity owners of the Company		227,414,164	98,518,856
Attributable to minority interests		(6,703,888)	(21,215,995)
		220,710,276	77,302,861
Earnings per share			
Basic and diluted earnings per share	8	0.25	0.12

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Notes	31 December 2019 Consolidated	31 December 2018 Consolidated (Restated)
Current assets			
Cash at bank and on hand	9	576,799,410	588,221,416
Notes receivables		127,592,684	83,503,452
Accounts receivables	10	377,006,911	278,757,626
Advances to suppliers		16,411,027	19,780,085
Other receivables		8,250,226	17,731,103
Inventories		31,869,051	32,038,382
Other current assets		310,035	114,423
Total current assets		1,138,239,344	1,020,146,487
Non-current assets			
Other equity instruments		-	-
Long-term equity investments		28,078,902	24,000,000
Fixed assets		254,359,522	276,337,237
Construction in progress		329,602	3,376,238
Right-of-use assets		5,517,981	—
Intangible assets		60,460,278	69,959,963
Development costs		14,970,803	12,294,217
Goodwill		-	-
Long-term prepaid expenses		2,414,319	17,614,541
Deferred tax assets		58,181,130	41,525,793
Other non-current assets		2,272,672	4,436,443
Total non-current assets		426,585,209	449,544,432
TOTAL ASSETS		1,564,824,553	1,469,690,919

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2019
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2019 Consolidated	31 December 2018 Consolidated (Restated)
Current liabilities			
Short-term borrowings		148,942,573	150,000,000
Accounts payables		6,827,902	4,777,196
Contract liabilities		2,042,726	2,305,929
Employee benefits payable		48,123,497	46,390,216
Taxes payable		36,301,432	41,724,789
Other payables		325,079,482	204,371,724
Current portion of non-current liabilities		4,031,927	-
Total current liabilities		571,349,539	449,569,854
Non-current liabilities			
Lease liabilities		2,121,534	—
Deferred revenue		58,205,366	65,689,092
Total Non-current liabilities		60,326,900	65,689,092
Total liabilities		631,676,439	515,258,946
Owners' equity			
Share capital		92,300,000	92,300,000
Capital surplus		237,796,134	412,293,387
Other comprehensive income		(13,950,235)	(14,006,416)
Surplus reserve		46,150,000	46,150,000
Undistributed profits		569,229,480	406,481,497
Total equity attributable to equity owners of the Company		931,525,379	943,218,468
Minority interests		1,622,735	11,213,505
Total owners' equity		933,148,114	954,431,973
TOTAL LIABILITIES AND OWNERS' EQUITY		1,564,824,553	1,469,690,919

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION
(All amounts in RMB Yuan unless otherwise stated)

1 General information

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

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

On 8 November 2000, the Company was transformed into a joint stock company with limited liability. The share capital of the company was RMB 53,000,000, divided into 53,000,000 ordinary shares, with a par value of RMB 1.00 each.

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

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

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

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

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

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

These financial statements are authorised for issue by the Board of Directors of the Company on 28 February 2020.

2 Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new Hong Kong Companies Ordinance.

3 Impact of adopting new standards and new reporting formats

The Ministry of Finance issued the revised 'Accounting Standards for Business Enterprises No. 21-Leases' (hereinafter referred to as the "New Leasing Standards") in 2018, and issued the 'Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019' (Cai Kuai [2019] 06), the revised CAS 7 Exchange of Non-Monetary Assets ('the revised CAS 7') and the revised CAS 12 Debt Restructuring ('the revised CAS 12') in 2019. The financial statements are prepared in accordance with the above standards and circular. The revised CAS 7 and CAS 12 have no impact on the financial statements of the Group and the Company. The impact of other amendments are listed below:

(a) Lease

The Group and the Company implemented the New Leasing Standards for the first time on 1 January 2019. In accordance with the relevant regulation, the Group and the Company will not re-evaluate the contract options that already exist before the date of the first execution. According to New Lease Standards, the Group's and the Company's cumulative impact on the first adoption of the standards adjusted the retained earnings and other related items in the financial statements at the beginning of 2019.The 2018 comparative financial statements were not restated.

	Contents and reasons of changes in accounting policies	Affected report items	Affected amount 1 January 2019 Consolidated	Affected amount 1 January 2019 Company
(i)	For the operating lease contracts that existed before the first implementation of the new lease standard, the Group and the company have different approaches based on the remaining lease terms:	Right-of-use asset	37,516,067	9,048,580
		Current potion of non-current liabilities	7,770,965	4,073,173
		Lease liability	32,099,430	5,610,569
		Other payables	(2,354,328)	(635,162)

If the remaining lease term is longer than 12 months, the Group and the Company shall recognize the lease liability based on the remaining lease payments and incremental borrowing rates on 1 January 2019, and determine the carrying value of the right-of-use asset with an amount equal to the lease liability Make necessary adjustments based on prepaid rent, etc.

If the remaining lease term is shorter than 12 months, the Group and the Company adopt a simplified method, do not recognize the right-of-use assets and lease liabilities, and have no impact on the financial statements.

For operating lease contracts for low-value assets that existed before the first implementation of the new lease standard, the Group and the Company adopted a simplified method that does not recognize right-of-use assets and lease liabilities, and has no impact on the financial statements.

On 1 January 2019, the Group and the Company used the same discount rate for lease contracts with similar characteristics when measuring lease liabilities. The weighted average of the incremental borrowing rates used was 4.35%.

(ii) On 1 January 2019, the reconciliation between the Group's and the Company's disclosed unpaid minimum operating lease payments under the original lease standard and lease liabilities recognized under the new lease standard as follows:

	Consolidated	Company
Minimum future operating lease payments disclosed as at 31 December 2018	46,741,001	10,353,479
The present value of the above minimum operating lease payments discounted by incremental borrowing rates	41,780,026	9,923,409
Less: present value of lease contract payments less than 12 months	(1,909,631)	(239,667)
Lease liabilities recognized as at January 2019 (including current portion of non-current liabilities)	39,870,395	9,683,742

(b) Format changes of financial statements of general enterprises

(i) The impact on the consolidated and company balance sheet and income statement is shown below:

Contents and reasons of changes in accounting policies	Affected report items	Impact amount			
		31 December 2018		**1 January 2018**	
		Consolidated	Company	Consolidated	Company
The Group and the Company split the account of notes and accounts receivables to notes receivables and accounts receivables.	Accounts receivables	278,757,626	256,570,212	118,953,571	95,583,096
	Notes receivables	83,503,452	83,503,452	55,077,486	55,077,486
	Notes receivables and accounts receivables	(362,261,078)	(340,073,664)	(174,031,057)	(150,660,582)
The Group and the Company split the account of notes and accounts payables to notes payables and accounts payables.	Accounts payables	4,777,196	2,597,675	5,521,018	4,191,863
	Notes payables	-	-	-	-
	Notes payables and accounts payables	(4,777,196)	(2,597,675)	(5,521,018)	(4,191,863)
	Accounts payables				
The Group consolidates current portion of deferred revenue into deferred revenue items.	Current portion of deferred revenue	(5,150,073)	(2,550,720)	(7,635,166)	(5,223,031)
	Deferred revenue	5,150,073	2,550,720	7,635,166	5,223,031

4 Prior year financial statements adjustments

In October 2018, the Company and Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. ("Shanghai Huizheng") entered into the Market Promotion Service Agreement of Doxorubicin Hydrochloride Liposomal Injection (LIBOd®) (hereinafter referred to as the "Exclusive Promotion Service Agreement"). Pursuant to the agreement, Shanghai Huizheng paid the Company an amount of RMB50,000,000, which is non-deductible, non-refundable and without subsequent performance obligations after 2018, as a commercial compensation for the expense incurred by the Company in relation to investment in marketing of LIBOd and the change of the promotion service provider. In the same agreement, the Company granted Shanghai Huizheng a 10-years exclusive right for the market promotion of LIBOd.

Considering that there is no accounting standards directly regulate the accounting treatment of the commercial compensation collected from Shanghai Huizheng, which is one-time, non-deductible, non-refundable and without subsequent performance obligations, and that there is no common practice for similar transactions general accepted among the listed companies in the industry, the Company stipulated the according accounting policies over the commercial compensation with reference to the new revenue standard, which provides the guidelines on the separation of the performance obligations, and on the ways of recognition in the profit and loss account through either amortization over a period of time or one-time charge.

In the process of the Company's applying for the listing of its share on the A-share Science Technology and Innovation Board in 2019, the Company held various discussions with the parties involved in its IPO process, and revisited the referring accounting standards as well as the accounting treatment of the commercial compensation. As a result, the Company's board of directors resolved to change the way of the accounting over the RMB50,000,000 commercial compensation and to amortize the amount over the period of the Exclusive Promotion Service agreement by viewing the agreement as a whole and following the general accounting principal of deferred revenue. Such change is made with the aim to facilitate investors' better understanding of the transaction, and offer more simplified and understandable accounting information.

The impact of the above changes on the Group's 2018 consolidated financial statements is as follows:

	31 December 2018/ 2018 Original amount	31 December 2018/ 2018 Adjustment amount	31 December 2018/ 2018 After adjustment amount
Deferred tax assets	31,197,924	10,327,869	41,525,793
Deferred revenue	(16,508,764)	(49,180,328)	(65,689,092)
Selling expenses	350,468,577	49,180,328	399,648,905
Income tax expenses	13,304,381	(10,327,869)	2,976,512

The impact of the above changes in accounting policies on the subjects of the Company's 2018 consolidated financial statements is as follows:

	31 Decembe 2018/ 2018 Original amount	31 December 2018/ 2018 Adjustment amount	31 December 2018/ 2018 After adjustment amount
Deferred tax assets	34,604,694	10,327,869	44,932,563
Deferred revenue	(2,550,720)	(49,180,328)	(51,731,048)
Selling expenses	325,466,487	49,180,328	374,646,815
Income tax expense	9,689,814	(10,327,869)	(638,055)

5 Revenue and cost of sales

	2019	2018
Main operations revenue	1,028,955,330	740,421,865
Other operations revenue	339,439	1,419,560
	1,029,294,769	741,841,425

	2019	2018
Main operations cost	(73,339,340)	(70,793,000)
Other operations cost	(1,163)	-
	(73,340,503)	(70,793,000)

(a) Main operations revenue and cost of sales

	2019		2018	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Sale of pharmaceutical and diagnostic products	997,065,230	(70,997,893)	729,101,598	(63,209,452)
Technology transfer income	29,900,000	-	-	-
Service	1,942,666	(2,341,447)	9,671,858	(6,178,077)
Others	47,434	-	1,648,409	(1,405,471)
	1,028,955,330	(73,339,340)	740,421,865	(70,793,000)

(b) Other operations revenue and cost of sales

	2019		2018	
	Other operations revenue	Other operations cost	Other operations revenue	Other Operations cost
Revenue from cooperation agreements with Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals")	336,400	-	1,419,560	-
Other	3,039	(1,163)	-	-
	339,439	(1,163)	1,419,560	-

6 Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statements are listed as follows by nature:：

	2019	2018 (Restated)
Changes in inventories of finished goods and work in progress	1,526,523	(2,869,969)
Consumed raw materials and low value consumables, etc.	41,681,522	35,563,935
Marketing and sales promotion expenses	438,753,634	321,527,772
Employee benefit expenses	147,893,701	169,564,555
Less: Amounts capitalized in development costs	(151,758)	(233,778)
Less: Capitalizd long-term deferred expenses	-	(12,982)
	147,741,943	169,317,795
Outsourced R&D expenses	36,151,615	22,743,753
Depreciation and amortization	54,244,808	56,953,047
Less: Amounts capitalized in development costs	(164,640)	(160,441)
	54,080,168	56,792,606
R&D department expenses	20,186,109	18,155,432
Quality inspection expenses	8,817,287	9,710,182
Right-of-use asset depreciation	5,588,882	-
Audit Fees	2,718,160	2,618,828
-audit services	2,585,669	2,502,828
-non-audit services	132,491	116,000
Rental	1,347,649	10,097,092
Decrease of the capitalised R&D expenditure	-	6,489,192
Others	33,415,035	18,153,293
	792,008,527	668,299,911

As mentioned in Note 3(a), the rental expenses of short-term leases and low-value leases are directly included in the current profit and loss, and the amount in 2019 is RMB 1,347,649.

7 Income tax expenses

	2019	2018 (Restated)
Current income tax	42,312,824	39,510,581
Deferred income tax	(16,655,337)	(36,534,069)
	25,657,487	2,976,512

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2019	2018 (Restated)
Total profit	246,311,582	93,889,688
Income tax expenses calculated at applicable tax rates 25%	61,577,896	23,472,420
Effect of favourable tax rates	(23,212,636)	(15,646,076)
Tax losses not recognised as deferred tax assets	1,730,341	11,508,992
Deductible temporary differences not recognised as deferred tax assets	418,480	432,288
Additional deduction of research and development expenses	(12,166,759)	(14,728,933)
Costs, expenses and losses not deductible for tax purposes	633,916	855,398
Effect of eliminated unrealised profits on intra-group transactions	(2,912,500)	(2,537,500)
Utilisation of previously unrecognised deductable temporary differences	(709,378)	(1,464,038)
Reversal of previously deductible temporary differences recognised as deferred tax assets	-	795,312
Others	298,127	288,649
Income tax expenses	25,657,487	2,976,512

8 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding.

	2019	2018 (Restated)
Net profit attributable to shareholders of the Company	227,357,983	112,129,171
Weighted average number of ordinary shares outstanding	923,000,000	923,000,000
Basic earnings per share	0.25	0.12
Among them:		
Basic earnings per share from continuing operations:	0.25	0.12
Basic earnings per share from discontinuing operations::	-	-

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(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the year ended 31 December 2019 (2018: nil), diluted earnings per share equals to basic earnings per share.

9 Cash at bank and on hand

	31 December 2019	31 December 2018
Cash on hand	15,333	68,395
Cash at bank	576,784,077	588,153,021
Including: cash at bank and on hand overseas	3,469,264	3,412,253
	576,799,410	588,221,416

As at 31 December 2019 and 31 December 2018, no cash at bank were restricted.

10 Accounts receivables

	31 December 2019	31 December 2018
Accounts receivables	380,187,531	281,850,538
Less: Provision for bad debts	(3,180,620)	(3,092,912)
	377,006,911	278,757,626

The aging analysis of accounts receivable is as follows:

	31 December 2019	31 December 2018
Within 1 year	379,998,095	279,869,840
1-2 years	26,700	1,896,387
2-3 years	78,425	84,311
Above 3 years	84,311	-
	380,187,531	281,850,538

11 Dividend

In accordance with the resolution of the Annual General Meeting on 26 April 2019, the Company decided the payment of a final dividend of RMB 0.07 per ordinary share, totalling RMB 64,610,000 for the year ended 31 December 2018. The final dividend in respect of the year ended 31 December 2018 is calculated based on the total number of shares 923,000,000 in issue.

In accordance with the Board of Directors on 28 February 2020, the Company recommends the payment of a final dividend of RMB 0.07 per ordinary share, totalling RMB 64,610,000 for the year ended 31 December 2019. The proposed final dividend in respect of the year ended 31 December 2019 is calculated based on the total number of shares 923,000,000 in issue. The payment of the proposed final dividend is to be approved by the shareholders at the Company's forthcoming Annual General Meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

ALIGNMENT IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH CAS AND THE DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS FOR THE YEAR 2018 PREPARED IN ACCORDANCE WITH IFRS AND THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH CAS

Since the date on which the H Shares of the Company were listed on the Stock Exchange, the Company has been preparing its overseas financial statements in accordance with International Financial Reporting Standards ("IFRS"). According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" （《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》） published by the Stock Exchange in December 2010, and in order to facilitate the application process of the proposed issue of the A Shares of the Company and to align the financial information disclosure of the Company in both markets, the Company changed its basis for preparation of the overseas financial statements from IFRS to China Accounting Standards for Business Enterprises ("CAS") upon the approval of the Board on 10 January 2020 and the passing of a resolution in relation to amendment to relevant articles of association of the Company by shareholders at the extraordinary general meeting, the class meeting of holders of H Shares and the class meeting of holders of Domestic Shares on 24 February 2020. Please refer to the announcement, circular and announcement of poll results of the Company dated 10 January 2020, 20 January 2020 and 24 February 2020, respectively, for details.

Summary of Change of Accounting Method and Its Impact on the Group

After changing its basis for preparation of the overseas financial statements from IFRS to CAS, the Company reviewed the applicable standards and corresponding accounting methods it referred to and applied for the year 2018 and made adjustments thereto (the "Change of Accounting Method"), which affected certain financial items of the Company, details of which are set out as follows:

	For the year 2018		
	Profit for the year	Profit for the year attributable to shareholders	Basic and diluted earnings per share
	RMB'000	**RMB'000**	**RMB'000**
Previous Overseas financial statements	129,766	150,982	0.1636
Item adjusted:			
Shanghai Huizheng Compensation	(38,852)	(38,852)	(0.0421)
Adjusted overseas financial statements	90,913	112,129	0.1215

	As at 31 December 2018		
	Total assets	Total liabilities	Share capital and reserve attributable to shareholders
	RMB'000	**RMB'000**	**RMB'000**
Previous overseas financial statements	1,459,363	(466,079)	982,071
Item adjusted:			
Shanghai Huizheng Compensation	10,328	(49,180)	(38,852)
Adjusted overseas financial statements	1,469,691	(515,259)	943,218

The Change of Accounting Method would also lead to adjustments on certain financial items in the 2019 interim financial statements of the Company, and such adjustments would not result in any material impact on the 2019 interim financial statements.

Reasons for Change of Accounting Method

In October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.*（輝正（上海）醫藥科技有限公司, "Shanghai Huizheng"）entered into a market promotion service agreement for Doxorubicin liposome (LIBOd®) (the "Market Promotion Service Agreement"). Pursuant to the Market Promotion Service Agreement, Shanghai Huizheng made a payment of RMB50 million, which is non-deductable and non-refundable with no subsequent performance obligation after the year 2018 (the "Shanghai Huizheng Compensation") to the Company. This was treated as a commercial compensation for the Company's contribution to the market promotion of LIBOd® and a series of costs caused by a shift in product market due to the change of market promotion services provider. At the same time, the Company granted a 10-year exclusive right of market promotion of LIBOd® to Shanghai Huizheng.

For a commercial compensation from market promotion services provider, which is one-off, non-deductable and non-refundable with no subsequent performance obligation, neither IFRS nor CAS set out an explicit requirement on accounting method and there is no common practice on this among listed companies in the same industry. For the treatment of Shanghai Huizheng Compensation, given the Company has never received payment in similar nature in the past, the Company has referred to "IFRS 15 - Contract with Clients" and "CAS 14-Revenue (amended in 2017)", respectively, that came into effect in the same year and provides the guidelines on the breakdown of the performance obligations and the ways of recognition in the profit and loss account through either amortization over a period of time or one-time charge, in determining the corresponding accounting method at the time of preparing its domestic and overseas financial statements for the year ended 31 December 2018. The Company adopted the relevant accounting method and recorded the Shanghai Huizheng Compensation as a one-time charge into the profit and loss for the year 2018, taking into account that (i) the nature of the Shanghai Huizheng Compensation is to compensate for the contribution to market promotion and the costs incurred by a shift in product market due to the change of market promotion services provider; (ii) the costs covered by the Shanghai Huizheng Compensation was fully incurred in 2018, and the shift in market and transition was completed in the year of 2018; and (iii) the Company did not have subsequent obligations in relation to the shift in market and would not engaged in activities significantly affecting the right of market promotion thereafter.

After changing its basis for preparation of the overseas financial statements from IFRS to CAS, pursuant to the principles and regulations of the China Accounting Standards for Business Enterprises, the Company reviewed the applicable standards and corresponding accounting methods it referred to and applied for the Shanghai Huizheng Compensation. Based on and in consideration of (i) ample communication with domestic and market practitioners (on matters including the accounting treatments of the Shanghai Huizheng Compensation) during the application of the listing of A shares on the Sci-Tech Innovation Board in 2019, (ii) the accounting method generally recognized by listed companies adopting CAS for transactions in similar nature by viewing the agreement as a whole, and (iii) "CAS 14 – Revenue (amended in 2017)" having not yet been fully implemented by the listed companies in domestic capital market, and accordingly there being no case currently available in the domestic capital market which adopted accounting treatment for similar transactions based on the principles of "CAS 14 – Revenue (amended in 2017)", the Board, by adopting simpler accounting methods generally recognized by the domestic listed companies, and for the purpose of avoiding complicated accounting judgements, has resolved to change its accounting method for the Shanghai Huizheng Compensation by viewing the agreement as a whole and following the general accounting principle of deferred income under CAS. As a result, the Shanghai Huizheng Compensation would be recognized by way of amortization over the period of the Market Promotion Service Agreement.

The Board has carefully considered the accounting treatments of Shanghai Huizheng Compensation before and after the Change of Accounting Method, and is of the view that in the absence of explicit requirement governed by specific accounting standards, both accounting methods do not violate the principles of basic accounting standards and have justifiable basis. Nevertheless, after considering factors include allowing the users of financial statements (including domestic and overseas investors) to have easier understanding and to be provided with simpler and more understandable accounting information, the Board resolved to adopt the Change of Accounting Method. As the Shanghai Huizheng Compensation is a one-off event, and the Board does not expect to receive similar payments in the future, it is of the view that the Change of Accounting Method will not result in any material impact on the Group going forward. The Audit Committee has had proactive communication with the management and the external auditors of the Company regarding the Change of Accounting Method and reviewed the accounting methods of the Shanghai Huizheng Compensation, and it agreed with the Change of Accounting Method.

REVENUE

The consolidated revenue of the Group for the year 2019 amounted to approximately RMB 1,028,955,000, comparing to approximately RMB 740,422,000 for the year 2018, representing an increase of 39%. The major products of the Group, ALA (艾拉®, 鹽酸氨酮戊酸散, ALA) and LIBOd® (里葆多®, 鹽酸多柔比星脂質體, Doxorubicin liposome), have contributed significant revenue to the Group, representing 45% and 44% to the total revenue of the Group, respectively.

In addition, the Group's other income for the year 2019 was approximately RMB339,000,compared with approximately RMB1,420,000 for the year 2018, representing a decrease of 76%. Other business income for the current year includes the income from Shanghai Pharmaceuticals, a shareholder of the Company, for strategic cooperation on innovative pharmaceutical research and development amounting to approximately RMB 336,000 compared with approximately RMB 1,420,000 for the year 2018.

The total revenue for the year 2019 mainly came from the sale of medical products. The main source of total revenue for the year 2019 was nearly the same as that for the year of 2018.

Revenue from sale of medical products

The major products of the Group are ALA and FuMeiDa (Hemoporfin) from photodynamic platform and LIBOd® from Nano-drug platform. During the year under review, except for the marketing services for LIBOd® provided by Shanghai Huizheng, the work of sales and distribution of the other products is taken by the sales team of the Group.

Since December 2018, the National Healthcare Security Administration officially implemented the "4+7" concentrated procurement of drugs and local government authorities issued various local purchasing policies. The average price of the successfully bidder generic drugs dropped significantly. During the year under review, the medical products of the Company were not included in the national essential drug list nor covered by the policies mentioned above. It is impossible to make a substantial price reduction under the policies. On the other hand, the Company would also try to avoid price drop due to other reasons.

Revenue of the Group from the sale of medical products for the year 2019 was RMB997,065,000 (representing 96.90% of the main operations revenue), increased by 36.75% from that of year 2018 which was RMB 729,102,000. The contribution to the Group revenue of ALA, LIBOd® and FuMeiDa, which are the major products of the Group, was 45%, 44% and 8% respectively.

COST OF SALES

For the year 2019, the Group's main operations costs were RMB73,339,000, of which the cost of product sales was RMB70,997,000. For the year 2018, the Group's main operations costs were RMB 70,793,000, of which the cost of product sales was RMB63,209,000. The ratio of cost of product sales to revenue from sale of medical products decreased to 7% from the level of 9% for last year, and the gross profit margin increased a bit correspondingly. It is mainly due to the decrease of production costs of LIBOd® which benefited from the optimization of production process, the improvement of efficiency of the production workshops and the effective reduction of the purchase prices of raw materials. At the same time, he Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to increase the gross profit margin.

SELLING EXPENSES & GENERAL AND ADMINISTRATIVE EXPENSES

For the year 2019, the selling expenses of the Group was RMB530,571,000, representing an increase of 33% from RMB399,649,000 for the year 2018. Selling expenses includes market and academic promotion fees, employment expenses, travel expenses, and depreciation and amortization expenses. The ratio of selling expenses to revenue for sale of products decrease from 54% of last year to 52%, which mainly due to LIBOd® changed its sales model in 2018 which lead to the increase of selling expenses, market investments and costs for change the marketing service provider.

For the year 2019, the general and administrative expenses of the Group was RMB54,993,000, representing a decrease of 34% from RMB83,574,000 for the year 2018. The general and administrative expenses include employment expenses, depreciation and amortization expenses, and rent and property expenses. The decrease in the general and administrative expenses was mainly due to the deconsolidation of Derma Clinic during the year under review and the decrease in the general and administrative costs due to the termination of operation of Shanghai Baosu Pharmaceutical Technology Co., Ltd.

R&D EXPENSES

The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs of the Group were recognized as expenses as incurred. With the development of R&D projects and the establishment of new projects, R&D expenses of the Group for the year 2019 were RMB 127,822,000, representing an increase of 12% compared with RMB 114,284,000 for the year 2018. The ratio of R&D expenses to revenue for the year 2019 was 12% (2018: 15%).

FINANCIAL EXPENSES

For the year 2019, financial expenses of the Group were approximately RMB5,628,000 compared with approximately RMB4,546,000 for the year 2018, representing an increase of 24%. It is mainly due to the Group's adoption of new accounting standards during the year under review to include interest expense from lease costs of RMB711,000.

OTHER INCOME

Other income of the Group for the year 2019 was RMB14,035,000, compared with RMB27,295,000 for the year 2018, representing a decrease of 49%. The decrease in other income was mainly due to the decrease in governmental grants recognized for the year.

INCOME TAX EXPENSES

Effective from 1 January 2008, Fernovelty (Hong Kong) Holding Co., Ltd ("Fernovelty Holding") is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and its subsidiaries Taizhou Fudan-Zhangjiang and Tracing Bio-technology were recognized as high-tech enterprises, and their applicable tax rates are both 15% in 2019. The applicable tax rates of the other subsidiaries in Mainland China are 25% in 2019.

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HK$2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2019 and 2018, Hong Kong profits tax has not been provided.

As at 31 December 2019, the applicable tax rate and tax policy of the Group remained unchanged.

NET PROFIT AND NET PROFIT RATE

The net profit of the Group for the year 2019 was RMB220,654,000, representing an increase of 143% compared with RMB90,913,000 for the year 2018. The net profit rate for the year 2019 was 21.44% (2018:12.26%). The net profit rate for the year 2018 was lower because of the significant decrease in the profit contribution from LIBOd®, a major product of the Group. The Group changed its sales model in 2018 which lead to the increase of selling expenses, market investments and costs for change the marketing service provider.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of approximately RMB227,358,000 was recorded in the consolidated financial statement for the year 2019, compared with approximately RMB112,129,000 for the year 2018, representing an increase of 103%.

DIVIDENDS

The resolution in relation to the distribution of a final dividend of RMB0.07 per share (tax inclusive) for the year ended 31 December 2019 has been considered and approved at the meeting of the Board held on 28 February 2020, totaling approximately RMB 64,610,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2019 annual general meeting to be held on Monday, 30 March 2020, the final dividend is expected to be distributed on or before Friday, 21 August 2020 to all shareholders whose names appear on the register of the Company on Thursday, 9 April 2020. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Saturday, 4 April 2020 to Thursday, 9 April 2020 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183

Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 April 2020. Final dividend for holders of Domestic Shares will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H Shares will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date of declaration of the dividend. In case of any change to the expected payment date or the period during which the register of holders of H Shares will be closed, further announcement(s) will be published by the Company in due course in respect of such changes.

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

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company Thursday, 9 April 2020, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

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

SIGNIFICANT INVESTMENTS

As at 31 December 2019, the Group had no significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Disposal of 30.04% equity interest in Derma Clinic

As approved by the Board meeting on 28 February 2019, the Company entered into an equity acquisition agreement with Bringspring-Roadtop on 28 February 2019, pursuant to which the Company sold 30.04% equity interest in Derma Clinic, a subsidiary of the Company, to Bringspring-Roadtop with a consideration of RMB16,522,000 corresponding to the relevant registered capital of RMB16,522,000. Meanwhile, other shareholders of Derma Clinic also sold certain proportion of their equity interest to Bringspring-Roadtop under the agreement. Upon completion of the disposal, Bringspring-Roadtop owns 63% of equity interest in Derma Clinic while the Company owns 20% of equity interest in Derma Clinic. For more details, please refer to the announcement of the Company dated 28 February 2019. The Company completed the industrial and commercial registration for the change in respect of the disposal of 30.04% equity interest in Derma Clinic in April 2019; as such, Derma Clinic ceased to be a subsidiary of the Company and its accounts are no longer consolidated into the accounts of the Company. As at 31 December 2019, the Company has received part of the consideration amounting to RMB10,182,200.

Acquisition of 30.23% equity interest in Taizhou Fudan-Zhangjiang

As approved by the Board meeting on 8 March 2019, and the annual general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 26 April 2019, the Company proposed to use the proceeds raised from the Issue of A Shares to acquire minor equity interests in Taizhou Fudan-Zhangjiang. Through public tender, on 28 June 2019, the Company entered into a state-owned equity transfer agreement with Taizhou Huaxin Pharmaceutical Investment Co., Ltd.*(泰州華信藥業投資有限公司, "Taizhou Huaxin"), Taizhou Huasheng Investment Development Co., Ltd.*(泰州華盛投資開發有限公司, "Taizhou Huasheng") and Taizhou Public Resources Trading Center, pursuant to which Taizhou Huaxin and Taizhou Huasheng respectively agreed to sell, and the Company agreed to acquire an aggregate of 30.23% equity interest in Taizhou Fudan-Zhangjiang. For more details, please refer to the announcements of the Company dated 8 March 2019, 26 April 2019, 28 June 2019 and 2 July 2019, and the supplemental circular of the Company dated 4 April 2019. As at 31 December 2019, the Company has paid all the consideration amounting to RMB178,000,000. The registration procedure in respect of the transfer was completed on 17 July 2019. Upon complete of the acquisition, Taizhou Fudan-Zhangjiang has become a wholly-owned subsidiary of the Company.

Saved as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries and associated companies as at 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2019, the Group had no charge on assets.

BANKING BORROWINGS

As at 31 December 2019, the outstanding amount of the loans of the Group was RMB 148,943,000, which includes:

As at 31 December 2019, an unsecured short-term bank borrowing of RMB 25,294,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 23 April 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB14,706,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 23 April 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB 32,928,000 was taken by the Company, bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 29 July 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB27,072,000 was taken by the Company and bore a floating interest rate at 3.915% per annum (as at 31 December 2019) and was due for repayment on 29 July 2020;

As at 31 December 2019, an unsecured short-term bank borrowing of RMB48,943,000 was taken by the Company and bore a floating interest rate at 3.870% per annum (as at 31 December 2019) and was due for repayment on 28 November 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB 576,799,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. As at 31 December 2019 and 2018, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

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

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND SALARIES

As at 31 December 2019, the Group had a total of 605 employees, as compared to 627 employees as at 31 December 2018. Staff costs including Directors' remuneration for the year 2019 were RMB 147,894,000, compared with RMB 169,565,000 for the year 2018. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

SUBSEQUENT EVENTS

Adoption of China Accounting Standards for Business

Since the date on which the H Shares of the Company were listed on the Stock Exchange, the Company has been preparing its financial statements under both the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, and in order to facilitate the application process of the proposed Issue of A Shares o, and to align the financial information disclosure of the Company in both markets, the Company changed its basis for preparation of the overseas financial statements from International Financial Reporting Standards to China Accounting Standards for Business Enterprises based on the approval by the Board meeting on 10 January 2020 and the approvals of relevant amendments to the Articles of Associations by extraordinary general meeting (the "EGM"), the class meeting of holders of H shares and the class meeting of holders of domestic shares on 24 February 2020. The results of the Company for the year ended 31 December 2019 were prepared in accordance with the China Accounting Standards for Business Enterprises.

Amendments to the Articles of Association

In view of (i) the adoption of China Accounting Standards for Business Enterprises; and (ii) the relevant provisions of the Company Law of the PRC and Reply of the State Council on the Adjustment of the Notice Period for the Holding of Shareholders' General Meeting and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》（國函[2019]97號）, upon the approval by the EGM, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 24 February 2020, the Company amended the Articles of Association. The amendments to the Articles of Association were effected upon approvals by the Shareholders at the EGM and the class meetings, respectively.

For more details, please refer to the announcement of the Company dated 10 January 2020, and the circular of the Company dated 20 January 2020.

BUSINESS REVIEW

DEVELOPMENT CONCEPTS AND OBJECTIVE

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

In 2019, as we expected, the Chinese pharmaceutical industry was facing severe challenges. Under the influence of various factors, many enterprises are suffering from cliff-like drop on income, profit decline, and serious shortage of development and R&D funds. The shadow of death has never been so clear. How to make decision has become an urgent issue for every enterprise to discuss.

Since its establishment, the Group, as a pharmaceutical enterprise focusing on new drug research and development, has adhered to choosing the projects that can meet the unmet needs and deficiencies of clinical and patients treatment. The evaluation system of project progress depends on whether specific accomplishment of treatment will be achieved. It is clear that exploration without persistence and efforts is hard to lead to a satisfactory breakthrough in therapeutics. However, sometimes it is difficult to get the corresponding return from long-term waiting and investment. Even so, we would never like to be a mediocre, non- innovative and profit oriented pharmaceutical manufacturer or sales enterprise. We are seeking a balanced development in the conflict between "me-too" and "first in class". It was glad that our products launched or under development of the Group have shown positive prospect and characteristics of less affected by changes of policies. Our effort and strategies adopted over the years have laid a solid foundation and generated a driving force for the Group's development under the new policy environment.

As long as we endeavor and constantly optimize our specific R&D strategies such as strengthening our research capacities in the fields where we have leading positions, continually expanding the new clinical indications of existing projects, adhering to the projects worth spending time on, gradually applying for international drug registration and terminating decisively the projects that are not in line with the Group's value or make no progress for long term, we believe our projects and products will bring great benefits to the Company while demonstrating the Company's value in the future.

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the year under review, our R&D platforms, namely, genetic engineering, photodynamic-tech, nanotech and oral solid preparation technology, have laid solid foundation for our drug development direction. The Group has committed to developing new clinical indications to tackle selected drugs and developing new medicines and innovative treatments to tackle selected diseases. During the year under review, with an overall consideration of research resources, risks and cycle time, the Group has continually focused on drug development on tumors, dermatological and self-immunological diseases, reducing the number of R&D in innovative drugs and strengthening progress of commercialized drugs.

The Group continues to pay constant attention to the ability on building genetic technical platform. We realized that gene technology in terms of signaling pathways control, suppress or strengthen the protein activity, will become the core technology in the area of new drugs development, especially when the research is based on the most fundamental and specific causes and molecular mechanism of diseases. We keep a close eye on hotspots of existing antibody drugs research, and have set the antibody-drug conjugates (“ADC”) area as the main research and development direction of genetic technical platform. ADC have shown obvious advantages on tumor treatment in clinical trials, which has much better effects than the conventional antibody plus chemotherapy drugs. In addition, ADC has its own advantages even when compared with immunotherapy in the treatment of some tumors. ADC can be divided into three parts: antibody, linker and drugs. After about 8 years of exploration, we have built a platform of tubulin inhibitors and topoisomerase inhibitors (sn38, DXd), which lays a foundation for further development of ADC. In particular, our preliminary study on the project of DXd ADC shows that it can achieve the full exposure of ADC and the very low exposure of drugs in plasma, as well as the full exposure and accumulation of drugs in tumor cells. Meanwhile, it also has bystander effect. This is an encouraging breakthrough, which means that we will have the opportunity to select different antibodies for different tumors to develop new ADC drugs. It enables the Group to participate in the global innovation research and development of ADC drugs. “To stand on solid ground and look up at the starry sky”, we believe that the stars are in front of us. We will establish ADC production system as quickly as possible, and strive to realize ADC industrialization as early as we can.

By the end of the year 2019, the major drugs under R&D of the Group are summarized as follows:

Technical platform	**Project name**	**Indications**	**Progress**
Genetic engineering	CD30-MMAE	Tumors	Clinical trial phase I
	Trop2-directed antibody drug conjugate	Tumors	Pre-clinical study
	HER2-directed antibody drug conjugate	Tumors	Pre-clinical study
	Avastin	Tumors	The clinical trial approval has been obtained. Technology transfer to third-party pharmaceutical enterprises completed.
Photodynamic technology	Hemoporfin(海姆泊芬)	Port Wine Stain	Clinical trial phase IV
			Prepare for U.S. Registration
	Aminolevulinic acid	Cervical diseases infected by HPV	Clinical trial phase II
	Aminolevulinic acid	Acne	Clinical trial phase I
	Aminolevulinic acid	Brain gliomas	Pre-clinical study completed. Postpone the project.
Nano technology	Doxorubicin liposome (鹽酸多柔比星脂質體)	Tumors	Under process of registration in USA.
			Prepare for domestic bioequivalence evaluation research and registration.
	Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Tumors	Pre-clinical study
Oral solid preparation technology	Obeticholic acid	Hepatobiliary disease	Bioequivalence study and drug registration
	JAK1 inhibitor	Autoimmune diseases	Pre-clinical study completed and proposed to apply for clinical research

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

OPERATION STRATEGY, REVIEW AND PROSPECTS

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

During the year under review, product sales revenue of the Group increased by 37% compared with that of last year. ALA (艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd® which is indicated for the treatment of tumor and FuMeiDa which is indicated for PWS are three major products of the Group, and together contributed 99% of the sales revenue of medical products by the Group.

- ALA (艾拉®) was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, non-scar, and much lower adverse reaction rate and recurrence rate comparing with previous average level. ALA has become one of the largest consumed skin-sure drugs now. During the year under review, the contribution of ALA to sales revenue of the Group increased by 17% compared with that of last year due to sales strategy adjustments based on market trends. The sales volume of ALA grew steadily and average unit price increased slightly.

- LIBOd® (里葆多®) for the treatment of tumors, as the first generic drug of nanomedicine at home and abroad, was launched for sale in August 2009 and it obtained favorable market response and reputation. On 29 October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.* (輝正(上海)醫藥科技有限公司, "Shanghai Huizheng") entered into the market promotion service agreement for Doxorubicin liposome (LIBOd®), to provide the market promotion services for LIBOd® of the Company in the PRC from 1 November 2018. Shanghai Huizheng is a subsidiary of Zhejiang Hisun Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600267) The cooperation between the parties will help the Company effectively utilize the existing team and resources of Shanghai Huizheng, thus rapidly increasing the end-sales volume and market shares of LIBOd® of the Company and effectively addressing competition from other companies. During the year under review, the terminal sales of LIBOd® gradually increased so that its contribution to sales revenue by the Group increased by 68% for the year 2019 compared with that of last year.

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

- FuMeiDa (复美达®), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. FuMeiDa has been launched in the market officially in 2017. We have designed a new sales mode for FuMeiDa, with the integration of treatment and sales, which includes the Company's Wechat subscription, chain clinics of the Group, designated hospitals and direct distribution systems provided by pharmaceutical companies. During the year under review, FuMeiDa has been sold in many hospitals throughout the country with well postoperative feedback and its contribution to sales revenue of the Group increased by 37% compared with that of last year. The Group is combining case feedback as soon as possible to optimize the key steps in the process of treatment in order to form a standardized treatment plan. The Company is preparing for its new drug registration in the US.

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

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

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

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

The subsidiary of the Company, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd* (泰州復旦張江藥業有限公司, "Taizhou Fudan-Zhangjiang") has constructed two production lines for the material and injection of Hemoporfin. To fully exploit the capacity of the two production lines before further new self-developed innovative drugs obtaining production approval, the Group will choose several generic drugs which can be produced with FuMeiDa on the same production line and planned to submit the application of registration. During the year under review, the registration application of Parecoxib Sodium (帕瑞昔布鈉) for analgesia has been submitted and waiting for approval. In addition, the new solid preparation production line of Taizhou Fudan-Zhangjiang is ready for the commercialization of obeicholic acid. More investments on production lines will be made in Taizhou in the next few years so as to gradually make Taizhou Fudan-Zhangjiang become the centralized production base of the Group.

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

By the end of the year 2019, the commercialized projects of the Group are summarized as follows:

Technical platform	**Project name**	**Indications**	**Launching time**
Photodynamic technique	ALA	Condyloma acuminate	2007
	FuMeiDa	Port wine stain	2017
Nano technique	LIBOd®	Tumors	2009
Diagnosis and Inspection	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi®, Beiyou	Down's syndrome	Launched already
	Several food safety inspection projects	Food safety inspection	Launched already
	Several kinds of screening reagents for food-origined antibiotics and their matching testing instruments	Antibiotic test	2019

CORPORATE GOVERNANCE

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

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

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

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

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

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

	Number	
	Year 2019	Year 2018
Directors	3	3
Non-directors	4	4
	7	7

The emoluments fell within the following bands:

	Number	
	Year 2019	Year 2018
The emoluments range (HKD)		
1,500,001 – 2,000,000	-	1
2,000,001 – 2,500,000	**1**	5
2,500,001 – 3,000,000	**4**	1
3,000,001 – 3,500,000	**1**	-
3,500,001 –4,000,000	**1**	-
	7	7

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 31 December 2019, the Company did not have any share option scheme in force.

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

As at 31 December 2019, the interests (if any) of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

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

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

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2019, the persons other than a Director, Supervisor or chief executive of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of shares	Percentage in total number of issued shares
Shanghai Industrial Investment (Holdings) Co., Ltd.	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
Shanghai Pharmaceuticals	Domestic Shares	139,578,560 (L)	Beneficial owner	Corporate	23.94%	22.77%
	H Shares	70,564,000 (L)			20.75%	
China New Enterprise Investment Fund II	Domestic Shares	156,892,912 (L)	Beneficial owner	Corporate	26.91%	17.00%
Yang Zong Meng	Domestic Shares	80,000,000 (L)	Beneficial owner	Personal	13.72%	8.67%
Fudan University	Domestic Shares	30,636,286 (L)	Interest of controlled corporation	Corporate	5.25%	3.32%
Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司)	Domestic Shares	30,636,286 (L)	Beneficial owner	Corporate	5.25%	3.32%
Investco Hong Kong Limited	H Shares	27,313,000 (L)	Investment manager	Corporate	8.03%	2.96%

Note: The letter “L” stands for long position.

CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the continuing connected transactions of the Group are set out as follows:

Continuing Connected Transactions under Sales and Distribution Agreement with Shanghai Pharmaceuticals:

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Co., Ltd.* (上藥控股有限公司), formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.* (上海醫藥分銷控股有限公司), a wholly-owned subsidiary of Shanghai Pharmaceuticals as its distribution agent since 10 August 2010 when the Company entered into the sales and distribution agreement with Shanghai Pharmaceutical Co., Ltd.. The Board approved the Company to enter into the original sales and distribution agreement (the "Original Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 17 August 2018 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals for the period from 1 January 2018 to 31 December 2019. The Board approved the Company to enter into the renewal sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 11 September 2019 for the sales and distribution of the Group's pharmaceutical products by Shanghai Pharmaceuticals for the period from 1 January 2019 to 31 December 2020. The Original Sales and Distribution Agreement was terminated immediately upon the Sales and Distribution Agreement becoming effective. For more details, please refer to the announcement dated 11 September 2019 and the circular of the Company dated 11 October 2019. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the two years ending 31 December 2020 are approximately RMB81,000,000 and RMB109,000,000 respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Sales and Distribution Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. The transactions under the Sales and Distribution Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and were approved by the independent shareholders at the extraordinary general meeting on 28 October 2019. During the year 2019, the product sales revenue to Shanghai Pharmaceuticals was RMB 78,235,000, which did not exceed the annual cap approved at the extraordinary general meeting.

Continuing Connected Transactions under Renewal Agreement of the Research Cooperation Agreement for CD30-DM1 Antibody-Drug Conjugate with Shanghai Jiaolian:

In view that the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection Conjugate (the "Conjugate") has obtained the clinical trial approval on 18 July 2018, the Company and Shanghai Jiaolian Drug Development Co., Ltd., (上海交聯藥物研發有限公司, "Shanghai Jiaolian") intended to maintain further cooperation for the research and development of the Conjugate. On 14 March 2019, the Company entered into the renewal agreement of the research cooperation agreement (the "Renewal Agreement of the Research Cooperation Agreement") with Shanghai Jiaolian and further extended the validity of the agreement from 14 March 2019 to 31 December 2021. For more details, please refer to the announcement of the Company dated 14 March 2019. The Company anticipated that the annual caps for the transactions contemplated under the Renewal Agreement of the

Research Cooperation Agreement (representing the maximum amounts payable under the Renewal Agreement of the Research Cooperation Agreement by Shanghai Jiaolian to the Company) for the three years ending 31 December 2021 are approximately RMB7,000,000, RMB6,500,000 and RMB3,700,000 respectively. Shanghai Jiaolian is a subsidiary of Shanghai Pharmaceuticals, which is a promoter and substantial Shareholder of the Company and therefore, Shanghai Jiaolian is a connected person of the Company under the Listing Rules. The transactions contemplated under the Renewal Agreement of the Research Cooperation Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the highest proposed annual cap for each of the three years ending 31 December 2021 for the continuing connected transactions contemplated under the Renewal Agreement exceeds 0.1% but is below 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2019, the Group received an amount of RMB6,372,000 from Shanghai Jiaolian, the nature of the transaction was in the context of the research cooperation agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

Continuing Connected Transactions under Strategic Cooperation Agreement for Innovative Pharmaceuticals R&D with Shanghai Pharmaceuticals

In February 2011, the Company entered into the original strategic cooperation agreement for innovative pharmaceuticals R&D (the "Original Strategic Cooperation Agreement") with Shanghai Pharmaceuticals, with the expiration date of 31 December 2013. Both parties would jointly share the risks of, and cooperate on, the research, development and commercialization of the relevant potential pharmaceuticals owned by the Group which are currently at various research stages. To renew the Original Strategic Cooperation Agreement, the Company entered into the strategic cooperation agreement for innovative pharmaceuticals R&D (the "Strategic Cooperation Agreement") with Shanghai Pharmaceuticals on 19 March 2013, with the expiration date of 31 December 2016. On 18 March 2016, the Company entered into the supplemental agreement with Shanghai Pharmaceuticals to revise the annual cap for 2016 under the Strategic Cooperation Agreement from RMB 20,000,000 to RMB 34,000,000, which was approved at the annual general meeting held on 13 May 2016. For more details, please refer to the announcements of the Company dated 23 February 2011, 19 March 2013, 18 March 2016 and the circulars of the Company dated 8 April 2011, 12 April 2013 and 13 April 2016. On 10 May 2017, the Company and Shanghai Pharmaceuticals entered into a renewal agreement, which extends the term of the Strategic Cooperation Agreement for a period of three years with effect from 1 January 2017 to 31 December 2019. For more details, please refer to the announcement of the Company dated 10 May 2017. The annual caps for the continuing connected transactions contemplated under the Strategic Cooperation Agreement (as renewed by the renewal agreement) for the three years ending 31 December 2019 are approximately RMB 28,000,000, RMB 28,000,000 and RMB 28,000,000, respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) were carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the proposed annual cap for each of the three years ending 31 December 2019 for the continuing connected transactions under the Strategic Cooperation Agreement (as renewed by the renewal agreement) exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2019, the Group received an amount of RMB336,000 from Shanghai Pharmaceuticals for cooperation and development, the nature of the transaction was in the context of the Strategic Cooperation agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

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

(1) in accordance with the Group's pricing policies;
(2) in the ordinary and usual course of business of the Group;
(3) on normal commercial terms or better; and
(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 18 February 2020.

For the year ended 31 December 2019, the one-off connected transactions of the Group are set out as follow:

Acquisition of 30.23% Equity Interest in Taizhou Fudan-Zhangjiang

As approved by the Board meeting on 8 March 2019 and the annual general meeting, the class meeting of holders of H shares and the class meeting of holders of domestic shares on 26 April 2019, the Company proposed to acquire the minor equity interests in Taizhou Fudan-Zhangjiang by using the proceeds raised from the Issue of A Shares. Through the public transfer procedures, on 28 June 2019, the Company entered into the state-owned equity transfer agreement with Taizhou Huaxin, Taizhou Huasheng and Taizhou Public Resources Trading Center, pursuant to which Taizhou Huaxin and Taizhou Huasheng respectively agreed to sell, and the Company agreed to acquire an aggregate of 30.23% equity interest in Taizhou Fudan-Zhangjiang. The consideration for the equity transfer under the state-owned equity transfer agreement is RMB178,000,000. For more details, please refer the announcement and supplemental announcement dated 28 June 2019 and 2 July 2019. As Taizhou Huaxin is a substantial Shareholder of Taizhou Fudan-Zhangjiang, a non-wholly-owned subsidiary of the Company, and Taizhou Huasheng is a non wholly-owned subsidiary of Taizhou Huaxin, Taizhou Huaxin and Taizhou Huasheng are connected persons at the subsidiary level of the Company. Therefore, the proposed acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, since (i) the Board has approved the proposed acquisition; and (ii) the independent non-executive Directors have confirmed that the terms of the proposed acquisition are on normal commercial terms and are fair and reasonable and the proposed acquisition is in the interests of the Company and its shareholders as a whole, the proposed acquisition is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement. During the year 2019, the Company has paid the consideration amounting to RMB178,000,000. The registration procedure in respect of the transfer was completed on 17 July 2019. After the acquisition, Taizhou Fudan-Zhangjiang became a wholly-owned subsidiary of the Company.

Strategic Allotment under the Issue of A Shares by Connected persons

In accordance with the Company Law, the Implementation Measures for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票發行與承銷實施辦法》), the Guidelines for Issue and Underwriting of Shares on the Sci-Tech Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票發行與承銷業務指引》) and the provisions of other relevant laws, regulations and regulatory documents, and the Articles of Association of the Company, the Company formulated the Strategic Allotment Plan. The participants of the Strategic Allotment Plan shall be the senior management and core employees of the Company, who may participate in the Strategic Allotment under the Issue of A Shares to subscribe for the approved number of A Shares upon the consideration and approval by the Board meeting and/or the general meeting of the Company in accordance with the Strategic Allotment Plan. Pursuant to the Strategic Allotment Plan, the Company may allot not more than 12 million A Shares to its senior management and core employees under the Issue of A Shares. The number of A Shares to be allotted to anyone of the participants under the Strategic Allotment Plan shall not exceed 10% of the total number for subscription under the Strategic Allotment Plan, i.e. not more than 1.2 million A Shares. The subscription price of the A Shares to be allotted under the Strategic Allotment Plan shall be identical to the issue price under the Issue of A Shares, and will be paid by the participants with their own or self-raised funds. For more details, please refer to the announcement of the Company dated 26 April 2019 and 21 June 2019 and the circular of the Company dated 6 June 2019. The participants of the Strategic Allotment Plan include, among others, Mr. Wang Hai Bo, Mr. Su Yong, Mr. Zhao Da Jun, Mr. Gan Yi Min, Mr. Wang Luo Chun and Ms. Yu Dai Qing, and the aforementioned six persons are the directors and/or supervisors of the Company and/or its subsidiaries and therefore are the connected persons of the Company under the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the participation in the Strategic Allotment under the Issue of A Shares by the abovementioned connected persons according to the Strategic Allotment Plan constitutes a connected transaction of the Company and is subject to the requirements of reporting, announcement and the Independent Shareholders' approval under the Listing Rules. The participation in the Strategic Allotment under the Issue of A Shares by the connected persons has been approved on the EGM dated 21 June 2019. As at the date of this announcement, the Strategic Allotment Plan has not been implemented as the proposed Issue of A Shares has not yet been completed.

Connected Transaction under the Entrustment Development Agreement with Shanghai Pharmaceuticals

The Company has entered into the Entrust Development Agreement with Shanghai Pharmaceuticals on 11 September 2018 for the development of the small-molecule compound CLB-SN38 in accordance with the relevant technical parameters by Shanghai Pharmaceuticals for the Company during the contractual period from 11 September 2018 to the completion date of production and verification of samples for registration. For more details, please refer to the announcement of the Company dated 11 September 2018. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transaction under the Entrustment Development Agreement constitutes a connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the connected transaction under the Entrustment Development Agreement exceeds 0.1% but is less than 5%, such transaction is subject to the reporting, announcement and annual review requirements, but is exempt from the independent shareholders' approval requirements under the Listing Rules. The consideration under the Entrust Development Agreement is paid by stage; during the year 2019, the Group paid an amount of RMB 800,000 to Shanghai Pharmaceuticals for the entrustment development and the transaction is in progress in accordance with the Entrust Development Agreement.

The Directors (including the independent non-executive Directors) are of the view that the terms of the above-mentioned one-off connected transactions are reached after arm's length negotiation; they are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group’s annual results and financial statements for year 2019 before proposing to the Board for approval.

AUDITOR

As the approval by the EGM held on 24 February 2020, the Company changed its overseas auditor from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP. PricewaterhouseCoopers Zhong Tian LLP became the only auditor auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertook the role of overseas auditor in accordance with the Listing Rules. PricewaterhouseCoopers Zhong Tian LLP audited the financial statements of the Company for the year ended 31 December 2019 in accordance with the Chinese Accounting Standards for Business Enterprises.

For more details, please refer to the announcement of the Company dated 10 January 2020, and the circulars of the Company dated 20 January 2020.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fd-zj.com.

The 2019 annual report will be despatched to the shareholders of the Company and published on the above websites in due course.

By Order of the Board
Wang Hai Bo
Chairman

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

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

Shanghai, the PRC

28 February 2020

** For identification purpose only*