CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock code: 1093)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018 ***HK$'000***	2017 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**10,344,163**	6,582,194	57.2%	53.5%
Common generic drugs	**6,209,124**	4,792,219	29.6%	25.8%
Bulk drugs				
Vitamin C	**2,131,342**	1,853,700	15.0%	11.4%
Antibiotics	**1,298,050**	1,215,084	6.8%	3.1%
Caffeine and others	**1,046,192**	1,019,332	2.6%	-0.4%
Total revenue	**21,028,871**	15,462,529	36.0%	32.3%
Gross profit	**13,912,791**	9,345,968	48.9%	45.2%
Research and development expenses	**1,583,213**	815,258	94.2%	90.8%
Operating profit	**4,537,721**	3,481,643	30.3%	26.7%
Profit attributable to shareholders	**3,654,978**	2,770,522	31.9%	28.4%
Basic earnings per share	**HK58.55 cents**	HK45.48 cents	28.7%	
Final dividend per share	**HK18 cents**	HK15 cents	20.0%	

Note: Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the prior year to current year local currency results.

CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 December 2018, the Group achieved a revenue of HK$21,029 million, representing a 36.0% growth (or a 32.3% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of HK$3,655 million, representing a 31.9% growth (or a 28.4% growth on a constant currency basis) year-on-year. Basic earnings per share amounted to HK58.55 cents (2017: HK45.48 cents).

DIVIDEND

The Board of Directors of the Company has recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2018 (2017: HK15 cents per share). Subject to approval by the shareholders in the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 14 June 2019 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019.

INDUSTRY REVIEW AND OUTLOOK

Year 2018 witnessed a continuous deepening of the healthcare system reform. In terms of top-level design, the National Healthcare Security Administration and the National Medical Products Administration were set up to optimize the functions of different healthcare fields and improve supervision efficiency. A number of policies were promulgated to promote the quality and efficacy consistency evaluation of generic drugs, improve and supervise the control on public hospitals' expenditures and reform the medical insurance payment system. Such policies cover areas from drug research and development to production and from distribution to usage at end-user markets, having a significant impact on the pharmaceutical industry. The reforms of the pharmaceutical industry were also rapidly intensified with the establishment of the tiered medical system, the implementation of central procurement scheme in the "4+7" pilot cities and the formulation of adjuvant drug list.

In the area of promoting research and development of innovative drugs, the National Medical Products Administration has improved the approval process for drug registration and introduced policies such as the clinical trial data protection system, acceptance of overseas clinical trial data and the tacit system for clinical trial application. These reforms effectively shorten the clinical development time of innovative drugs, and at the same time accelerate the launch of imported drugs in the domestic market, which have the impact of encouraging domestic enterprises to invest more in the research and development of innovative drugs.

In 2018, oncology drugs became the focus and the biggest driving force of the Chinese pharmaceutical market. During the year, various measures specific to oncology drugs were introduced, including the inclusion of 17 oncology drugs into the national reimbursement drug list through negotiations, the reduction of import tariffs to zero and the reduction of value-added tax to 3%. On the other hand, the improvement of the drug approval system has also accelerated the approval process, providing favourable conditions for the commercial launch of oncology drugs. As the overall incidence rate of cancer shows an upward trend, the demand for drugs for the diagnosis and treatment of cancers will also continue to grow. At the same time, the global rapid development of biologics and the breakthroughs in immunotherapy also provide strong support for the long-term growth of oncology drugs. It is expected that in the next decade, oncology drugs will still have great potential in China and overseas market.

BUSINESS OUTLOOK

Finished Drug Business

Innovative Drugs

With an improving environment for drug innovation in China, innovative drugs will embrace greater development opportunities. Leveraging its advantages, the Group will actively follow the adjustments in policies and capture the opportunities to expand the innovative drugs business. In terms of R&D, the Group will adhere to the strategy of innovation and internationalization. Internally, the Group will strengthen the R&D team, expedite the development progress of key drug candidates and speed up the initiation of R&D projects of new targets with market potential. Externally, the Group will look for potential acquisition targets to enrich the product pipelines and improve the mid-to-long term layout of innovative drugs through licensing or acquisition. With respect to marketing, increased efforts will be made to expand the professional product-dedicated marketing team and expand into the untapped markets and hospitals so as to leverage the benefits of medical reimbursement for key drug products such as "NBP" and "Jinyouli". For key new drugs such as "Keaili", more investments will be made in medical research to strengthen the clinical evidence and in professional academic-based promotion in order to enhance the recognition of the products by doctors. At the same time, close attention will be paid to policy changes in respect of national drug reimbursements and the status of provincial drug tenders, ensuring that the tender prices of key products are stable and manageable.

Common Generic Drugs

With the establishment of the National Healthcare Security Administration and the introduction of policies such as the central procurement scheme in the "4+7" cities, the prices of certain generic drugs with quality and efficacy consistency evaluation passed have been significantly reduced, putting great pressure on the prospect of the entire common generic drug market. However, the improvement in drug quality and market acceptance in the overall generic drug market brought by the quality and efficacy consistency evaluation of domestic generic drugs is conducive to the enhancement of industry consolidation and competitiveness of Chinese pharmaceutical enterprises. For large pharmaceutical companies with integrated production, marketing and distribution, they will be in a better position to gain market opportunities given their advantages of having a wide variety of products, large operation scale, strong market penetration, good reputation, extensive market coverage and stable cost.

Facing the ever-changing policy environment, the Group will adhere to the corporate philosophy of "All for good medicine, All for mankind's health". The Group will leverage its brand name, channel structure, marketing model, as well as distribution and scale advantages to further develop the low-tier medical market. At the same time, the Group will also continue to enrich its common generic drug portfolio with new product types or preparations, introduce generics such as pediatric drugs that are in line with the national policy, nurture key products with higher growth potential and develop branded generic drugs in order to ensure the continuous stable growth of the common generic drug business.

Bulk Drug Business

Both the vitamin C and caffeine businesses have achieved good performance in 2018. In 2019, the Group will continue to upgrade its technology, lower its cost and set up branches in Europe and US directly covering the end-user markets in order to maintain the leading position of the existing business in the global industry. The Group will also keep abreast of changes in the relevant policies and market conditions of the global bulk drug industry and take appropriate measures promptly.

2019 is a critical year for the development of China's pharmaceutical industry with challenges from policy reforms and changes in the business environment. I will continue to lead the management team to firmly implement the Group's development strategy and actively respond to various changes and challenges, striving to realize the Group's goal of attaining sustained and steady growth in return for the support from the shareholders.

CAI Dongchen
Chairman

Hong Kong, 18 March 2019

RESULTS

The Board of Directors of CSPC Pharmaceutical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*3*	**21,028,871**	15,462,529
Cost of sales		**(7,116,080)**	(6,116,561)
Gross profit		**13,912,791**	9,345,968
Other income		**165,897**	119,681
Other gains or losses		**181,192**	(59,505)
Selling and distribution expenses		**(7,328,277)**	(4,374,637)
Administrative expenses		**(779,915)**	(641,656)
Research and development expenses		**(1,583,213)**	(815,258)
Other expenses		**(30,754)**	(92,950)
Operating profit		**4,537,721**	3,481,643
Finance costs		**(87,561)**	(26,631)
Share of results of joint ventures		**51,449**	10,277
Profit before tax		**4,501,609**	3,465,289
Income tax expense	*5*	**(872,991)**	(685,245)
Profit for the year	*4*	**3,628,618**	2,780,044
Profit for the year attributable to:			
Owners of the Company		**3,654,978**	2,770,522
Non-controlling interests		**(26,360)**	9,522
		3,628,618	2,780,044
		HK cents	*HK cents*
Earnings per share			
— Basic	*6*	**58.55**	45.48
— Diluted	*6*	**N/A**	45.48

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**3,628,618**	2,780,044
Other comprehensive (expense) income:		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation of financial statements to presentation currency	**(921,870)**	816,415
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency	**(5,611)**	6,780
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**45,028**	—
Item that may be reclassified subsequently to profit or loss:		
Fair value gain on the available-for-sale investments	**—**	3,177
Other comprehensive (expense) income for the year, net of tax	**(882,453)**	826,372
Total comprehensive income for the year	**2,746,165**	3,606,416
Total comprehensive income for the year attributable to:		
Owners of the Company	**2,818,001**	3,591,527
Non-controlling interests	**(71,836)**	14,889
	2,746,165	3,606,416

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**7,604,795**	6,662,523
Prepaid lease payments		**598,753**	573,080
Goodwill		**159,946**	121,736
Other intangible assets		**917,030**	103,176
Interests in joint ventures		**143,500**	109,978
Financial assets measured at fair value through other comprehensive income/available-for-sale investments		**763,935**	316,742
Deferred tax assets		**21,530**	20,721
Deposits and prepayments	*9*	**373,863**	—
Bank deposits		**113,636**	—
		10,696,988	7,907,956
Current assets			
Inventories		**3,460,589**	2,900,781
Trade receivables	*8*	**2,346,506**	1,850,409
Deposits, prepayments and other receivables	*9*	**546,690**	483,870
Bills receivables	*10*	**1,473,141**	1,477,001
Trade receivables due from related companies	*11*	**72,094**	69,536
Amounts due from joint ventures		**232,329**	276,830
Prepaid lease payments		**18,829**	18,263
Other financial assets		**503**	732
Structured bank deposits		**2,604,961**	1,315,789
Restricted bank deposits		**3,306**	3,480
Bank balances and cash		**4,926,833**	5,238,033
		15,685,781	13,634,724
Current liabilities			
Trade payables	*12*	**1,840,177**	1,485,365
Other payables	*13*	**3,318,480**	3,028,018
Contract liabilities		**795,540**	—
Bills payables	*14*	**1,880,079**	59,809
Trade payable due to a joint venture		**—**	9,319
Amounts due to related companies		**32,301**	43,419
Contingent consideration payable		**14,063**	—
Tax liabilities		**274,392**	206,685
Borrowings		**80,215**	927,282
		8,235,247	5,759,897

		2018	2017
		HK$'000	*HK$'000*
Net current assets		**7,450,534**	7,874,827
Total assets less current liabilities		**18,147,522**	15,782,783
Non-current liabilities			
Other payables	*13*	**207,277**	183,976
Contingent consideration payable		**22,613**	—
Deferred tax liabilities		**270,360**	131,602
Borrowings		**—**	59,809
		500,250	375,387
Net assets		**17,647,272**	15,407,396
Capital and reserves			
Share capital		**12,922,199**	12,922,199
Reserves		**4,182,642**	2,400,174
Equity attributable to owners of the Company		**17,104,841**	15,322,373
Non-controlling interests		**542,431**	85,023
Total equity		**17,647,272**	15,407,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and on the historical cost basis except for certain financial instruments that are measured at fair value at the end of the reporting period.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for the years ended 31 December 2018 and 2017. The auditor's reports for both years were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Application of New and Amendments to HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standards ("HKAS") 28	As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

HKFRS 15 Revenue from Contracts with Customers

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

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

The Group recognises revenue from the manufacture and sales of pharmaceutical products.

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

Summary of effects arising from initial application of HKFRS 15

As at 31 December 2017, advance payments from customers included in other payables of HK$664,435,000 were disclosed as contract liabilities on the consolidated statement of financial position on 1 January 2018.

As at 31 December 2018, contract liabilities of HK$795,540,000, representing advance payment from customers would have been included in other payables without application of HKFRS 15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

HKFRS 9 Financial Instruments

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

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

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

Summary of effects arising from initial application of HKFRS 9

Available-for-sale investments

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale ("AFS") investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$316,742,000 were reclassified from available-for-sale investments to financial assets at fair value through OCI, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$3,177,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and trade receivables due from related companies. Except for those which had been determined as credit impaired under HKAS 39, trade receivables with outstanding significant balances have been assessed individually, the remaining balances are grouped based on common credit risk characteristics and past due analysis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including bank deposits, trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, restricted bank deposits and bank balances and cash, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company (the "Directors") reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against accumulated profits as the amount involved is insignificant.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these consolidated financial statements.

3. Revenue and Segment Information

	2018	2017
	HK$'000	*HK$'000*
Sale of goods	**21,028,871**	15,462,529

Information reported to the board of directors, being the chief operating decision maker ("CODM"), for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs

(b) Vitamin C (bulk drugs)

(c) Antibiotics (bulk drugs)

(d) Caffeine (bulk drugs) and others

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2018:

	Finished drugs *HK$'000*	**Vitamin C** *HK$'000*	**Antibiotics** *HK$'000*	**Caffeine and others** *HK$'000*	**Segment total** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE							
External sales	**16,553,287**	**2,131,342**	**1,298,050**	**1,046,192**	**21,028,871**	**—**	**21,028,871**
Inter-segment sales	**—**	**60,954**	**107,167**	**7,653**	**175,774**	**(175,774)**	**—**
TOTAL REVENUE	**16,553,287**	**2,192,296**	**1,405,217**	**1,053,845**	**21,204,645**	**(175,774)**	**21,028,871**
SEGMENT PROFIT	**3,469,298**	**812,528**	**41,341**	**183,747**	**4,506,914**		**4,506,914**
Unallocated income							**232,455**
Unallocated expenses							**(201,648)**
Operating profit							**4,537,721**
Finance costs							**(87,561)**
Share of results of joint ventures							**51,449**
Profit before tax							**4,501,609**

For the year ended 31 December 2017:

	Finished drugs *HK$'000*	Vitamin C *HK$'000*	Antibiotics *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	11,374,413	1,853,700	1,215,084	1,019,332	15,462,529	—	15,462,529
Inter-segment sales	—	39,624	93,437	8,060	141,121	(141,121)	—
TOTAL REVENUE	11,374,413	1,893,324	1,308,521	1,027,392	15,603,650	(141,121)	15,462,529
SEGMENT PROFIT	2,724,406	614,164	45,336	200,109	3,584,015		3,584,015
Unallocated income							25,148
Unallocated expenses							(127,520)
Operating profit							3,481,643
Finance costs							(26,631)
Share of results of joint ventures							10,277
Profit before tax							3,465,289

Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, finance costs, net foreign exchange (gain) loss of the Company, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

Geographical information

Information about the Group's revenue is presented based on geographical location of customers:

	2018	2017
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC") (country of domicile)	**17,410,876**	12,340,123
Other Asian regions	**1,512,012**	1,264,272
Americas	**933,673**	851,288
Europe	**973,819**	862,902
Others	**198,491**	143,944
	21,028,871	15,462,529

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

4. Profit for The Year

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration		
— Salaries, wages and other benefits	**1,450,537**	1,015,460
— Contributions to retirement benefit schemes	**150,384**	109,183
Total staff costs	**1,600,921**	1,124,643
Amortisation of other intangible assets	**23,741**	86,186
Amortisation of prepaid lease payments	**18,623**	17,483
Depreciation of property, plant and equipment	**703,721**	612,856
Total depreciation and amortisation	**746,085**	716,525
Auditor's remuneration	**4,060**	3,640
Fair value changes on structured bank deposits (included in other gains or losses)	**(131,788)**	—
Government grant income	**(34,080)**	(34,353)
Interest income	**(62,471)**	(25,148)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**18,993**	19,947
Minimum lease payments paid under operating leases	**41,433**	38,543
Net foreign exchange (gain) loss (included in other gains or losses)	**(69,449)**	36,938

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017.

5. Income Tax Expense

	2018	2017
	HK$'000	*HK$'000*
Current taxation		
— PRC Enterprise Income Tax	**747,684**	546,780
— PRC withholding tax on dividends distributed by subsidiaries	**86,205**	59,950
— United States of America ("USA") Federal and State income tax	**10,630**	14,989
	844,519	621,719
Deferred taxation	**28,472**	63,526
	872,991	685,245

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The calculation of USA Federal and State income tax is based on the prevailing tax rates in the USA.

6. Earnings Per Share

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**3,654,978**	2,770,522

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,242,083**	6,091,481
Effect of dilutive potential ordinary shares: Share options granted by the Company	**N/A**	224
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	6,091,705

No diluted earnings per share is presented for the year ended 31 December 2018 as there was no potential ordinary shares in issue during the year.

7. Dividends

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year: 2017 Final, paid — HK15 cents (2017: 2016 Final, paid — HK12 cents) per share	**936,453**	726,482

8. Trade Receivables

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**2,360,212**	1,863,900
Less: Allowance for impairment	**(13,706)**	(13,491)
	2,346,506	1,850,409

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$2,360,212,000 and HK$1,863,900,000, respectively.

The Group allows a general credit period of 90 days (2017: 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**2,115,585**	1,590,027
91 to 180 days	**213,981**	238,594
181 to 365 days	**8,954**	21,788
More than 365 days	**7,986**	—
	2,346,506	1,850,409

Trade receivables with an aggregate carrying amount of HK$230,921,000 (2017: HK$260,382,000) were past due as at the reporting date. The amounts are not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the group to the counterparty.

9. Deposits, Prepayments and Other Receivables

	2018	2017
	HK$'000	*HK$'000*
Prepayments for purchase of raw materials	**162,576**	202,499
Prepaid research and development expenses	**50,527**	—
Prepayment for acquisition of intangible assets	**113,636**	—
Deposits paid for prepaid lease payments	**260,227**	—
Deposits and prepayments for utilities	**40,228**	50,733
Other taxes recoverable	**80,405**	92,827
Others	**212,954**	137,811
	920,553	483,870
Analysed as:		
Current	**546,690**	483,870
Non-current	**373,863**	—
	920,553	483,870

10. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2017: less than 180 days) and not yet due at the end of the reporting period, and the management considers the default rate is low based on historical information and experience.

During the year, bills receivables issued by group companies for settlement of intra group transactions were discounted to banks without recourse for proceeds of approximately HK$1,782,681,000, and the related liabilities were included in bills payables as at 31 December 2018.

11. Trade Receivables Due from Related Companies

The Group allows a general credit period of 90 days (2017: 90 days) to its related companies. The following is an aged analysis of trade receivables due from related companies at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**72,094**	64,167
91 to 180 days	**—**	5,389
	72,094	69,536

12. Trade Payables

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**1,653,975**	1,098,644
91 to 180 days	**68,287**	232,799
More than 180 days	**117,915**	153,922
	1,840,177	1,485,365

The general credit period on purchases of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. Other Payables

	2018	2017
	HK$'000	*HK$'000*
Customers' deposits	**387,285**	245,051
Advance payments from customers *(Note)*	**—**	664,435
Other taxes payables	**234,403**	159,531
Selling expense payable	**1,080,452**	443,697
Payables arising from construction and acquisition of property, plant and equipment	**960,577**	985,234
Government grants	**409,518**	322,655
Staff welfare payable	**272,225**	188,388
Others	**181,297**	203,003
	3,525,757	3,211,994

Note: Upon adoption of HKFRS 15, advance payments from customers of HK$664,435,000 included in other payables were disclosed as contract liabilities on the consolidated statement of financial position on 1 January 2018.

Analysed as:		
Current	**3,318,480**	3,028,018
Non-current	**207,277**	183,976
	3,525,757	3,211,994

14. Bills Payables

All bills payables of the Group are aged within 365 days (2017: 180 days) and not yet due at the end of the reporting period. Bills payables of HK$1,709,756,000 are secured by bank deposits and certain structured bank deposits.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2018 with sales reaching HK$16,553 million, representing a 45.5% growth (or a 41.8% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the year, the gradual deepening of healthcare reform and full implementation of the new reimbursement drug list have provided the Group's innovative drug products with increased room for market expansion. The Group swiftly expanded the dedicated sales force of its product lines, strengthened academic-based promotion and accelerated market development in major cities and hospitals. Moreover, building on the policies of national tiered medical system and combined medical treatment groups, the Group penetrated into county-level hospitals and community medical institutions for end-user market development, adding a new growth driver to the innovative drug products. With these efforts, innovative drug products continued the strong growth and achieved sales of HK$10,344 million in 2018, representing a 57.2% growth (or a 53.5% growth on a constant currency basis) year-on-year. In particular, the sales of "NBP" increased by 36.5% (or 33.1% on a constant currency basis), and the sales of oncology drug portfolio increased by 123.3% (or 119.8% on a constant currency basis), becoming a new major growth driver.

The following is an overview of the Group's major innovative drug products:

"NBP"

"NBP" is a Class 1 new chemical drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide. The drug is mainly used for the treatment of acute ischemic stroke and is currently available in the forms of soft capsule and injection.

"NBP" has been listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2010, 2014 and 2018 editions)". It has also been listed on a number of guidelines and consensus, including the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke of China", the "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)" and the "Guidelines for the Diagnosis and Treatment of Cerebral Infarction with Chinese and Western Medicines of China (2017)". These serve to recognise the clinical efficacy of "NBP" for treating acute ischemic stroke and provide a solid basis for its academic-based promotion. The inclusion of both forms of "NBP" into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsule for recovery use).

Good progress has also been made in expanding "NBP" into new treatment areas. At present, 98 research projects in respect of butylphthalide are in progress, including 50 fundamental and 48 clinical projects. The phase III clinical trial of butylphthalide soft capsule for the treatment of vascular dementia has obtained ethical approval from the lead centre and enrollment will start in 2019. In addition, "NBP" also participated in six studies under the "13th Five-Year Plan", including efficacy and safety studies of butylphthalide for new treatment areas such as cerebral small vessel diseases, aortic atherosclerotic cerebral infarction and intravenous thrombolysis or endovascular treatment for acute ischemic stroke. "Butylphthalide Soft Capsule" was also granted orphan drug designation for the treatment of amyotrophic lateral sclerosis ("ALS") by the U.S. Food and Drug Administration during the year. This indication has also been undergoing the first multi-centre, randomized, double-blind and placebo-controlled clinical study on ALS in China since 2015. The study is currently under the follow-up period with all subjects enrolled in 2018. In addition, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with subject enrollment started. The development of new indications and markets as mentioned above will be able to bring new growth opportunities to "NBP".

During the year, the Group further expanded its dedicated sales force of "NBP" and gradually developed the lower-tier medical market of county-level hospitals and community medical centres. The number of hospitals with sales access has increased quickly and sales has maintained a high rate of growth.

"Oulaining"(歐來寧)

The major ingredient of "Oulaining" is oxiracetam. The drug is available in the forms of capsule and lyophilized powder injection and is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. At present, oxiracetam is included in the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment of China", the "Guidelines for Diagnosis and Treatment of Carbon Monoxide Poisoning" and the "Interpretation of Clinical Pathway of Therapeutic Drugs". In addition, in order to further improve evidence-based medical proof of the product and change the existing market landscape of "Oulaining", a number of fundamental and clinical studies of oxiracetam led by domestic and overseas authoritative experts of neurology have commenced, covering Alzheimer's disease, vascular dementia, aphasia after stroke and brain damage.

During the year, the Group changed the sales model of "Oulaining" to internal sales force and strengthened the marketing of the capsule form, resulting in a substantial growth in sales for the year.

"Xuanning"(玄寧)

The major ingredient of "Xuanning" is maleate levamlodipine. The drug is available in the forms of tablet and dispersible tablet and is mainly used for the treatment of hypertension, chronic stable angina and variant angina. The product is included in the "Guidelines for the Prevention and Treatment of Hypertension of China 2018", "Guidelines for Rational Use of Drugs for Coronary

Heart Disease", "Guidelines for the Rational Use of Drugs for Hypertension" and the "Interpretation of Clinical Pathway of Therapeutic Drugs (County-level Volume)". The results of the research study for the comparison of levamlodipine maleate ("Xuanning") and amlodipine besylate for the treatment of hypertension (a major project in the "12th Five-Year Plan") has fully demonstrated the better clinical efficacy and lower side effects of "Xuanning". The conclusion of the study will also provide solid data support for the new drug application of "Xuanning" in U.S..

During the year, the Group changed the sales model of "Xuanning" to internal sales force and stepped up efforts in exploring the lower-tier market below county level, resulting in a substantial increase in sales for the year.

"Duomeisu"(多美素)

"Duomeisu" (doxorubicin hydrochloride liposome injection) was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group, and was supported by the "Major New Drug Development" projects in China. The drug has also been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines", an authoritative guideline in the U.S., for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of breast cancer, bone and soft tissue sarcoma and AIDS-related progressive Kaposi sarcoma. "Duomeisu" has advantages in terms of efficacy and safety as compared to traditional anthracyclines. As the current market penetration rate is still relatively low, there is a promising market potential.

After years of academic promotion, hospital development and market nurturing, "Duomeisu" has become the leading brand of domestic doxorubicin hydrochloride liposome injection in the market, with continued rapid sales growth achieved in 2018.

In the future, the Group will continue to build on its competitive resources to strengthen professional academic promotion and improve the expert network and recognition of the product through academic conferences and clinical research projects. In addition to strengthening the existing sales areas for haematological, breast, gynecologic and bone cancers, the Group will continue to explore the application areas of anthracycline drugs for bladder cancer, liver cancer, gastric cancer and lung cancer, aiming to add growth momentum to "Duomeisu".

"Jinyouli"(津優力)

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. "Jinyouli" is well supported by evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China, covering lung cancer, breast cancer and lymphoma, winning unanimous recommendations from domestic and foreign guidelines.

During the year, implementation of the new tender results and the national reimbursement drug list provided "Jinyouli" with a larger room for market expansion. The Group also expanded its sales force and increased its presence in hospitals, maintaining a rapid sales growth for the year.

"Jinyouli" is aimed to become the leading brand for the long-acting version in China. In terms of treatment coverage, the Group will reinforce the current areas and expand into digestive tract and urinary system; and at the same time explore opportunities in immunotherapy and combo usage with target therapy.

"Keaili"(克艾力)

"Keaili" (paclitaxel for injection (albumin-bound)) is a first-to-market generic of chemotherapy drug for targeted therapy in China. The drug was listed as a major project of new drug innovation technology in the "12th Five-Year Plan" during its research and development stage and passed the drug consistency evaluation after launch. By integrating paclitaxel with albumin using a special technology to form stable nanoparticles, "Keaili" solves the problem of paclitaxel's solubility and stability of the solution, increasing the dosage of paclitaxel and avoiding the use of toxic solvents with pre-treatment no longer required. Therefore, it is characterized by higher efficacy, lower toxicity and improved convenience and economy. As compared with the imported originator drug, the price of "Keaili" is significantly lower, enabling patients to use the drug with comparable efficacy at more affordable price. "Keaili" has been included in the provincial reimbursement drug list of Hubei, Hunan, Ningxia, Jiangsu and Shandong (critical illness), greatly relieving the patients' financial burden.

"Keaili" is currently approved for the indication of breast cancer only. The Group has increased the resources used to conduct joint clinical studies with domestic experts for its applications in different oncology areas and develop clinical evidence in order to verify the efficacy of "Keaili" in all relevant areas. The Group has also continued its marketing strategies of clinical studies and academic conferences, and strengthened its cooperation with professional academic institutions in order to establish a more solid academic platform for building a better market recognition and brand reputation of "Keaili".

After commercial launch in March this year, "Keaili" has been widely recognized by experts and patients and achieved an outstanding sales performance for the first year.

"Ailineng"(艾利能)

"Ailineng" (elemene injection) is an oncology drug developed in China, mainly used for the treatment of nerve glioma, brain metastases and malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy of oncology therapies. After years of clinical use, it has been widely recognized by the medical profession. The new and upgraded liquid formulation of the product was granted patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume, contributing to the significant reduction of adverse clinical reaction.

During the year, sales of "Ailineng" remained satisfactory. The Group will continue to strengthen academic promotion, make further efforts in medical research projects and implement sales model transformation in certain regions in order to expand market share.

"Nuolining"(諾利寧)

"Nuolining" (imatinib mesylate tablets) is the first approved small molecule targeted oncology drug of the Group, which is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumour. "Nuolining" has been recommended by a number of domestic and foreign guidelines as a first-line drug for the above diseases. Patients using "Nuolining" for its main indications are required to use it on a long-term basis, thus the accumulated number of patients provides an enormous market potential.

During the year, "Nuolining" achieved a steady growth. The Group will accelerate the consistency evaluation of "Nuolining" in response to the impact of changes in national policies.

Common Generic Drug Products

During the year, the Group continued with the strategy of enhancing its sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Among which, products with relatively higher sales growth included "Ouyi"(歐意)(aspirin enteric-coated tablets), "Ouyi"(歐意)(omeprazole capsules/injections), "Linmeixin"(林美欣)(glimepiride dispersible tablets) and "Ouwei"(歐維)(mecobalamin tablets). The Group's high-end antibiotic product "Zhongnuo Shuluoke"(中諾舒羅克)(meropenem for injection) and healthcare supplement product "Guoweikang"(果維康)(vitamin C tablets) have also maintained rapid growth during the year. Furthermore, the Group actively pushed forward with the quality and efficacy consistency evaluation of generic drugs. Currently, five products have passed the consistency evaluation, including "Xinweihong"(新維宏)(azithromycin tablets), "Qimaite"(奇邁特)(tramadol hydrochloride tablets), "Zuoshuxi"(左舒喜)(captopril tablets), "Shuanglexin"(雙樂欣)(metformin hydrochloride tablets) and "Shiyao"(石藥)(amoxicillin capsules). Products passing consistency evaluation are expected to significantly lower the financial burden of patients, reduce medical insurance expense and boost the efficiency in the use of health insurance funds. The Group will fully utilize opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products, and will also establish strategic cooperation with core distributors to expand and penetrate the end-user market into the low-tier medical institutions.

In 2018, sales of common generic drug products maintained a satisfactory growth in general, with sales of HK$6,209 million, representing a 29.6% growth (or a 25.8% growth on a constant currency basis) year-on-year.

Bulk Drug Business

Vitamin C

Overcapacity in the vitamin C market still lingered. However, the restraint on market supply due to pressure from environmental protection has provided opportunities for large-scale vitamin C manufacturers, enabling this business to achieve a satisfactory performance in 2018. In addition to the efforts to attain quality improvement and production cost reduction, the Group will also set up branches in Europe and U.S. to directly cover the local end-user market and continue to optimize client mix in order to expand end-user market share and improve product profitability.

Antibiotics

Market demand for antibiotics has declined mainly due to the restricted use of antibiotics policy in the end-user market. In 2018, this business segment saw a slight sales decrease in general, with unsatisfactory profit contribution. The overall weak market condition is unlikely to improve in the short term. The Group will continue to proactively implement various measures including technology advancement, management enhancement and energy conservation, with an aim to strive for continuous decrease in production costs and improvement in market competitiveness.

Caffeine and Others

During the year, thanks to a stable operating environment, this business segment recorded a steady performance with slight increase in both product prices and product costs.

Research and Development

The Group continued to increase its investment in the research and development of products. Currently there are more than 300 projects in the pipeline, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, metabolic diseases (such as diabetes), oncology, psychiatry and neurology, as well as anti-infection. Among these product candidates, there are 30 new target macromolecule biologics, 40 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system).

The progress of the Group's major R&D projects is as follows:

1. 5 products have been granted drug registration approval by the National Medical Products Administration, namely "paclitaxel for injection (albumin-bound)", "doxofylline sodium chloride for injection", "doxofylline glucose for injection", "metformin hydrochloride tablets" and "tirofiban hydrochloride and sodium chloride for injection";

2. 8 products have passed consistency evaluation, namely "tramadol hydrochloride tablets", "azithromycin tablets", "captopril tablets", "amoxicillin capsules", "paclitaxel for injection (albumin-bound)", "metformin hydrochloride tablets", "ranitidine hydrochloride capsules" and "cefadroxil tablets";

3. 10 small molecule new drugs are under clinical trials in China, including "DBPR108 tablets", "SKLB1028 capsules", "ammuxetine hydrochloride tablets", "butylphthalate soft capsules" (indication: vascular dementia) and "CSPCHA115 capsules";

4. 2 small molecule new drugs are under clinical trials in U.S., namely "butylphthalide soft capsules" (indication: acute ischemic stroke) and "CSPCHA115 capsules";

5. 7 macromolecule new drugs are under clinical trials in China, namely "anti-CD20 monoclonal antibody for injection", "anti-HER2/CD3 bispecific antibody for injection", "anti-EpCAM/CD3 bispecific antibody for injection", "anti-PD-1 monoclonal antibody for injection", "recombinant GLP-1 Fc fusion protein for injection", "anti-EGFR monoclonal antibody for injection" and "anti-RANKL monoclonal antibody for injection";

6. 4 products of new preparation are under clinical trials, namely "mitoxantrone liposome for injection" (clinical trials in both China and the U.S.), "vinorelbine tartrate liposome for injection", "alprostadil liposome for injection" and "irinotecan liposome for injection" (clinical trials in the U.S.);

7. 26 generic drugs are currently pending for production approval in China, including "dronedarone hydrochloride tablets", "clopidogrel hydrogen sulfate tablets", "amphotericin B cholesterol sulfate complex for injection" (new preparation), " iloperidone tablets", "ticagrelor tablets", "sunitinib malate capsules", "pramipexole hydrochloride tablets" and "sacubitril/ valsartan sodium tablets";

8. 15 generic drugs are under bioequivalence tests, including "afatinib maleate tablets", "linagliptin tablets", "nintedanib esilate soft capsules" and "benzonatate soft capsules";

9. 6 drugs are currently pending for U.S. ANDA approval, namely "pregabalin capsules", "solifenacin succinate tablets", "imatinib mesylate tablets", "omega-3-acid ethyl ester 90 soft capsules", "esomeprazole magnesium enteric-coated capsules" and "paliperidone extended-release tablets"; and "celecoxib capsules", "memantine hydrochloride tablets", "pramipexole hydrochloride tablets" and "duloxetine hydrochloride sustained release capsules" have obtained ANDA approval; and

10. "Mitoxantrone hydrochloride liposome for injection", antibody-drug conjugate "DP303c", "butylphthalide soft capsule" (indication: ALS) and "ALMB-0166" have been granted the orphan drug designation in U.S..

The Group continued to increase its investment in the pipeline of biologics and small molecule innovative drugs. Apart from in-house research and development, the Group has also been proactively seeking for external cooperation and acquisition opportunities. Cooperation or acquisition projects made recently or during the year included: (i) acquiring partial equity interests in Wuhan YZY Biopharma Co., Ltd., a leading enterprise in bispecific antibodies research in China; (ii) acquiring the entire equity interests in Yong Shun Technology Development Co., Ltd., which is

mainly engaged in the research and development of new monoclonal antibodies for targeted tumor antigens and immunotherapy of various cancers; (iii) entering into an exclusive license agreement with Shanghai Institute of Materia Medica for the development and commercialization of 4 small molecule compounds; (iv) entering into an exclusive license agreement with Hangzhou Innogate Pharma Co., Ltd. for the development and commercialization of 5 small molecule compounds; (v) entering into an exclusive license agreement with I-Mab Biopharma (Shanghai) Co. Ltd. for the development and commercialization of "recombinant GLP-1 Fc fusion protein for injection"; (vi) entering into an exclusive license agreement with Sinocelltech Limited for the development and commercialization of "anti-CD20 monoclonal antibody for injection"; and (vii) entering into an exclusive license agreement with a U.S. company — Verastem for the development and commercialization of the oncology drug "Copiktra".

The Group will continue to look for acquisition targets with strong R&D capability and product candidates under development. The future acquisition efforts will mainly focus on drugs of new small molecule and macromolecule which are close to product approval and commercial launch so as to supplement the pipeline of product launch in the next few years, and fully leverage the Group's strong marketing and market development capabilities to achieve rapid sales growth of new products.

FINANCIAL REVIEW

Results

	2018	2017	Change in %
Revenue *(HK$'000)*			
Finished drugs	16,553,287	11,374,413	45.5%
Bulk drugs	4,475,584	4,088,116	9.5%
Total	21,028,871	15,462,529	36.0%
Operating profit *(HK$'000)*	4,537,721	3,481,643	30.3%
Operating profit margin	21.6%	22.5%	
Profit attributable to shareholders *(HK$'000)*	3,654,978	2,770,522	31.9%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 45.5% to HK$16,553 million in the current year. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching HK$10,344 million, representing a growth of 57.2%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 42.6% in 2017 to 49.2% in 2018. Sales of the vitamin C business further increased in 2018 attributable to higher average selling prices.

Operating profit margin slightly decreased from 22.5% in 2017 to 21.6% in 2018. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business in 2018 resulting from the Group's increased efforts in market development and the adoption of direct sales model for some finished drugs as necessitated by the two-invoice system; (iii) significant increase in research and development expenses; and (iv) increased profitability of the vitamin C business in 2018 due to higher average selling prices.

Selling and Distribution Expenses

Selling and distribution expenses was HK$7,328 million in 2018 as compared to HK$4,375 million in 2017. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of the existing innovative drugs; (ii) establishment of sales team for the newly launched innovative drug "Keaili"; (iii) increased efforts in marketing and academic promotion for innovative drugs; (iv) adoption of direct sales model for some finished drugs as necessitated by the two-invoice system; and (iv) increased efforts in academic promotion for some generic drugs.

Administrative Expenses

Administrative expenses was HK$780 million in 2018 as compared to HK$642 million in 2017. The increase in administrative expenses was primarily attributable to the expanded scale of operation of the Group and increased payment of staff performance bonus.

Research and Development Expenses

R&D expenses was HK$1,583 million in 2018 as compared to HK$815 million in 2017. The increase in R&D expenses was primarily attributable to (i) upfront payments of HK$101 million related to a number of product co-development and license agreements; (ii) increased spending on ongoing and newly initated clinical trials; (iii) increased spending on R&D of biologic drugs; (iv) increased R&D expenses of the expanding R&D centres in the US; and (v) increased spending on quality and efficacy consistency evaluation of generics.

Liquidity and Financial Position

For the financial year of 2018, the Group's operating activities generated a cash inflow of HK$4,428 million (2017: HK$3,288 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly decreased from 40 days in 2017 to 37 days this year. Average turnover period of inventories (ratio of balance of inventories to cost of sales) slightly increased from 173 days in 2017 to 178 days this year, reflecting the expanding scale of production and a higher inventory level required to meet the increasing market demand. Current ratio of the Group was 1.9 as at 31 December 2018, lower than 2.4 a year ago. Capital expenditure for the year amounted to HK$1,973 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2018, cash and cash equivalents amounted to HK$4,927 million (2017: HK$5,163 million) and total borrowings amounted to HK$80 million (2017: HK$987 million), resulting in a net cash position of HK$4,847 million (2017: HK$4,176 million). Borrowings of the Group as at 31 December 2018 represented bank loans repayable within one year.

71% of the Group's borrowings are denominated in Renminbi and 29% in US dollars. The Group's sales are denominated in Renminbi for domestic sales in China and in US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Pledge of Assets

As at 31 December 2018, bank deposits amounting to HK$113,636,000 (2017: Nil) and structured bank deposits amounting to HK$1,567,045,000 (2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the core profit on a full year basis. The actual amount of dividends will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

As at 31 December 2018, the Group had approximately 14,471 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018 except the deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the appointment of Mr. Wang Qingxi as an executive director on 20 August 2018, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board. With the resignation of Mr. Wang Jinxu as an executive director on 30 August 2018, the number of independent non-executive directors on the Board represents no less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Monday, 27 May 2019, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

The register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

Month of repurchase	**Number of ordinary shares**	**Highest price per share paid** *HK$*	**Lowest price per share paid** *HK$*	**Aggregate consideration paid** *HK$'000*
October 2018	4,680,000	15.66	14.72	71,015
December 2018	2,000,000	14.06	13.68	27,839
	6,680,000			98,854

The above shares were cancelled upon delivery of the share certificates during the year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 18 March 2019

As at the date of this announcement, the Board comprises Mr. CAI Dongchen, Mr. WANG Zhenguo, Mr. PAN Weidong, Mr. WANG Huaiyu, Dr. LU Hua, Dr. LI Chunlei, Mr. ZHANG Cuilong, Dr. WANG Qingxi and Mr. CHAK Kin Man as executive directors; Mr. LEE Ka Sze, Carmelo as non-executive director; and Mr. CHAN Siu Keung, Leonard, Mr. WANG Bo, Prof. LO Yuk Lam, Dr. YU Jinming and Mr. CHEN Chuan as independent non-executive directors.