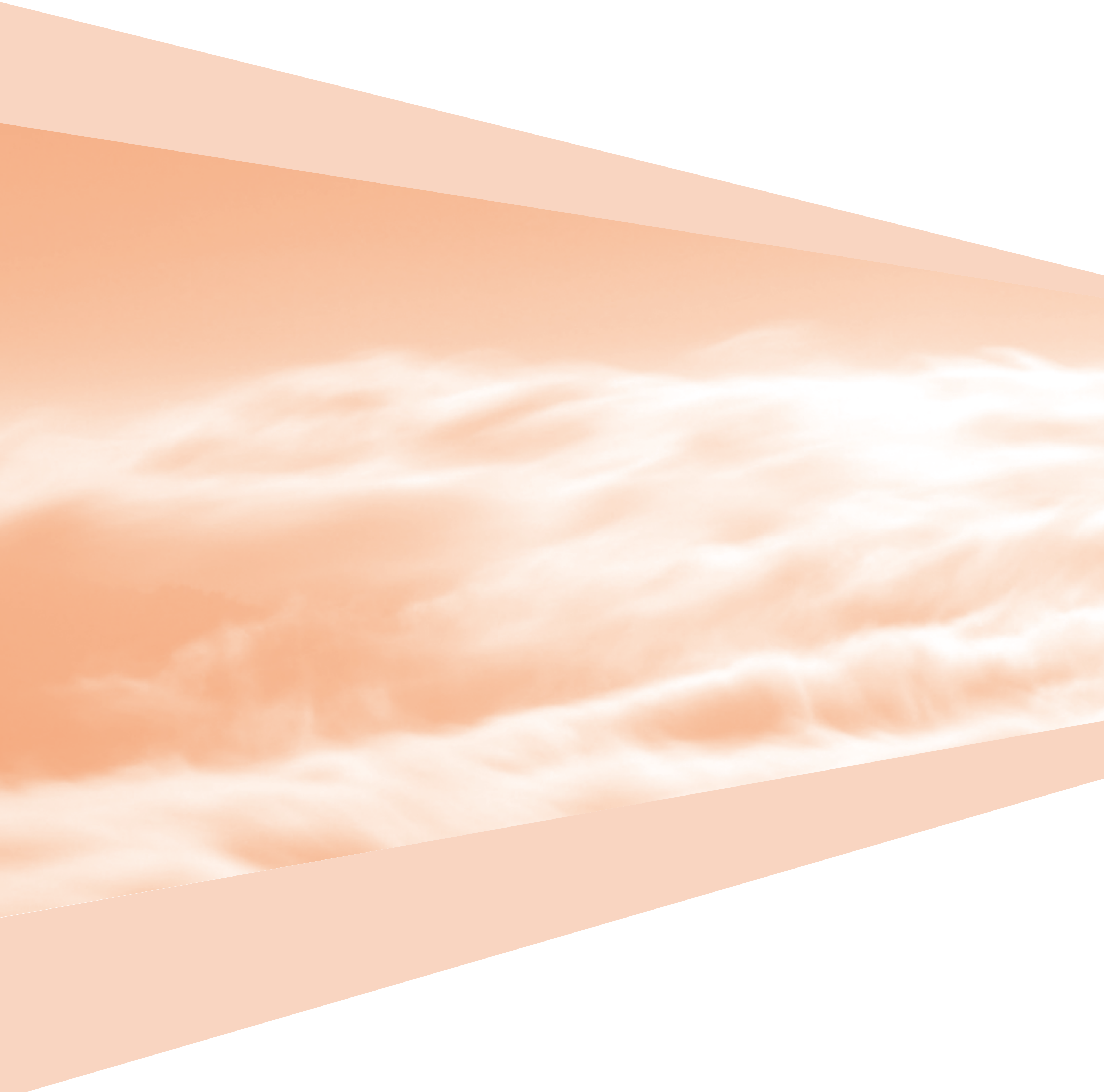
中国先锋医药控股有限公司

China Pioneer Pharma Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 01345

Annual Report 2015



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Xinzhou *(Chairman)*
Mr. Wang Yinping *(Chief Executive Officer)*
Mr. Zhu Mengjun *(Chief Financial Officer)*

Non-executive Director

Mr. Wu Mijia

Independent Non-executive Directors

Mr. Xu Zhonghai
Mr. Lai Chanshu
Mr. Wong Chi Hung, Stanley

AUDIT COMMITTEE

Mr. Wong Chi Hung, Stanley *(Chairman)*
Mr. Xu Zhonghai
Mr. Wu Mijia

REMUNERATION COMMITTEE

Mr. Xu Zhonghai *(Chairman)*
Mr. Lai Chanshu
Mr. Wu Mijia

NOMINATION COMMITTEE

Mr. Li Xinzhou *(Chairman)*
Mr. Lai Chanshu
Mr. Xu Zhonghai

AUTHORISED REPRESENTATIVES

Mr. Zhu Mengjun
Ms. Mok Ming Wai

JOINT COMPANY SECRETARIES

Mr. Min Le
Ms. Mok Ming Wai *(FCIS, FCS)*

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

CORPORATE HEADQUARTERS

No. 15, Lane 88 Wuwei Road
Putuo District
Shanghai
PRC
Tel: (86) 021 50498986

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2207–08, 22/F, Trendy Centre
682 Castle Peak Road
Lai Chi Kok
Kowloon
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue, George Town
Grand Cayman KY1-9005
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISOR

Ashurst Hong Kong

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

01345

COMPANY'S WEBSITE

http://www.pioneer-pharma.com

Financial Highlights

- Revenue of the Group decreased by 5.2% to RMB1,460.9 million in 2015 from RMB1,540.4 million in 2014.
- Net profit of the Group decreased by 33.9% to RMB172.5 million in 2015 from RMB261.0 million in 2014.
- Excluding (i) an impairment loss of RMB41.3 million on investment in associates; (ii) an impairment loss on goodwill of RMB14.7 million; and (iii) the Group's share of loss of associates of RMB28.9 million (all of which amounted to RMB84.9 million), the adjusted net profit of the Group amounted to RMB257.4 million in 2015.
- Basic earnings per share was RMB0.13 in 2015.
- A final dividend of RMB3.6 cents per share was recommended by the Board (bringing the total dividend for the year ended 31 December 2015 to RMB9.3 cents per share) and is subject to the approval of the Shareholders at the AGM to be held on 20 May 2016.

	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Operating results					
Revenue	717,831	958,723	1,272,247	1,540,398	**1,460,899**
Gross profit	195,702	306,745	386,647	491,949	**462,577**
Profit before income tax	123,093	206,839	272,486	304,688	**206,795**
Profit for the year	97,012	185,717	235,754	260,951	**172,501**
Profit for the year, all attributable to the owners of the Company	95,675	186,369	238,372	261,718	**174,302**
Profitability					
Gross margin (%)	27.3%	32.0%	30.4%	31.9%	**31.7%**
Net profit margin (%)	13.5%	19.4%	18.5%	16.9%	**11.8%**
Total assets	787,512	928,553	1,996,915	2,554,851	**1,822,024**
Total equity	193,026	212,825	1,157,285	1,225,975	**996,441**
Total liabilities	594,486	715,728	839,630	1,328,876	**825,583**
Gearing ratio (%)	42.9%	44.8%	21.5%	23.9%	**15.7%**
Equity attributable to equity owners of the Company	192,105	212,057	1,157,628	1,127,360	**998,090**
Cash and cash equivalents	51,356	59,559	702,073	260,834	**317,113**

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Pioneer Pharma Holdings Limited ("the Company" or "China Pioneer Pharma"), I would like to express my gratitude to all shareholders of the Company (the "Shareholders") for their continued interest and unwavering support. As the Chairman of the Board, I am also pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015 (the "Reporting Period").

The year 2015 was full of challenges. The slowdown of China's economic growth resulted in the government's response by promoting structural reforms on the supply side. For the pharmaceutical industry, it is reflected in the tightened drug's registration process and reducing the cost in the drug's circulation process. The boom of the overall pharmaceutical industry has turned into structural development opportunities. A number of policies relating to pharmaceutical industry announced, such as drug's pricing mechanism, control of drug's usage amount, and compliance in drug's sales channel etc, have significant and far-reaching impact on China's pharmaceutical industry. Amid the market challenges, the Group adhered to its strategy of expanding and optimising its product portfolio and growing and improving its marketing network, and tackled the challenges by leveraging on its own strengths, and minimising the impact of external factors to the Group. For the year 2015, the Group's sales of its products basically remained stable, except for several factors outside the Group's control, such as sales of WaveLight Eagle laser surgical series being adversely affected by a suspension of tender process on large scale equipment in public hospitals, a delay of renewal of the imported drug license of Polimod, and impairment loss of investments recognised on overseas associates, which substantially affected the Group's operating performance.

For the Reporting Period, the revenue of the Group decreased by 5.2% to RMB1,460.9 million from RMB1,540.4 million in 2014; profit for the year decreased by 33.9% to RMB172.5 million from RMB261.0 million in 2014. Basic earnings per share was RMB0.13. The Board recommends the payment of a final dividend of RMB0.036 per share for the year ended 31 December 2015.

PRODUCT DEVELOPMENT

The Group's business includes comprehensive marketing, promotion and channel management services offered to small-and medium sized overseas pharmaceutical product and medical device suppliers, and co-promotion and channel management services offered to Alcon, the world's largest eye care products company.

While medical insurance is increasingly facing the cost control pressure, the overall sales growth rate of pharmaceutical products in hospitals in China slowed down prominently in 2015. In 2015, each province accelerated its drug tender process with lower tender prices, which put the drug selling prices under pressure. The Group's pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management were also affected by this macro environment. However, the Group adopted effective and reasonable measures to tackle pricing policy changes by leveraging its products' features and advantages. Meanwhile, the Group committed to increase marketing efforts and continued to improve and refine the marketing strategy for each product, so as to expand market coverage and enhance its sales volume.

The Group's business of providing comprehensive marketing, promotion and channel management services for medical devices has achieved sizeable scale after more than three years of development. The Group's medical devices portfolio has expanded from WaveLight Eagle laser surgical series to a wide range of products covering ophthalmic surgical equipment, intraocular lens ("IOL"), odontology equipment and consumables and wound care products. In 2015, the Group's sales of IOL, odontology equipment and consumables in this business segment achieved steady development. Sales of WaveLight Eagle laser surgical series were adversely affected by a suspension of tender process on large scale equipment in public hospitals in China. As a result, the Group's overall sales of medical devices were correspondingly affected. The Group's sales of NeutroPhase, a wound care product newly launched in 2015, was adversely affected by a lack of corresponding charge coding in hospitals. The Group is working to resolve this issue and at the same time the Group is constantly enhancing its marketing and promotion efforts. The continuous efforts in marketing and promotion enhanced the brand recognition of NeutroPhase in wound care area and received positive feedback of clinical effectiveness from doctors. The Group remains strong confident with NeutroPhase becoming a significant contributor to the Group's performance.

The Group is the sole provider of channel management service for all of Alcon's ophthalmic pharmaceutical products in China, and also provides co-promotion services for eight products of Alcon. During 2015, Alcon adjusted the business strategy in China through taken a number of internal measures, which resulted in temporary fluctuation on marketing and promotion of Alcon's pharmaceutical products. Moreover, the slow down of overall sales growth rate of ophthalmic pharmaceutical products in China and the reduction of products' price in certain provinces following the tender process also have an impact on the sales of Alcon's ophthalmic pharmaceutical products. As a long-term and stable partner, the Group will always maintain its close cooperation with Alcon, and further enhances the efforts of co-promotion service for the eight Alcon's products, so as to jointly cope with the environment changes on the market of ophthalmic pharmaceutical products in China.

In 2015, the Group still actively seeks prospective product candidates for marketing, promotion and sales from overseas pharmaceutical and medical device companies, to expand the Group's product portfolio. To expand the ophthalmic medical device business, after negotiation for many times during 2015, the Group entered into a framework agreement with Inami & Co., Ltd. ("Inami") of Japan in January 2016, pursuant to which the Group was granted the exclusive marketing, promotion and channel management rights with respect to Inami ophthalmic medical devices marketed under the "Inami" brand in China. Besides, during 2015, the Group entered into a supplemental agreement to the exclusive distribution agreement with Biocer Entwicklungs GmbH ("Biocer") of Germany. The Group will distribute Biocer's TiO_2Mesh™Bra product, on an exclusive basis in China following product registration. For the drugs, the Group further deepens the cooperation with its important long-term partner Polichem S.A. of Switzerland ("Polichem"). After a series of discussions and negotiations during 2015, the Group entered into a supplemental agreement with Polichem in February 2016, pursuant to which the Group's rights to market, promote and sell Polimod will be extended from eight provinces to the whole territory of China with effect from 7 March 2016. As one of the important existing products of the Group, the territory expansion of marketing and promotion rights for Polimod is believed to contribute more to the Group's performance.

MARKETING NETWORK DEVELOPMENT

The Group's development strategy focuses on continuously expanding its marketing network. The Group's marketing and promotion model comprises of an in-house marketing team and a team of third-party promotion partners. To maintain the efficiency and stability of the marketing network, the Group sets up sales and product manager teams to manage and support third-party promotion partners.

In 2014, the Group restructured the business organization in order to further strengthen the building of professional in-house marketing team, business control and management of third-party promotion partners. The Group established business units divided by different products or products series. After over a year of adjustments and running-in, with numerous improvements and modifications, the new organization structure has shown obvious results in building the professional in-house team and enhancing the management of third-party promotion partners. In the context of complicated and ever changing pharmaceutical policies and market conditions, based on the Group's reasonable allocation of resources, each product business unit carried out their own marketing, promotion and sales work dedicated to their own products, as well as financial budget and performance management, which greatly promote the Group's resource allocation and operational efficiency, and played an important role for the stable development of the Group.

As of 31 December 2015, the Group sold products through its nationwide marketing, promotion and channel management services network to over 29,500 hospitals and other medical institutions, and over 106,000 pharmacies across all provinces, municipalities and autonomous regions in China.

DIVIDEND

The Board is pleased to recommend a final dividend payment of RMB0.036 per share for the year ended 31 December 2015 to shareholders whose names are on the register of members on Thursday, 26 May 2016. The register of members of the Company will be closed on Thursday, 26 May 2016, on which no transfer of shares of the Company (the "Shares") will be registered. Payment of such final dividend is expected to be made to the Shareholders on Thursday, 2 June 2016 subject to the Shareholders' approval at the annual general meeting of the Company (the "AGM") on Friday, 20 May 2016.

OUTLOOK

Looking forward, the policy makers of the pharmaceutical industry are exploring next steps, the environment of the PRC pharmaceutical industry is undergoing significant changes and the pharmaceutical industry as a whole is facing unprecedented challenges. However, the Group always believes that challenges will also bring opportunities. The demand of the pharmaceutical industry continues and has considerable potential. As a member of the pharmaceutical industry, the Group will take advantage of its competitive strength, while focus on two core development strategies, namely the further development and optimization of product portfolio, and expansion and improvement of the Group's sales and marketing network, and seize any opportunities that arise to achieve long-term sustainable development in the process of industry's changes and development.

Li Xinzhou
Chairman of the Board

29 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

注射用磷酸肌酸钠 1g
里尔统® NEOTON® 1 g
注射用磷酸肌酸钠
NovaBay
纽储非®
伤口清洁液体敷料
40 mL
Made in the USA
低分子肝素钠注射液 0.3 ml 3200 I.U. aXa 2支/盒
希弗全® FLUXUM®
0.3 ml
磷酸钠盐灌肠液
匹多莫德口服液
普利莫®
POLIMOD®
ORAL SOLUTION
规格：每7毫升含匹多莫德 400mg
进口注册号：H20090934

Management Discussion and Analysis

OPERATION REVIEW

As a crucial year of comprehensively health care reform, 2015 witnessed the announcement of several government policies which have significant and far-reaching impact on China's pharmaceutical industry. The Group has made tremendous efforts to minimize the extent of such impact on the Group. However, the emergence of several events outside our control inevitably affected the Group's operating performance. For the Reporting Period, the Group's revenue decreased by 5.2% year-on-year to RMB1,460.9 million (2014: RMB1,540.4 million), gross profit decreased by 6.0% year-on-year to RMB462.6 million (2014: RMB491.9 million) and net profit for the year decreased by 33.9% year-on-year to RMB172.5 million (2014: RMB261.0 million). Excluding (i) an impairment loss of RMB41.3 million on investment in associates; (ii) an impairment loss on goodwill of RMB14.7 million; and (iii) the Group's share of loss of associates of RMB28.9 million (all of which amounted to RMB84.9 million), the adjusted net profit of the Group amounted to RMB257.4 million in 2015.

During the Reporting Period, the Group adopted measures to manage pricing policy changes for pharmaceutical products in China and also increased its promotion efforts for its products and continued to improve and refine the marketing strategy for each product. However, as the medical insurance is facing increasing cost control pressures, the overall sales growth rate of pharmaceutical products in hospitals in China experienced significant slow down in 2015 and each province accelerated its drug tender process with lower tender prices, which has had an impact on the Group's performance in pharmaceutical products segment. For the Reporting Period, revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 2.4% compared to last year to RMB464.5 million, representing 31.8% of the Group's revenue for the Reporting Period. Gross profit decreased by 5.0% compared to last year to RMB283.0 million, representing 61.2% of the Group's gross profit for the Reporting Period.

During the Reporting Period, the Group's sales of WaveLight Eagle laser surgical series were adversely affected by a suspension of tender process on large scale equipment in public hospitals, which also adversely impacted the Group's overall sales in the medical devices segment. For the Reporting Period, revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 32.7% compared to last year to RMB132.8 million, representing 9.1% of the Group's revenue for the Reporting Period. Gross profit increased by 4.2% compared to last year to RMB72.4 million, representing 15.6% of the Group's gross profit for the Reporting Period.

During the Reporting Period, the Group continued to maintain its close cooperation with Alcon, the world's largest eye care products company, via the provision of co-promotion and channel management services. The Group provides channel management services for all of Alcon's 23 pharmaceutical products sold in China and provides co-promotion services for eight of these products. For the Reporting Period, the Group's revenue generated from products sold via the provision of co-promotion and channel management services decreased by 0.4% compared to last year to RMB863.6 million, representing 59.1% of the Group's revenue for the Reporting Period. Gross profit decreased by 14.1% compared to last year to RMB107.1 million, representing 23.2% of the Group's gross profit for the Reporting Period.

1. Product Development

The Group's current product portfolio includes a number of products manufactured by small and medium-sized overseas suppliers. These products address unmet medical needs or have superior clinical profiles, improved quality or formulations, or relatively limited competition in the Chinese market. As of 31 December 2015, the Group had a product portfolio of pharmaceutical products (substantially all of which were prescription products) covering ophthalmology, pain management, cardiovascular, respiratory, gastroenterology, immunology and other therapeutic areas, and medical devices covering several medical specialties, including ophthalmology, odontology and wound care products.

1.1 Products Sold via the Provision of Comprehensive Marketing, Promotion and Channel Management Services:

Category	**2015 RMB'000**	**Percentage of the Group's total Revenue/ Gross Profit (%)**	2014 RMB'000	Percentage of the Group's total Revenue/ Gross Profit (%)
Revenue:				
Pharmaceutical Products	**464,472**	**31.8**	476,102	30.9
Medical Devices	**132,806**	**9.1**	197,251	12.8
Gross Profit:				
Pharmaceutical Products	**283,028**	**61.2**	297,791	60.5
Medical Devices	**72,430**	**15.6**	69,505	14.2

For the Reporting Period, revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 2.4% compared to last year to RMB464.5 million, representing 31.8% of the Group's revenue for the Reporting Period. Gross profit decreased by 5.0% compared to last year to RMB283.0 million, representing 61.2% of the Group's gross profit for the Reporting Period.

Sales of the Group's more mature products, such as Difene and Fluxum, maintained stable development during the Reporting Period. As one of the Group's best selling products, Difene has established a strong reputation and brand recognition in China after years of market positioning, brand building and expansion of marketing network. During the Reporting Period, although Difene's growth rate slowed down due to the changes in procurement policy in certain medical institutions which contributed to high sales volumes for Difene previously, the Group increased its efforts to expand market coverage including further enhanced management of third-party promotion partners, accelerated its network penetration into more hospitals and small-sized medical institutions, and closed certain gaps identified in the marketing area. During the Reporting Period, Difene increased its market coverage by over 750 hospitals and small-sized medical institutions. Moreover, Difene successively won bids with favourable pricing in those provinces where the local tender procedure has been completed. The Group believes that Difene still has considerable market potential in the future.

Fluxum is another one of the Group's best selling products. During the Reporting Period, despite that sales of Fluxum was adversely impacted as a result of certain medical institutions which adopted more conservative procurement plans under the current tender environment, Fluxum still achieved relatively fast development. Fluxum is the originator of parnaparin, and comes with three dosages series. The Group maximized the opportunities offered by the range of Fluxum's different dosage, and strategically carried out the market layout in a new round of drug tender process, as a result of which, the Group maintained the existing markets, explored and developed new markets, and maintained a stable pricing system. In addition, the Group consistently enhanced its cooperation with third-party promotion partners, reinforced close monitoring and effective involvement of clinical promotion of in-house marketing team, and continuously tapped into new markets, which increased the market share of Fluxum, and maintained its leading market position in the fields of similar products. During the Reporting Period, the Group increased its market coverage by over 300 new hospitals, representing a record breaking rate of hospital coverage growth over the years for Fluxum, which demonstrated a clear trend of improved layout of marketing network. The Group believes Fluxum has laid a solid foundation for fast growth in the next few years with the exploration of untapped markets and reasonable market network layout.

Polimod is the originator of pidotimod, featuring obvious advantages in quality and clinical efficacy comparing to generic drugs. The excellent efficacy and safety of Polimod are increasingly recognized and, as a result, Polimod has been increasingly recommended by doctors to patients. During the Reporting Period, by taking the advantage of the wide application of Polimod in several departments of hospitals, the Group strengthened the promotion effort in hospitals and departments covered in the network, so as to establishing a strong brand recognition in the pidotimod products field, as a result of which the proportion of sales of Polimod in retail pharmacies also increased significantly. In the second half of 2015, due to the delay in the renewal of the imported drug licence of Polimod, the Group was unable to import and sell the products, which adversely impacted on the Group's sales of Polimod. During the Reporting Period, sales of Polimod decreased by 3.1% compared to last year. At the end of 2015, new licence of Polimod with a term of five years was approved and issued. With the approval of new licence and the resumption of importing and selling activities, the Group believes that Polimod should continue to make a substantial contribution to the Group's financial performance. Besides that, after a series of discussions and negotiates during the Reporting Period, the Group entered into a supplemental agreement with the supplier, Polichem, in February 2016, pursuant to which the Group's rights to market, promote and sell Polimod has been extended from eight provinces to the whole territory of China with effect from 7 March 2016, that will further increase its contribution the Group's performance.

The Group has also firmly progressed to the development of its other products that are relatively new in the market. Neoton is creatine phosphate sodium for injection produced by Alfa Wassermann of Italy. It is primarily used for ischemic heart disease and cardiomyopathy resulting from various causes. Since the end of 2014, the Group has increased the coverage of its exclusive rights to import, sell and co-promote Neoton from five provinces to cover the entire China. During the Reporting Period, Neoton has obtained great development. The Group carried out a number of marketing initiatives for Neoton. In the new region where the Group is authorised to market and promote the product, the Group modified its marketing strategy to tailor for local conditions and implemented flexible approach to select third-party promotion partners according to the market environment in the different regions, with the aim to maximising the market coverage of the product by rapidly developing and increasing coverage over the untapped markets through effective utilization of the Group's resources in cardiovascular products and the improved management of third-party promotion partners. In addition, as the sole importer and distributor in respect of Neoton in China, the Group started to provide channel management in the region covered by co-promotion party in June 2015. The Group believes that Neoton will become an important product and bring further contribution to the Group's performance.

The Easyhaler series products include Budesonide Easyhaler and Salbutamo Easyhaler, both of which are inhalation drugs used for the treatment of asthma or chronic obstructive pulmonary disease ("COPD") in respiratory therapeutic area. Easyhaler products deliver a more scientific and standard theory and method for treatment of asthma and COPD. Since the beginning of the Reporting Period, Budesonide Easyhaler won more than 10 provincial bids included Hunan province and Zhejiang province, and Salbutamol Easyhaler was admitted to the National Low-Price Drugs List, which represents a substantial development from being admitted in limited provinces before. However, the Group's sales of Easyhaler products has been partially impacted due to the delay in the official publication of the tender results in some PRC provinces, which is still pending as of the date of this report. Easyhaler products are highly academic products in nature which require a long-term academic promotion period to augment physicians' treatment theory. During the Reporting Period, the Group continued to enhance its academic promotion efforts by organising and participating in various academic promotion conferences, and further developing the benchmarked hospitals and markets, in order to strengthen Easyhaler's brand recognition. With the further acceleration of the official execution of tender results and continuous academic promotion efforts, the Group believes that development of Easyhaler products will step up to a new level.

In 2014, the Group acquired a controlling equity stake in and restructured the debts of Covex, S.A ("Covex") and Covex, Farma S.L. (collectively referred to as "Covex Group") of Spain, which enabled the Group to obtain a stable supply of high quality Vinpocetine API at a low cost. At the end of 2015, Covex became a wholly-owned subsidiary of the Company. During the Reporting Period, certain customers' sales of Vinpocetine finished products were affected by the tender results, resulted in a decrease in demand for Vinpocetine API, which adversely affected the Group's sales of Vinpocetine API. Further, the price competition of domestic generic drugs also impacted the sale of Vinpocetine API. However, the Group continues to seek ways to increase the sales of Vinpocetine API by maintaining its close relationships with existing clients, as well as actively developing new clients, particularly those that have newly obtained the approval to manufacture Vinpocetine and potential customers who are applying for such approval. Due to aging population, the demand for anti-senile dementia products continues to be on the rise. Relying on the obvious quality advantages over domestic generic drugs and the excellent services provided to clients before and after sales, the Group believes that Vinpocetine API still has huge market potential.

In 2012, the Group started providing comprehensive marketing, promotion and channel management services for medical devices in China. After more than three years of development, the Group's medical devices portfolio has expanded from WaveLight Eagle laser surgical series to a wide range of products covering ophthalmic surgical equipment, IOL, odontology equipment and consumables and wound care products. During 2015, the Group's sales of WaveLight Eagle laser surgical series were adversely affected due to the suspension of tender process on large scale equipment in public hospitals, which also adversely impacted the Group's overall sales in the medical devices segment. For the Reporting Period, revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 32.7% compared to last year to RMB132.8 million, representing 9.1% of the Group's revenue. Gross profit increased by 4.2% compared to last year to RMB72.4 million, representing 15.6% of the Group's gross profit. The Group's sales of WaveLight Eagle laser surgical series decreased by RMB57.6 million representing a decrease of 75.0% as compared to last year to RMB19.2 million.

The Group has in the past primarily sold WaveLight Eagle laser surgical series through entering into co-operation agreements with public hospitals following a medical equipment tender process. The terms of the agreement typically provide that the Group will transfer the right of use of the equipment to the hospital and the hospital will, during the term of the agreement, purchase consumables of the equipment from the Group for an annual minimum amount. Upon expiry of the agreement term, the ownership of the equipment will be transferred to the hospital with no additional charges. During the Reporting Period, under the new policies of public hospitals, the tender process of large scale medical equipment was effectively suspended, which slowed down the progress of establishing cooperation between the Group and public hospitals. The Group also evaluated entering into similar cooperation arrangement with private hospitals but considered that private hospitals may not be able to meet any subsequent annual minimum purchase of consumables. Accordingly, the Group decided not to enter into cooperation arrangement with private hospitals in relation to WaveLight Eagle laser surgical series for the time being. However, during the Reporting Period, the Group substantially increased the sales of consumables of WaveLight Eagle laser surgical series to the hospitals with existing co-operation agreements through a series of academic promotion efforts, and achieved remarkable results.

Except for WaveLight Eagle laser surgical series products, the Group's product portfolio of medical devices covers other medical specialties including IOL, odontology equipment and consumables and wound care products. The Group will continue market development for its medical devices. As and when large scale medical equipment tender process in public hospitals resumes, the Group will seek opportunities to establish business co-operation with public hospitals nationwide. Meanwhile, the Group will also dedicate to select and sign up further medical consumables to enrich the Group's portfolio of medical devices.

NeutroPhase, a consumable among the Group's portfolio of medical devices and approved by the CFDA in September 2014, was officially launched in the market by the Group in 2015. NeutroPhase is manufactured by NovaBay Pharmaceuticals, Inc. ("NovaBay") of the United States. It is a skin and wound cleanser consisting of 0.01% pure hypochlorous acid in physiological saline solution. NeutroPhase is intended to be used to moisturize absorbable surgical dressing, wash and clean small wounds, minor burns as well as acute and chronic skin lesions, such as diabetic foot ulcers and post-operative wounds. During the Reporting Period, the Group implemented full-scale sales and marketing activities for NeutroPhase, including appointing third-party promotion partners across the country and tracking regional tender process to increase the regional penetration of NeutroPhase. Additional marketing activities included collecting feedback of clinical cases after sample trial cooperation with nearly 100 hospitals and medical institutions, organizing academic promotion activities targeted at doctors and opinion leaders in the wound care area, and initiating joint clinical studies with several renowned Class III hospitals across the nation. During the Reporting Period, the Group appointed third-party promotion partners of NeutroPhase in nearly 20 provinces and municipals, and won bids in nearly 20 cities, which covered over 50 hospitals and medical institutions (including over 20 Class III hospitals) in these cities. A large number of clinical cases received positive feedback from doctors and experts in the wound care area. In June and August 2015, the Group respectively provided a large volume of free NeutroPhase to victims who suffered burns in the explosion at the Formosa Water Park in New Taipei City in Taiwan and at Tanggu, Binhai new area in Tianjin, which accelerated their wound healing process and prevented the risk of fatal infections. Academic promotion efforts and clinical studies help establishing the brand recognition of NeutroPhase in wound care area, and lay solid foundation for the sales growth of the product. As a brand new medical device product in the wound care area, NeutroPhase does not have the corresponding charge codes in hospitals, which in turn adversely impacted the sales of NeutroPhase. Currently, the Group is working to resolve this issue as soon as possible in some key provinces. With the gradual resolution of the charge code issue, the Group believes that NeutroPhase would become a significant contributor to the Group's performance.

1.2 Products Sold via the Provision of Co-Promotion and Channel Management Services:

Category	2015 RMB'000	Percentage of the Group's total Revenue/ Gross Profit (%)	2014 RMB'000	Percentage of the Group's total Revenue/ Gross Profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**863,621**	**59.1**	867,045	56.3
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**107,119**	**23.2**	124,653	25.3

The Group is the sole provider of channel management services for all of Alcon's ophthalmic pharmaceutical products in China, and also provides co-promotion services for eight products of Alcon.

During the year of 2015, Alcon adjusted its business strategy in China through implementing a number of internal measures, which resulted in temporary fluctuation on marketing and promotion of Alcon's pharmaceutical products. Moreover, the slow down of the overall sales growth rate of ophthalmic pharmaceutical products in China and a reduction of the products' prices in certain provinces following the tender process have impacted the sales of Alcon's ophthalmic pharmaceutical products. For the Reporting Period, the Group's revenue generated from the sales of Alcon series ophthalmic pharmaceutical products was RMB863.6 million, representing a decrease of 0.4% as compared to last year, and contributed 59.1% of the Group's revenue. Gross profit was RMB107.1 million, representing a decrease of 14.1% as compared to last year and contributing 23.2% of the Group's gross profit. It is the Group's aim to maintain its close co-operation and working along with Alcon as a long-term partner, to further enhance the Group's efforts to co-promote the eight Alcon's products, and to work together to respond to the changes in the China's ophthalmic product market. Due to aging population and lifestyle changes, the incidence of ophthalmic diseases continues to be on the rise. This has led to significant increase in market demand for ophthalmic pharmaceutical products. The co-promotion and channel management services the Group provides for Alcon's ophthalmic pharmaceutical products is expected to enjoy sustained development in these favourable macroeconomic trends.

1.3 Product Pipeline Development

The Group actively seeks prospective product candidates for marketing, promotion and sales from overseas pharmaceutical and medical device companies. In addition to the existing products referred to above, product pipeline development is also at the core of the Group's strategy of expanding and optimizing its product portfolio. The Group's aim is to build up a product pipeline that would sustain the Group's long-term growth. When selecting prospective product candidates, the Group considers factors such as clinical features, competitive environment, registration and regulatory regime and reputation of suppliers.

During the Reporting Period, the Group entered into a supplemental agreement to the exclusive distribution agreement with Biocer, an innovative German medical device company, which develops, manufactures and markets products for biological surgical implants. The Group will distribute Biocer's TiO_2Mesh™Bra product on an exclusive basis in China following the relevant product registration. The product is an innovative surgical mesh implant for breast reconstruction after mastectomy. The product will greatly improve the efficacy for breast reconstruction since the biocompatibility (due to its pure titanium oxidecoating) provides improved implant in growth, and its hydrophilic surface supports connective tissue attachment and provides optimal mesh structure for biodynamic stress-strain characteristic. The fast growing surgical implant market in China offers significant potential for the development of both Biocer and the Group.

During the Reporting Period, the sales of WaveLight Eagle laser surgical series, the Group's ophthalmic medical devices, decreased noticeably due to a suspension of tender process on large scale equipment in public hospitals. The Group actively seeks appropriate products to expand the ophthalmic medical devices product portfolio. After a series of negotiations during the Reporting Period, the Group entered into a framework agreement with Inami of Japan in January 2016, pursuant to which the Group was granted the exclusive marketing, promotion and channel management rights with respect to Inami ophthalmic medical devices marketed under the "Inami" brand in China. Inami is a Japanese manufacturer of surgical instruments, diagnostic instruments and clinical equipment. The company has more than 100 products which are sold in more than 50 countries and regions globally. Its main products include synoptiscopes, ophthalmic surgery microscopes, trial frames and lenses, slit lamps, phoroptors and certain ophthalmic surgical instruments. As the first step, the Group will market and sell Inami's synoptiscopes and certain of its ophthalmic surgical instruments which have been registered in China. Synotiscopes are designed for diagnosis and treatment of binocular vision (strabismus and amblyopia). The ophthalmic surgical instruments is designed for ophthalmic diagnosis and surgical purposes.

During the Reporting Period, with the great changes on review and approval polices for healthcare products in China, the Group appropriately adjusted its pipeline products' strategy in accordance with the new policies and re-streamline the pipeline products. Through a comprehensive evaluation on several factors such as registration cost and benefits and future market potential of the pipeline products, the Group retains over 10 products to continue its process of registering or preparing the registration application with the CFDA. The Group expects to leverage on its current network of third-party promotion partners, distributors, key opinion leaders and marketing channels to launch these pipeline products promptly once approvals are obtained. The description of the key products in the product pipeline is summarized as follows:

STARflo glaucoma implant is produced by iSTAR Medical of Belgium. It is a non-degradable, precision-pore implant made from Healionics' proprietary silicone STAR biomaterial technology. The product is designed to operate as a blebfree, micro-porous drainage system to reduce intraocular pressure of the patients suffering from open angle glaucoma by augmenting the eye's natural uveoscleral outflow. During the Reporting Period, after received the updated materials from supplier in relation to the upgrade of the product. The Group is now preparing for the registration application to the CFDA for STARflo and expects to submit the application in 2016.

Mirtazapine is produced by Ehypharm of France. It is mainly used for the treatment of depressive episodes. It can dissolve in mouth and be absorbed quickly without drinking water, suitable for patients suffering from psychosis, dementia or epilepsy or the elderly or children. The Group submitted the registration application to the CFDA for Mirtazapine in January 2011 and obtained clinical trial approval in the second half of 2015.

Quetiapine fumarate is a new type of antipsychotic drug produced by Orion of Finland. It is applicable to the treatment of schizophrenia and moderates to severe manic episodes of bipolar disorder. It is also effective for alleviating both the positive symptoms and negative symptoms of schizophrenia. The Group submitted the registration application to the CFDA for Quetiapine fumarate in August 2011 and obtained clinical trial approval in the second half of 2015.

2. Marketing Network Development

In addition to the expansion of product portfolio, the Group's development strategy focuses on continuously expanding the Group's marketing network. The Group's marketing and promotion model comprises of in-house marketing team and a team of third-party promotion partners. To maintain the efficiency and stability of marketing network, the Group has established sales and product manager teams to manage and support third-party promotion partners. The Group's marketing and promotional activities are carried out by in-house team and third-party promotion partners. The in-house team is primarily responsible for formulating the marketing and promotion strategies, conducting selected marketing programmes, and appointing, training and supervising the third-party promotion partners, who are responsible for most of the day-to-day marketing and promotional activities for the Group's products. The Group's marketing and promotion model leverages on the broad experience and geographic reach of the third-party promotion partners which enables the Group to market and promote a diverse range of healthcare products across different regions in China. This model also allows the Group to extend geographic coverage, maintain operational flexibility and reduce fixed and overall marketing and promotion costs.

In the second half of 2014, the Group restructured the business organization in order to further strengthen the building of professional in-house marketing team, business control and refine management of third-party promotion partners. The Group established business units divided by different products or products series. Each product business unit is led by its own general manager or director, and supported by dedicated sales, market, business and financial team, and each team carries out its own marketing, promotion and sales work for products assigned to it.

After over a year of adjustments and running-in, with numerous improvements and modifications, the new organization structure has shown obvious results in building the professional in-house team and enhancing the management of third-party promotion partners. In terms of building the professional in-house team, each business unit has developed their own in-house marketing team through internal reorganization of human resources as well as recruitment of new talent externally, and provided targeted training around their respective responsible products so as to create a professional team in the field of their products. In addition, the Group further strengthened the direct involvement of its in-house marketing team in marketing activities, such as providing products' knowledge training on a regular basis to third-party promotion partners and expanding network of key opinion leaders in key therapeutic area through organizing and participating in various medical or pharmaceutical conferences, symposiums and product seminars, to ensure that accurate messages are delivered to physicians in time. In terms of enhancing the management of third-party promotion partners, the business units have overhauled the structure and introduced detailed management and performance review process for third-party promotion partners. In addition, the in-house marketing team has reinforced the training and support given to third-party promotion partners to improve the quality and widen the market coverage to ensure that any gaps in the market identified are filled and products' potential are fully realized. During the Reporting Period, the Group's mature products such as Difene, increased its market coverage by over 750 new hospitals and medical institutions, and Fluxum increased its market coverage by over 300 new hospitals, representing a record breaking rate of hospital coverage growth over the years. The Group's products that are relatively new in the market, such as Neoton, increased market coverage by over 30 new hospitals, and NeutroPhase, the new product launched in 2015, increased market coverage by over 50 hospitals.

Amid the fast changing pharmaceutical policies and market conditions, the Group's policies on resource allocation, assignment of responsibility to business unit by product, prudent financial budget and performance management, each of which helps promote the Group's operational efficiency, will continue to play an important role for the continual development of the Group. As of 31 December 2015, the Group sold products through its nationwide marketing, promotion and channel management services networks to over 29,500 hospitals and other medical institutions and over 106,000 pharmacies across all provinces, municipalities and autonomous regions in China.

3. Significant Investment

Investment in Covex Group

Covex Group, refers to two Spanish companies, Covex and Covex, Farma S.L, engages in the chemical and pharmaceutical business and manufactures API raw materials, pharmaceutical products and dietary supplements. In 2014, Pioneer Pharma (Singapore) Pte. Ltd. ("Pioneer Singapore"), a wholly-owned subsidiary of the Company, acquired an aggregate of 68.6% of the equity interest in Covex Group for a total consideration of EUR4.36 million. In addition, Pioneer Singapore also acquired certain debts ("Debts") with an aggregate face value of EUR18.6 million for a consideration of EUR7.0 million. For details, please refer to the announcement of the Company dated 2 July 2014.

In September 2015, Covex conducted equity restructuring and Pioneer Singapore converted all the Debts into shares of Covex. After the completion of the restructuring, Pioneer Singapore held 100% equity interest in Covex. Furthermore, in December 2015, Covex acquired the entire shareholding of Covex Farma, S.L, and Covex Farma, S.L was subsequently dissolved and extinguished. After the completion, as of 31 December 2015, the Group through Pioneer Singapore held 100% equity interest in Covex.

The Group purchases Vinpocetine API from the Covex Group. Vinpocetine API is currently one of the key products of the Group. The Group believes that the investment will enable the Group to obtain a stable supply of high quality Vinpocetine API at a low cost.

For the Reporting Period, the Group recognised an impairment loss of goodwill of RMB14.7 million in relation to Covex Group. The Group has determined the recoverable amount on the basis of value in use calculations.

Investment in NovaBay

NovaBay is a biopharmaceutical company developing products for the eye care market incorporated in Delaware, United States, and currently focuses primarily on commercializing prescription Avenova® for managing hygiene of the eyelids and lashes in the United States. Its shares are traded on the New York Stock Exchange. The Group commenced its business relationship with NovaBay in 2012 and obtained the exclusive rights to market, promote and sell NovaBay's NeutroPhase products in China and certain Southeast Asia markets in the same year.

The Group entered into a securities purchase agreement with NovaBay on 6 March 2015, pursuant to which the Group purchased 2,590,000 ordinary shares of NovaBay, 2,590,000 unit of warrants with an expiry date of 5 June 2016 ("Warrant A") and 1,942,500 unit of warrants with an expiry date of 5 September 2020 ("Warrant B") for a total consideration of US$1,554,000 (equivalent to approximately RMB9,561,000). In December 2015, NovaBay changed the expiry date of each of Warrant A and Warrant B to 5 March 2020. The Group believes that this investment will allow the Group to enhance its business relationship with NovaBay and to provide for future opportunities to cooperate with NovaBay.

As of 31 December 2014, the Group held a total of 7,613,812 ordinary shares of NovaBay, representing approximately 14.7% equity interest in NovaBay. On 6 March 2015, the Group further subscribed for 2,590,000 ordinary shares of NovaBay and subsequent to the subscription, the Group held a total of 10,203,812 ordinary shares of NovaBay, representing approximately 16.7% equity interest in NovaBay. In May and October 2015, NovaBay issued shares to various other investors and the Group's interest in NovaBay was diluted to 11.71%. In December 2015, NovaBay consolidated its shares on a 25 for one basis and following which the Group held a total of 408,152 ordinary shares of NovaBay, representing approximately 11.71% equity interest. For the year ended 31 December 2015, the Group recognised an impairment loss on investment in NovaBay of RMB41.3 million. The recoverable amount of investment in associates has been determined based on the quoted market price. In addition, the Group recognised share of loss of NovaBay of RMB11.6 million.

With effect from 10 April 2015, Mr. Li Xinzhou was appointed as a director of NovaBay. The Directors consider that the Group can exercise significant influence over NovaBay.

In February 2016, the Group acquired further shares in NovaBay. Please refer to the note 42 to the consolidated financial statements for details.

Investment in Q3

Q3 Medical Devices Limited ("Q3") is a holding company registered in Ireland, and QualiMed Innovative Medizinprodukte GmbH ("QualiMed") and amg International GmbH ("AMG") are each a wholly-owned subsidiary of Q3.

QualiMed is a company incorporated in Germany, specializing in the design, development and manufacturing of medical devices. The Group entered into the first supply agreement with QualiMed in 2013 and obtained the exclusive rights to market, promote and sell QualiMed's TsunaMed products, which are medical devices used for the treatment of vascular diseases, in China and certain Southeast Asia markets. AMG is a company incorporated in Germany, which sells coronary and peripheral vascular products.

To further enhance the business co-operation with QualiMed and to improve the Company's prospects of renewing or extending the exclusive right granted by QualiMed for certain products, the Group has completed several rounds of investments towards Q3 since 2013 through its wholly-owned subsidiary, Pioneer Singapore. During the Reporting Period, the Group converted a loan of a principal amount of EUR1,500,000 (equivalent to approximately RMB9,778,000) into 26,354 ordinary shares of Q3. The Group also further subscribed for 19,500 ordinary shares of Q3 for a total consideration of approximately EUR1,500,000 (equivalent to approximately RMB10,044,000).

As of 31 December 2015, the Group held a total of 148,165 ordinary shares of the issued share capital of Q3, representing approximately 36.57% (31 December 2014: 32.99%) of the issued share capital of Q3. For the year ended 31 December 2015, the Group recognised share of loss of Q3 of RMB17.1 million.

DISPOSAL OF A SUBSIDIARY

Subsequent to the completion of the acquisition of Shenyang Zhiying Pharmaceutical Co., Ltd ("Shenyang Zhiying") on 30 December 2014, the Group was unable to reach consensus with Shenyang Huachuang Investment Company Limited, which holds 49% equity interest in Shenyang Zhiying, on the future strategic direction of the Shenyang Zhiying including but not limited to the proposed termination of certain distribution agreements signed by Shenyang Zhiying. The Group take the view that as a result of the difference in opinion, it would be impossible or extremely difficult to integrate Shenyang Zhiying into the Group successfully in a timely manner and therefore the previously expected benefits of the acquisition will be materially and substantially undermined. On 13 March 2015, the Group through its wholly-owned subsidiary and Dianbai County Fuhong Investment Co., Ltd. entered into a share transfer agreement, pursuant to which 51% equity interest in Shenyang Zhiying was disposed at the same consideration as stipulated under the share acquisition agreement dated 19 November 2014. The share transfer was completed on 18 March 2015.

For further details, please refer to the announcement of the Company dated 13 March 2015.

FUTURE AND OUTLOOK

Looking forward, China health care market has entered into a crucial phase of a comprehensive structural reform. With the frequent announcement of policies relating to pharmaceutical industry, such as drug's pricing mechanism, control of drug's usage amount, and compliance in drug's sales channel, China's pharmaceutical industry as a whole is undergoing unprecedented changes. However, changes will also bring opportunities. Overall, China's pharmaceutical industry is still experiencing rapid growth. The Group will further position its role in the China's pharmaceutical industrial chain and dedicate to provide marketing, promotion and channel management service for imported pharmaceutical products and medical devices in China. The Group will also focus on two core development strategies, namely further development and optimization of product portfolio, and expansion and improvement of marketing network. The Group will take advantage of its competitive strength and seize any opportunities that arise to achieve sustainable development.

The Group will continue to proactively select products with high growth potential and add more prospective products to its portfolio. Meanwhile, the Group will continue to improve its sales and marketing network, further strengthen the building of professional in-house team and enhance the management of third-party promotion partners, tap into the unfilled market for potential products and while increase market share in existing market for matured products, so as to optimize the Group's marketing resources and maximize the products' market value.

FINANCIAL REVIEW

Revenue

Revenue decreased by 5.2% from RMB1,540.4 million in 2014 to RMB1,460.9 million in 2015. Revenue generated from products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 11.3% from RMB673.4 million in 2014 to RMB597.3 million in 2015, primarily due to (i) sales of medical device product WaveLight Eagle laser surgical series decreased RMB57.6 million, representing a decrease of 75.0% as compared to last year, due to a suspension of tender process on large scale equipment in public hospitals; and (ii) sales of Polimod decreased by 3.1% due to the delay in the renewal of the imported drug licence. Revenue generated from products sold via the provision of co-promotion and channel management services slightly decreased by 0.4% from RMB867.0 million in 2014 to RMB863.6 million in 2015, primarily due to Alcon adjusted the business strategy in China through taken a number of internal measures which resulted in temporary fluctuation on marketing and promotion of Alcon's pharmaceutical products.

Cost of sales

Cost of sales decreased by 4.8% from RMB1,048.4 million in 2014 to RMB998.3 million in 2015, primarily due to a decrease in sales volume. Cost of sales for products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 21.0% from RMB306.1 million in 2014 to RMB241.8 million in 2015. Cost of sales for products sold via the provision of co-promotion and channel management service increased by 1.9% from RMB742.4 million in 2014 to RMB756.5 million in 2015.

Gross profit and gross profit margin

Gross profit decreased by 6.0% from RMB491.9 million in 2014 to RMB462.6 million in 2015. The Group's average gross profit margin slightly decreased from 31.9% in 2014 to 31.7% in 2015. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased from 62.5% in 2014 to 60.9% in 2015, primarily due to a decrease in the bid price of some pharmaceutical products in certain regions compared to last year. The Group's gross profit margin for medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased from 35.2% in 2014 to 54.5% in 2015, primarily due to a higher proportion of revenue being derived from medical devices products that generate higher margins. The Group's gross profit margin for products sold via the provision of co-promotion and channel management services decreased from 14.4% to 12.4% in 2015, primarily due to certain level of decline in bid price of products in several regions.

Other income

Other income increased by 51.7% from RMB51.4 million in 2014 to RMB77.9 million in 2015, primarily due to an increase in the amount of government grants. The government grants increased from RMB9.4 million in 2014 to RMB31.7 million in 2015, represented additional grants received by the Group's wholly-owned subsidiary Naqu Area Pioneer Pharma Co., Ltd ("Naqu Pioneer") and Xiantao City Pioneer Pharma Co., Ltd in respect of taxes paid pursuant to local government's policies to encourage local business operations.

Distribution and selling expenses

Distribution and selling expenses decreased by 11.3% from RMB152.7 million in 2014 to RMB135.4 million in 2015, primarily due to a decrease of third-party promotional expenses with the decrease in revenue and a decrease in distribution and selling expenses in respect of mature products. Distribution and selling expenses as a percentage of revenue slightly decreased from 9.9% in 2014 to 9.3% in 2015.

Administrative Expenses

Administrative expenses increased by 15.5% from RMB57.8 million in 2014 to RMB66.7 million in 2015, primarily due to (i) certain pipeline products stop the registration process according to the adjustment of healthcare products of CFDA, which resulted in one-time amortization of the registration fee; and (ii) an increase of intermediary consulting fee due to participated merger & acquisition projects. Administrative expenses as percentage of revenue increased from 3.8% in 2014 to 4.6% in 2015.

Finance costs

Finance costs increased by 41.1% from RMB14.1 million in 2014 to RMB20.0 million in 2015, primarily due to an increase in bank loans which result in increased interest payment.

Other gains and losses

Other gains and losses were decreased from gain of RMB1.4 million in 2014 to loss of RMB82.7 million in 2015, primarily due to the Group made impairment loss on investments in NovaBay and on goodwill in Covex totally amounting to RMB56.0 million, and the increase in the foreign exchange loss for the borrowings denominated in foreign exchange due to the depreciation of Renminbi during the second half of 2015.

Income tax expense

Income tax expense decreased by 21.6% from RMB43.7 million in 2014 to RMB34.3 million in 2015. The Group's effective income tax rate in 2015 and 2014 was 15.2% and 14.4%, respectively. Since the beginning of 2012, the Group has been conducting business primarily through Naqu Pioneer, which was subject to a reduced EIT rate of 9%. Income tax expense in 2015 included the recognition of RMB6.5 million of PRC withholding tax pursuant to the payment of an interim dividend of RMB75.3 million and proposed payment of a final dividend of RMB47.5 million.

Profit for the year

As a result of the above factors, the Group's profit decreased by 33.9% from RMB261.0 million in 2014 to RMB172.5 million in 2015. Excluding (i) an impairment loss of RMB 41.3 million on investment in associates; (ii) an impairment loss on goodwill of RMB14.7 million; and (iii) the Group's share of loss of associates of RMB28.9 million (all of which amounted to RMB84.9 million), the adjusted net profit of the Group amounted to RMB257.4 million in 2015. The Group's net profit margin decreased from 16.9% in 2014 to 11.8% in 2015.

Liquidity and Capital Resources

Cash Position

The Group has historically met its working capital and other capital requirements principally from net cash flow supplemented by bank borrowings. The Group's cash and cash equivalents increased from RMB260.8 million as of 31 December 2014 to RMB317.1 million as of 31 December 2015.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2015:

	For the year ended 31 December	
	2015 RMB'000	2014 RMB'000
Net cash from (used in) operating activities	304,690	(17,778)
Net cash from (used in) investing activities	420,938	(348,694)
Net cash from (used in) financing activities	(671,574)	(70,996)
Net increase (decrease) in cash and cash equivalents	54,054	(437,468)
Cash and cash equivalent at beginning of the year	260,834	702,073
Effect of foreign exchange rate changes	2,225	(3,771)
Cash and cash equivalents at end of the year	317,113	260,834

Net cash from (used in) operating activities

In 2015, the Group's net cash from in operating activities was RMB304.7 million compared to net cash used in operating activities of RMB17.8 million in 2014. This was mainly due to strengthen accounts receivable collection efforts and reduce unnecessary marketing expenses.

Net cash from (used in) investing activities

In 2015, the Group's net cash from investing activities was RMB420.9 million compared to net cash used in investing activities of RMB348.7 million in 2014. This was mainly due to redemption to trust investment funds and withdrawal of pledged bank deposits.

Net cash from (used in) financing activities

In 2015, the Group's net cash used in financing activities was RMB671.6 million compared to net cash from financing activities of RMB71.0 million in 2014. This was mainly due to repayment of bank loans.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB285.9 million as at 31 December 2015 compared to RMB610.4 million as at 31 December 2014. On 31 December 2015, the effective interest rate of the Group's bank borrowings was ranging from 1.01% to 4.97%, and 56.0% of the Group's bank borrowings were denominated in Renminbi while 44.0% were denominated in US Dollars. On 31 December 2015, bank borrowings of RMB285.9 million were secured under the pledge of the Group's bills receivables, trade receivables and bank deposits. On 31 December 2014, bank borrowings of RMB520.4 million were secured by the pledge of the Group's bank deposits trade receivables and bills receivables. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 15.7% as at 31 December 2015 compared to 23.9% as at 31 December 2014.

Net Current Assets

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Current Assets		
Inventories	**663,249**	619,969
Finance lease receivables	**21,720**	18,604
Trade and other receivables	**420,366**	576,046
Trust investments	**–**	10,000
Amounts due from related parties	**1,296**	7,370
Tax recoverable	**475**	–
Prepaid lease payments	**52**	52
Derivative financial instrument	**251**	–
Pledged bank deposits	**112,968**	518,374
Bank balances and cash	**317,113**	260,834
	1,537,490	2,011,249
Current Liabilities		
Trade and other payables	**471,690**	473,700
Amounts due to related parties	**–**	35,204
Tax liabilities	**14,778**	14,741
Bank and other borrowings	**285,935**	610,416
Provision	**1,870**	4,715
Derivative financial instrument	**–**	83,087
Obligations under finance lease	**1,943**	690
	776,216	1,222,553
Net Current Assets	**761,274**	788,696

As of 31 December 2015, the Group has sufficient working capital and financial resources for daily operations.

Inventories

The Group's inventory balances increased 7.0% from RMB620.0 million as at 31 December 2014 to RMB663.2 million as at 31 December 2015, primarily due to the increase in inventories to those products whose registration certificates were due for renewal.

Trade and Other Receivables

The Group's trade and other receivables decreased 27.0% from RMB576.0 million as at 31 December 2014 to RMB420.4 million as at 31 December 2015, primarily due to the decrease of revenue and strengthen accounts receivable collection efforts, trade receivables turnover days increased from 73.0 days as at 31 December 2014 to 89.4 days as at 31 December 2015, primarily due to the decrease of revenue and the large balance of accounts receivable at the beginning of the year.

Trade and Other Payables

The Group's trade and other payables decreased 0.4% from RMB473.7 million as at 31 December 2014 to RMB471.7 million as at 31 December 2015. The Group's trade payables turnover days increased from 123.7 days as at 31 December 2014 to 149.5 days as at 31 December 2015, primarily due to extended payment terms granted for certain products as a result of the Group's bulk purchases.

Capital Expenditure

The following table sets out our capital expenditure for the periods indicated:

	For the year ended 31 December	
	2015 RMB'000	2014 RMB'000
Purchases of property, plant and equipment	**6,149**	39,477
Purchases of intangible assets	**1,600**	6,314
Total	**7,749**	45,791

Indebtedness

The table below summarizes the maturity profile of the Group's non-derivative financial liabilities as of the dates indicated, based on undiscounted contractual payments:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
As of 31 December 2015			
Bank borrowings	**285,935**	**–**	**285,935**
Trade payables	**425,977**	**101**	**426,078**
As of 31 December 2014			
Bank borrowings	610,416	–	610,416
Trade payables	391,730	21	391,751

Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2015.

Market Risks

The Group is exposed to various types of market risks, including interest rate fluctuation risk, foreign exchange risk and credit risk in the normal course of business, such as the increase in the Group's financing cost for the borrowings denominated in foreign exchange due to the depreciation of Renminbi during the second half of 2015.

Dividend

For the year ended 31 December 2015, the aggregate amount of the interim dividend of 2015 and the final dividend of year ended 31 December 2014 was respectively RMB75.3 million and RMB112.5 million. The Board resolved to recommend the payment of a final dividend of RMB3.6 cents per share, subject to the approval of the Shareholders in the forthcoming AGM to be held on 20 May 2016. The final dividend is expected to be paid to the Shareholders on 2 June 2016. It will be paid in Hong Kong dollars, such amount is to be calculated by reference to the middle rate last published by People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 24 May 2016.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2015, the Group had a total of 386 employees. For the year ended 31 December 2015, the staff costs of the Group was RMB51.8 million as compared to RMB52.5 million for the year ended 31 December 2014.

The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, the inflation level, corporate operating efficiency and employee performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary reviews and promotional assessments. The Group's employees are considered for annual bonuses according to certain performance criteria and appraisals results. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service.

In addition, the Company adopted a Share Award Scheme (the "Share Award Scheme") to recognise the contribution by certain employees including Directors and senior management of the Group, and to provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group. Please refer to the section headed "Share Award Scheme" of the "Report of Directors" for further details.

Director and Senior Management

EXECUTIVE DIRECTORS

LI Xinzhou (李新洲), aged 53, is our chairman and executive Director as at the date of this annual report. Mr. Li is the founder of our Group and joined Pioneer Pharma Shareholding Company Limited ("Pioneer Pharma"), our initial corporate entity, in July 1996 as its general manager and chairman, responsible for managing the operations and planning and formulating our Group's strategies. Mr. Li has over 19 years of experience in the pharmaceutical services industry. Under Mr. Li's leadership, our Group has received numerous awards and recognitions. In addition, Mr. Li has been the Asia-Pacific advisor to the board of directors of NovaBay since October 2012, one of our suppliers and also a company in which we held approximately 11.7% equity interest as at the 31 December 2015, providing his vision and strategic thinking for the entry of NovaBay's products into China and Southeast Asia markets as well as thoughts with respect to the collaboration between NovaBay and our Group. With effect from 10 April 2015, Mr. Li was appointed as a director of NovaBay. Mr. Li has become the chairman of the board of Covex since July 2014, one of our suppliers and also a wholly-owned subsidiary of our Group. Mr. Li is a director of Pioneer Pharma (BVI) Co., Ltd. and Tian Tian Limited, each being a substantial shareholder of the Company.

Mr. Li also has over 22 years of experience in international trading and management. Prior to joining our Group, Mr. Li worked at the Hainan branch of Sumitomo Corporation. From August 1984 to August 1988, Mr. Li worked as an English translator at China Offshore Oil Nanhai West Corporation (中海油南海西部公司) and from July 1981 to August 1984, he worked as an English teacher at Jianghan Oil Field Dongfanghong High School (江漢油田東方紅學校). Mr. Li had held various positions in trade associations throughout the years. He was the vice chairman of the Hainan General Chamber of Commerce (海南省總商會) and the standing vice president of Hainan Hubei Chamber of Commerce (海南省湖北商會). He had also served as a member of the Chinese People's Political Consultative Conference Hainan Committee (海南省政協). Mr. Li graduated from Jianghan Petroleum Normal School (江漢石油師範學校) with a diploma in English in July 1981. He also studied at the China Europe International Business School (中歐國際工商學院). Mr. Li is also the chairman of Nomination Committee.

WANG Yinping (王引平), aged 54, is our executive Director and chief executive officer as at the date of this annual report. Mr. Wang joined our Group in January 2015. Mr. Wang is very experienced in corporate management. He joined Sinochem Import and Export Corporation (中國化工進出口總公司) (now known as China Sinochem Group Corporation (中國中化集團公司), "Sinochem Group") in 1987. Since then, he had taken various senior positions within the group of Sinochem Group until 2014, when he resigned as the vice president of Sinochem Group. During the 27 years he spent with Sinochem Group, Mr. Wang had taken the following major positions. From 1988 to 1992, Mr. Wang was the vice general manager of Sinochem Group Hainan Company (中化集團海南公司). From 1993 to 1997, he was the general manager of Sinochem Group Pudong Company (中化集團浦東公司). From 1997 to 1998, he was the vice general manager of China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信托有限公司), a member company of the group of Sinochem Group. From 1998 to 1999, he was the general manager of the human resources department of Sinochem Group. During this period, he was also the vice president of Sinochem Group. From 2001 to 2004, he was the general manager of Sinochem International Trade Co., Ltd. (中化國際貿易股份有限公司) (now known as Sinochem International Corporation (中化國際(控股)股份有限公司), a company listed on the Shanghai Stock Exchange with the stock code of 600500. During the same period, he was also the director of the board of Bank of Communications Co., Ltd. (交通銀行股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the stock code of 3328 and on the Shanghai Stock Exchange with the stock code of 601328. In 2005, he was re-appointed as the vice president of Sinochem Group. During 2010 to 2014, he was also the chairman of the board of China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司), the chairman of the board and general manager of Sinochem Lantian Co., Ltd. (中化藍天集團有限公司), and the chairman of the board of Zhejiang Int'l Group Co., Ltd (浙江英特集團股份有限公司), a company listed on the Shenzhen Stock Exchange with the stock code of 000411. Mr. Wang graduated from Renmin University of China (中國人民大學) with a bachelor's degree in law in 1985. He also received an MBA degree from China Europe International Business School (中歐國際工商學院) in 2004.

ZHU Mengjun (朱夢軍), aged 45, is our executive Director and chief financial officer. Mr. Zhu joined our Group in March 1998 and served as Pioneer Pharma's chief accountant and manager of finance department between 1998 and 2002. Mr. Zhu was appointed as the chief financial officer of Pioneer Pharma in February 2002, the deputy general manager in January 2004 and a director of Pioneer Pharma in August 2006. He is responsible for the financial and accounting management of our Group.

Mr. Zhu has over 19 years of experience in accounting and corporate finance. Prior to joining our Group, Mr. Zhu worked at Shanghai Yangtze Non-ferrous Metals Co., Ltd. (上海長江有色金屬有限公司). Mr. Zhu obtained a master's degree of professional accountancy in The Chinese University of Hong Kong in December 2007. Mr. Zhu was awarded a certificate of accounting professional (mid-level) by Shanghai Hongkou Finance Bureau (上海市虹口財政局) in September 2002 and has been a member of the Shanghai Institute of Certified Public Accountants (上海市註冊會計師協會) since April 1998.

NON-EXECUTIVE DIRECTOR

WU Mijia (吳米佳), aged 42, is our non-executive Director. Mr. Wu joined our Company in October 2013. Mr. Wu has over 12 years of experience in finance and investment. He has been the managing director of Shanghai Ceton Investment Management (上海策通投資管理有限公司) since June 2008. Prior to that, Mr. Wu served as a director at UBS AG, Hong Kong Branch between May and August in 2007 and a vice president at BNP Paribas Hong Kong between September 2005 and December 2006. He was an assistant vice president at ABN AMRO Bank (China) Co., Ltd. where he worked between October 2002 and June 2005. Mr. Wu graduated from Guangdong University of Foreign Studies (廣東外語外貿大學) with a bachelor's degree in international business in June 1996. Mr. Wu obtained a master's degree in business administration in the Manchester Business School of University of the Manchester in June 2001 and an executive master's degree in business administration in Cheung Kong Graduate School of Business (長江商學院) in October 2012. Mr. Wu is a member of the Audit Committee and a member of the Remuneration Committee.

INDEPENDENT NON-EXECUTIVE DIRECTORS

XU Zhonghai (徐中海), aged 54, is our independent non-executive Director. Mr. Xu joined our Company in October 2013. Mr. Xu has been a professor in chemistry at Yueyang Vocational Technical College (岳陽職業技術學院) since March 1998. Prior to that, Mr. Xu worked at Tibet Autonomous Region Health Department (西藏自治區衛生廳) until March 1998, mainly responsible for management of professional medical staff and assessment of medical technical qualification, and a chief inspector at Tibet Autonomous Region Health and Epidemic Prevention Station (西藏自治區衛生防疫站) starting in March 1989, mainly responsible for inspection of environmental sanitation and food hygiene. From July 1986 and March 1989, Mr. Xu worked as a teacher at Tibet Autonomous Region Nyingchi Area Middle School (西藏自治區林芝地區中學). Mr. Xu graduated from Hunan Normal University (湖南師範大學) with a bachelor's degree in chemistry in July 1986 and a master's degree in analytical chemistry in January 2008. Mr. Xu was awarded a professor title by Hunan Province Human Resources Department (湖南省人事廳) in November 2008. Mr. Xu is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee.

LAI Chanshu (賴展樞), aged 68, is our independent non-executive Director. Mr. Lai joined our Company in October 2013. Mr. Lai is experienced in the pharmaceutical industry. He worked as the general manager Taiwan market at Alcon Pharmaceuticals Ltd. (愛爾康藥品(股份)公司) between January 1975 and February 2002. Mr. Lai graduated from Taipei Medical University (臺北醫學大學) with a bachelor's degree in pharmacy in June 1971. Mr. Lai has been a registered pharmacist registered with the Department of Health of Republic of China (中華民國行政院衛生署) since April 1972. Mr. Lai is a member of the Remuneration Committee and a member of the Nomination Committee.

WONG Chi Hung, Stanley (黃志雄), aged 53, is our independent non-executive Director. Mr. Wong joined our Company in October 2013. Mr. Wong has experience in auditing, accounting and financial advisory services. He was appointed as the director of KBS Fashion Group Limited (formerly known as Aquasition Corp.), a company listed on the NASDAQ (stock quote: KBSF) since August 2014 and resigned on 15 March 2015. He has been an independent non-executive director of Great Wall Motor Company Limited, a company listed on the Stock Exchange (stock code: 2333) and Shanghai Stock Exchange (stock code: 601633) since November 2010. Mr. Wong has served as a chief financial officer of Hongri International Holdings Company Limited (紅日國際控股有限公司) since November 2009. He served as a chief executive officer of China Biologic Products, Inc. between March 2007 and May 2008 and a consultant of the same company between June 2008 and December 2008. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor's degree in accounting from University of Kent (肯特大學) and an EMBA from Peking University (北京大學). He is also a qualified independent director recognised by the Shanghai Stock Exchange. Mr. Wong is the chairman of the Audit Committee.

SENIOR MANAGEMENT

HUANG Wenfei (黃文斐), aged 46, is our general manager of ophthalmology business unit. Ms. Huang joined our Group in 1998 and worked as a manager of our commerce department between 1998 and 2004 and a sales director in 2004. She was appointed as our deputy general manager in October 2004 and a director of Pioneer Pharma in April 2011, responsible for various aspects of our business, including human resources, administration, product registration, purchase, logistics, product quality, commerce and government affairs. In September 2014, Ms. Huang was promoted as a general manager of our ophthalmology business unit, responsible for the promotion and sales of all the ophthalmic medical devices products of our Group. Ms. Huang has nearly 22 years of working experience in the pharmaceutical industry. Prior to joining our Group, she worked at Shanghai Xudong Haipu Pharmaceutical Co., Ltd. (上海旭東海普藥業有限公司) and Shanghai Eighteenth Pharmaceutical (上海第十八製藥廠). Ms. Huang obtained an executive master's degree in business administration by Tongji University (同濟大學) in March 2009.

YANG Xiuyan (楊秀顏), aged 53, is our general manager of Polichem business unit. Ms. Yang joined our Group in December 1998 and worked as the manager for Shandong and Northern China area between 1998 and 2012. She was appointed as our deputy general manager and sales director in January 2013 and was responsible for the sales and marketing of our Group, in particular in the Northern Yangtze River area. In September 2014, Ms. Yang was promoted as a general manager of AW (Alfa Wassermann) Business Unit, and is responsible for the promotion and sales of AW's products of our Group. In November 2015, Ms. Yang was appointed as the general manager of Polichem Business Unit, and is responsible for the promotion and sales of Polichem's products of the Group. She has nearly 17 years working experience in the pharmaceutical industry. Prior to joining our Group, Ms. Yang worked at Boli People's Hospital of Heilongjiang Province (黑龍江省勃利人民醫院). Ms. Yang was awarded with a bachelor's degree in clinical medicine by the Binzhou Medical University (濱州醫學院) in July 1986.

WANG Tao (汪韜), aged 45, is our general manager of Easyhaler & Neutrophase business unit. Mr. Wang joined our Group in September 2001 and worked as a product manager and marketing manager between September 2001 and December 2002. Mr. Wang was appointed as our marketing director in January 2003, responsible for formulating and implementing marketing plans and strategies, training and supporting sales team in marketing activities, as well as preparing promotion tools. In September 2014, Mr. Wang was promoted as the general manager of Easyhaler & Neutrophase Products Business Unit, and is responsible for the promotion and sales of Easyhaler series products and Neutrophase. Mr. Wang has over 16 years working experience in the pharmaceutical industry. Prior to joining our Group, Mr. Wang worked at Shanghai Hanyin Pharmaceutical Co., Ltd. (上海漢殷藥業有限公司) between January 1999 and September 2001. Mr. Wang was awarded with a bachelor's degree in clinical medicine by Xinxiang Medical University (新鄉醫學院) in July 1993 and an executive master's degree in business administration from Antai College of Economics and Management of Shanghai Jiao Tong University (上海交通大學安泰管理學院) in December 2011.

SHAO Jin (邵錦), aged 39, is our general manager of Pain Management and Digestive Products Business Unit. Mr. Shao joined our Group in July 2004 and worked as a sales supervisor of south China area and a manager of greater Southern China from 2004 to 2009. He was appointed as the OTC director in 2009. In September 2014, Mr. Shao was promoted as the director of Difene business unit, in January 2016 he was promoted as the general manager of Pain Management and Digestive Products Business Unit and is responsible for the promotion and sales of Difene and digestive products of our Group. Mr. Shao has over 14 years of experience in the pharmaceutical industry. Mr. Shao received an executive master's degree in business administration from Zhongnan University of Economics and Law (中南財經政法大學) in 2013.

LAI Weijuan (賴維娟), aged 27, is our general manager of Covex business unit. Ms. Lai joined the Group in 2012, and worked as the chief representative, responsible for market analysis and purchasing management of Vinpocetine API,and the overseas investment of our Group from 2012 to March 2014. Ms. Lai was appointed as the general manager of Covex in April 2014. In October 2014, Ms. Lai was promoted as the director of Covex Vinpocetine business unit. In January 2016, she was promoted as the general manager of Covex business unit, and is responsible for the operation of Covex and the promotion and sales of Vinpocetine API in China. Ms. Lai possess extensive experience in international trade.

CHEN Zhi (陳志), aged 37, is our director of AW business unit. Mr. Chen joined our Group in February 2012 and worked as a senior product manager from 2012 to September 2014. He was appointed as a manager of the marketing department of AW business unit of the Group in September 2014. In November 2015, Mr. Chen was promoted as the Director of AW business unit, and is responsible for the promotion and sales of Alfa Wassermann's products of the Group. Mr. Chen has over 14 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Chen worked at Yung Shin Pharma Ind (Kun Shan) Co., Ltd., Hong Kong Bright Future Pharmaceutical Laboratories Limited, Health Vision Enterprise, and Jilin Yinglian Biopharmaceutical Co., Ltd. Mr. Chen graduated from Shenyang Pharmaceutical University with bachelor's degree of economics in medical enterprise management in 2001.

LIU Xuefeng (劉雪峰), aged 40, is our business development director. Mr. Liu joined our Group in September 2008 and was appointed as our business development director in April 2012, mainly responsible for sourcing new products and exploring business opportunities. Mr. Liu has over 11 years working experience in the pharmaceutical industry. Prior to joining our Group, Mr. Liu was a medical representative at AstraZeneca (Wuxi) Trading Co. Ltd. (阿斯利康(無錫)貿易有限公司) between January 2008 and August 2008, responsible for promoting medical and pharmaceutical products knowledge to customers. Mr. Liu worked as an assistant secretary-general and head of international council at Chinese Society of Biochemistry and Molecular Biology (中國生物化學與分子生物學會) starting in July 2005. Between August 1999 and September 2002, he worked at Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司). Mr. Liu was awarded with a bachelor's degree in biopharming by China Pharmaceutical University (中國醫科大學) in July 1999 and a master's degree in microbiology and biochemical pharmacy by Shanghai Institute of Pharmaceutical Industry (上海醫藥工業研究院) in July 2005.

WANG Rongrong (王榮榮), aged 37, is our national director of commerce department. Ms. Wang joined our Group in July 2004, and worked as a manager of commerce department from September 2006 to August 2014. In September 2014, Ms. Wang was promoted as our national director of commerce department. Ms. Wang is mainly responsible for bidding, pricing, receivables management and channel management and other business related work. Ms. Wang has more than 16 years of working experience in pharmaceutical industry. Prior to joining the Group, Ms. Wang worked in Hainan Sanye Pharmaceutical Group (海南三葉醫藥集團). Ms. Wang received a bachelor's degree in biological engineering in June 2000, and a licensed pharmacist qualification certificate in 2005.

JOINT COMPANY SECRETARY

MIN Le (閔樂), aged 34, is a joint company secretary of the Company. Mr. Min joined our Group in July 2013 and serves as the secretary of the Board. Mr. Min is a PRC non-practising certified public accountant and has many years of experience in the financing and accounting field. Mr. Min worked as the chief accountant at Carrefour (China) Management & Consulting Service Co., Ltd. between October 2011 to June 2013, mainly responsible for preparing budgets and financial closing and designing, streamlining and improving financial and accounting process. Prior to that, he worked at Shanghai Zhonghua Certified Public Accountants (上海眾華滬銀會計師事務所) as a project manager between March 2006 and September 2011, mainly responsible for annual financial auditing and financial consulting. Mr. Min graduated from the East China University of Science and Technology (華東理工大學) with a bachelor's degree in environmental engineering in June 2003 and from the Tong Ji University (同濟大學) with a master's degree in environmental engineering in March 2006.

Report of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the provision of comprehensive marketing, promotion and channel management service for imported pharmaceutical products and medical devices in China. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2015 is set out in note 6 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated Statement of Profit or Loss and Other Comprehensive Income on page 54 of this annual report.

FINAL DIVIDENDS

The Board, during its meeting held on Tuesday, 29 March 2016 recommended the payment of a final dividend of RMB0.036 per share for the year ended 31 December 2015 (2014: RMB0.085) to the Shareholders whose names appear on the Company's register of members on Thursday, 26 May 2016. The final dividend will be payable on Thursday, 2 June 2016 and is subject to the approval of Shareholders at the forthcoming AGM to be held on Friday, 20 May 2016.

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

BUSINESS REVIEW AND BUSINESS OUTLOOK

The business review of the Group for the year ended 31 December 2015 and business outlook of the Group are set out in the section headed "Management Discussion and Analysis" on pages 8 to 26 of this annual report.

KEY FINANCIAL PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the year ended 31 December 2015 is set out in the section of "financial highlights" of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 10 May 2016 to Friday, 20 May 2016, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on Friday, 20 May 2016. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 9 May 2016.

The register of members of the Company will also be closed on Thursday, 26 May 2016, in order to determine the entitlement of the Shareholders to the final dividend (if approved by the Shareholders). All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 25 May 2016.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

As at 31 December 2015, the Group applied the net proceeds from the listing of the Company (after deducting underwriting fees and related listing expenses), which amounted to approximately HKD1,307.8 million, in the manner consistent with that as disclosed in the Company's prospectus dated 24 October 2013.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the Group's products purchased from the largest supplier, accounted for 80.9% (2014: 68.8%) of total products purchased, and products purchased from five largest suppliers accounted for 94.8% (2014: 93.3%) of our total products purchased.

For the year ended 31 December 2015, the Group's sales to largest customer accounted for 4.5% (2014: 3.8%) of our revenue, and sales to the five largest customers accounted for 15.7% (2014: 16.2%) of our total revenue.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2015 are set out in note 15 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2015 are set out in note 34 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2015 are set out on page 57 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law of the Cayman Islands and the Company's articles of associations (the "Articles of Association"), amounted to approximately RMB190.5 million (as at 31 December 2014: RMB169.0 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2015 are set out in note 30 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the Share Award Scheme as set out in the section headed "Scheme Award Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2015.

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including Business risks, operational risks and financial management risks. The Group's key risk exposures are summarised as follows:

Business risks	(i)	Slowdown of China's economic growth resulted in the government's response by promoting structural reforms on the supply side
	(ii)	Overall sales growth rate of pharmaceutical products in hospitals in China slowed down prominently in 2015
Operational risks	(i)	Product liability, product recalls and complaints as a results of marketing, promoting and selling pharmaceutical products and medical devices in the PRC
	(ii)	Reliance on key personnel and business and growth may be disrupted if the Group is not able to retain the key personnel
Financial risks	(i)	Foreign exchange rates risk
	(ii)	Interest rate fluctuation risk
	(iii)	Credit risk
	Details of the financial risk management are set out in note 5 to the consolidated financial statements.	

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business is to promote, market and sell pharmaceutical products and medical devices, which in general does not have any material impact on the environment. The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. As a listed company in Hong Kong, the shares of the Company are listed on the Main Board of the Stock Exchange on 5 November 2013 (the "Listing Date"), the Company continuously complies with the requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") including the disclosure requirements, corporate governance provisions and Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") therein. Under the Securities and Futures Ordinance (Cap.571) (the "SFO"), the Company is required to maintain a register of interests in shares and short positions and a register of directors' and chief executives' interests and short positions and is obliged to the disclosure requirement of inside information. The Board will monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, peer banks, service vendors, regulators and Shareholders. Employees are regarded as the most important and valuable assets of the Group. The Group maintains a good relationship with its employees and did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labour dispute during the year ended 31 December 2015. The Group also understands the importance of maintaining a good relationship with its suppliers and customers to meet its short-term and long-term goals. It enjoys good relationships with suppliers and customers and strives to take an active part in the communities where they operate.

DIRECTORS

The Directors during the year ended 31 December 2015 and up to the date of this annual report were:

Executive Directors:

Mr. Li Xinzhou *(Chairman)*
Mr. Wang Yinping *(Chief Executive Officer)*
Mr. Zhu Mengjun *(Chief Financial Officer)*

Non-executive Director:

Mr. Wu Mijia

Independent Non-executive Directors:

Mr. Xu Zhonghai
Mr. Lai Chanshu
Mr. Wong Chi Hung, Stanley

In accordance with article 104(1) of the Articles of Association, Mr. Zhu Mengjun, Mr. Xu Zhonghai and Mr. Lai Chanshu will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

Details of the Directors to be re-elected at the forthcoming AGM are set out in the circular to the Shareholders dated 20 April 2016.

With effect from 1 January 2015, Mr. Lu Yuan and Mr. Zhang Wenbin have resigned as a non-executive Director for their other business engagement.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 27 to 31 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2015 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Each of the executive Directors (save for Mr. Wang Yinping) has entered into a service agreement with the Company on 16 October 2013 for a term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Wang Yinping entered into service agreement with the Company for a term of three years commencing from 1 January 2015, and may be terminated by not less than one month's notice in writing served by either party to the other.

Each of the non-executive and independent non-executive Directors has signed a letter of appointment on 16 October 2013 for an initial term of three years commencing from the Listing Date.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 29 to the consolidated financial statements and in the section headed "Connected transactions" below, no Director nor any entity connected with a Director is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is of significance to the business of the Group or to which the Company or any of its subsidiaries, its parent company and the subsidiaries of its parent company was a party during or at the end of the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

EMPLOYEES AND EMOLUMENT POLICY

As of 31 December 2015, the Group had an aggregate of 386 full-time employees. The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Company are set out in note 36 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 13 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, during the year ended 31 December 2015, changes in Directors' information are set out below.

Mr. Wong Chi Hung, Stanley, an independent non-executive Director, was appointed as the director of KBS Fashion Group Limited (formerly known as Aquasition Corp.), a company listed on the NSADAQ (stock quote: KBSF) on 1 August 2014 and resigned on 15 March 2015.

Mr. Li Xinzhou has resigned as the chief executive officer of the Company with effect from 1 January 2015.

Mr. Lu Yuan and Mr. Zhang Wenbin each has resigned as a non-executive Director with effect from 1 January 2015. Mr. Zhang Wenbin ceased to be a member of the Remuneration Committee upon his resignation.

Mr. Wang Yinping has been appointed as an executive Director and the chief executive officer of the Company with effect from 1 January 2015.

Mr. Wu Mijia, a non-executive Director, has been appointed as a member of the Remuneration Committee with effect from 1 January 2015.

Save as disclosed above, during the year ended 31 December 2015, there were no changes to information which are required to be disclosed and had been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests in the shares of the Company

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Li Xinzhou	Founder of a discretionary trust[1]	921,824,000 (L)	69.14%
	Interest of spouse[2]	1,403,000 (L)	0.11%
	Beneficial owner	9,652,000 (L)	0.72%
Zhu Mengjun	Beneficial owner	2,969,000 (L)[3]	0.22%
Wang Yiping	Beneficial owner	1,300,000 (L)[4]	0.10%

Remark:

The letter "L" denotes the long position in Shares.

Notes:

1. Mr. Li Xinzhou is a founder of the discretionary trust and is deemed to be interested in 921,824,000 Shares held under the discretionary trust.

2. Such 1,403,000 Shares are held by Ms. Wu Qian, the spouse of Mr. Li Xinzhou. Accordingly, Mr. Li Xinzhou is deemed to be interested in such 1,403,000 Shares.

3. Mr. Zhu Mengjun is interested in 2,969,000 Shares, of which 1,100,000 Shares were awarded and granted to Mr. Zhu Mengjun under the Share Award Scheme on 9 October 2015.

4. Mr. Wang Yiping holds 1,300,000 Shares, all of which were awarded and granted to Mr. Wang Yiping under the Share Award Scheme on 9 October 2015.

Save as disclosed above, as at 31 December 2015, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2015 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Wu Qian	Founder of a discretionary trust[1]	921,824,000 (L)	69.14%
	Interest of spouse[2]	9,652,000 (L)	0.72%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited[5]	Interest of controlled corporation[3]	921,824,000 (L)	69.14%
UBS Trustees (BVI) Limited	Trustee[4]	921,824,000 (L)	69.14%
Pioneer Pharma (BVI) Co., Ltd.[5]	Beneficial owner	921,824,000 (L)	69.14%

Remark:

The letter "L" denotes the long position in Shares.

Notes:

1. Ms. Wu Qian is a founder of the discretionary trust and is deemed to be interested in 921,824,000 Shares held under the discretionary trust.
2. Such 9,652,000 Shares are held by Mr. Li Xinzhou, the spouse of Ms. Wu Qian. Accordingly, Ms. Wu Qian is deemed to be interested in such 9,652,000 Shares.
3. Tian Tian Limited through its controlled corporation, Pioneer Pharma (BVI) Co., Ltd., is deemed to be interested in 921,824,000 Shares held by Pioneer Pharma (BVI) Co., Ltd.
4. UBS Trustees (BVI) Limited, as trustee of the discretionary trust, through its controlled corporations (being Tian Tian Limited and Pioneer Pharma (BVI) Co., Ltd.) is deemed to be interested in 921,824,000 Shares held by Pioneer Pharma (BVI) Co., Ltd.
5. Mr. Li Xinzhou is a director of each of Pioneer Pharma (BVI) Co., Ltd. and Tian Tian Limited.

Save as disclosed above, as at 31 December 2015, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

SHARE AWARD SCHEME

The Company adopted the Share Award Scheme to recognise the contribution by certain employees including Directors and senior management of the Group, and to provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group. The Share Award Scheme has a term of 10 years commencing from 10 April 2015 on which the Share Award Scheme was adopted by the Board (the "Adoption Date"). The Share Award Scheme is administrated by the Board and the trustee of the Share Award Scheme. For details of the Share Award Scheme, please refer to the announcement of the Company dated 10 April 2015. Terms used herein shall have the same meanings as defined in the announcement of the Company dated 10 April 2015.

On 9 October 2015, the Board had resolved to grant a total of 25,060,000 Awarded Shares to 150 Selected Employees with the Award Price HK$5.076 of each Awarded Share, which represents the average purchase cost per Share in relation to all the Shares that the Trustee purchased on the market between 22 April 2015 to 28 August 2015 pursuant to the Scheme. The Awarded Shares represent approximately 18.8% of the scheme limit under the Scheme. Subject to the acceptance of grant of the Awarded Shares by the Selected Employees and the terms and conditions of the Scheme, the Awarded Shares will be vested in full in three years with one third to be vested on each of the first, the second and the third anniversary of the date of grant respectively. Save for Mr. Wang Yinping (the chief executive officer of the Company and an executive Director) and Mr. Zhu Mengjun (the chief financial officer of the Company and an executive Director), who have been granted 1,300,000 and 1,100,000 Awarded Shares respectively, none of the Selected Employees is a Director, chief executive or substantial shareholder of the Company, nor an associate (as defined in the Listing Rules) of a Director, chief executive or substantial shareholder of the Company. For details of grant of Awarded Shares, please refer to the announcement of the Company dated 9 October 2015.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No controlling shareholders or its subsidiary had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group, to which the Company or any of its subsidiaries was a party during the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities other than the purchases of the shares by the trustee pursuant to the Share Award Scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

NON-COMPETITION UNDERTAKING

Each of Mr. Li Xinzhou, Ms. Wu Qian and Pioneer Pharma (BVI) Co., Ltd. (the "Controlling Shareholders") has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company conduct any business in the PRC or overseas, that it is in competition with, or is likely to be in competition with, the business carried on by any member of the Group).

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report for the year ended 31 December 2015. The independent non-executive Directors, after reviewing the deed of non-competition and considering whether the Controlling Shareholders have abided by the non-competition undertaking, confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking for the year ended 31 December 2015.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2015, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the businesses of the Group.

CONNECTED TRANSACTIONS

During the Reporting Period, the Company has not entered into any connected transactions (or continuing connected transactions) which are not exempt from annual reporting requirements.

Significant related party transactions entered into by the Group for the year ended 31 December 2015 are disclosed in note 29 to the consolidated financial statements. Except for the purchaser of certain pharmaceutical products from Hainan San Feng You Limited during the year ending 31 December 2015 which constitutes a continuing connected transaction of the Company but is exempt from all announcement, reporting and independent shareholders' approval requirement pursuant to Rule 14A.76(1)(a) of the Listing Rules, none of such transactions constituted a connected transaction or a continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules as and where applicable and relevant.

CHARITABLE DONATIONS

For the year ended 31 December 2015, the Group donated over 18,000 bottles of free NeutroPhase to victims who suffered burns in the explosion at the Formosa Water Park in New Taipei City in Taiwan and at Tanggu, Binhai new area in Tianjin, which accelerated their wound healing process and prevented the risk of fatal infections.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2015, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

PERMITTED INDEMNITY PROVISION

For the year ended 31 December 2015, the Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

POST BALANCE SHEET EVENTS

The important and material events of the Company that have occurred since 31 December 2015 are disclosed in note 42 to the consolidated financial statements in this annual report.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advance by the Company to an entity.

AUDIT COMMITTEE

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

The annual results for the year ended 31 December 2015 of the Company have been reviewed by the Audit Committee.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct for the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 43 to 52 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this annual report.

AUDITOR

Deloitte Touche Tohmatsu has acted as auditor of the Company for the year ended 31 December 2015.

Deloitte Touche Tohmatsu shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Mr. Li Xinzhou
Chairman

Hong Kong, 29 March 2016

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2015.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance. Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

The Board currently comprises three executive Directors, namely Mr. Li Xinzhou (the Chairman of the Board), Mr. Wang Yinping and Mr. Zhu Mengjun, one non-executive Director, namely Mr. Wu Mijia and three independent non-executive Directors, namely Mr. Xu Zhonghai, Mr. Lai Chanshu and Mr. Wong Chi Hung, Stanley. The biographies of the Directors are set out under the section headed "Director and Senior Management" of this annual report.

For the year ended 31 December 2015, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

Under Rule 3.10A of the Listing Rules, listed issuers are required to appoint independent non-executive Directors representing at least one-third of the Board. The Company has three independent non-executive Directors currently representing over one-third of the Board and therefore the Company has complied with Rule 3.10A of the Listing Rules.

Pursuant the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy and summary of the board diversity policy is set out below:

The Company establishes the Board Diversity Policy according to the CG Code contained in the Appendix 14 of the Listing Rules. This Policy aims to set out the approach to achieve diversity on the Company's board of directors.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as essential elements in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Board should have a balance of skills, and experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company has received written annual confirmation from each independent non-executive Director of his Independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

None of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship), with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Mr. Wang Yinping, as a newly appointed Director, was provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2015, all Directors participated in continuous professional development to develop and refresh their knowledge and skills in compliance with Code A.6.5 of the CG Code. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. All Directors received this training. The joint company secretaries of the Company from time to time update and provide written training material relating to the roles, functions and duties of a Director and all the aforesaid Directors study such materials, and they are asked to submit a signed training record to the Company on an annual basis.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and performed by different individuals. The Chairman of the Board and the chief executive officer of the Company (the "Chief Executive Officer") are currently two separate positions held by Mr. Li Xinzhou and Mr. Wang Yinping, respectively, with clear distinction in responsibilities. The Chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

Appointment and Re-Election of Directors

Save for Mr. Wang Yinping, each of the executive Directors has entered into a service agreement with the Company on 16 October 2013 for a term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other.

Mr. Wang Yinping has entered into a service agreement with the Company for a term of three years commencing from 1 January 2015, which may be terminated by not less than one month's notice in writing served by either party on the other.

Each of the non-executive and independent non-executive Directors has signed a letter of appointment with the Company dated 16 October 2013, for an initial term of three years commencing from the Listing Date, and the term of appointment will be automatically renewed for an additional one year after the expiry of the initial term.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself for election by Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by Directors.

For the year ended 31 December 2015, 7 board meetings and 1 general meeting (2015 AGM) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	**Board Meeting**	**Annual General Meeting**
Mr. Li Xinzhou	7/7	1/1
Mr. Wang Yinping	7/7	1/1
Mr. Zhu Mengjun	7/7	1/1
Mr. Wu Mijia	7/7	0/1
Mr. Xu Zhonghai	7/7	0/1
Mr. Lai Chanshu	7/7	0/1
Mr. Wong Chi Hung, Stanley	7/7	0/1

During the year, the chairman of the Board held one meeting with the non-executive Directors (including the independent non-executive Directors) without the other executive Directors.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he has complied with the Model Code for the year ended 31 December 2015.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and delegated the corporate governance duties to the Nomination Committee which include:

a) to develop, review and implement the Company's policy and practices on corporate governance and make recommendations to the Board;

b) to review and monitor the training and continuous professional development of Directors and senior management;

c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors;

e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

f) to develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

For the year ended 31 December 2015, the Company has updated the compliance manuals on notifiable transactions and inside information in accordance with the Listing Rules as guideline for its employees to report unpublished inside information to the Company to ensure consistent and timely disclosure and fulfillment of the Company's continuous disclosure obligations.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Li Xinzhou (executive Director), Mr. Xu Zhonghai (independent non-executive Director) and Mr. Lai Chanshu (independent non-executive Director), the majority of them are independent non-executive Directors. Mr. Li Xinzhou serves as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;

- To identify suitable candidates for appointment as directors;

- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors; and

- To assess the independence of independent non-executive directors.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2015, 1 meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Li Xinzhou	1/1
Mr. Xu Zhonghai	1/1
Mr. Lai Chanshu	1/1

The Nomination Committee assessed the independence of independent non-executive Directors, considered the re-appointment of the retiring Directors during the year.

Remuneration Committee

As at 31 December 2015, the Remuneration Committee comprises three members, namely Mr. Xu Zhonghai (independent non-executive Director), Mr. Lai Chanshu (independent non-executive Director) and Mr. Wu Mijia (non-executive Director), the majority of them are independent non-executive Directors. Mr. Xu Zhonghai serves as the chairman of the Remuneration Committee. Mr. Wu Mijia has been appointed as a member of Remuneration Committee on 1 January 2015, in place of Mr. Zhang Wenbin who has ceased to be a member of Remuneration Committee with effect from 1 January 2015.

The primary duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all the Directors' and senior management's remuneration; reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and making recommendations to the Board on the specific remuneration packages of all executive Directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. Their written terms of reference are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2015, 1 meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Xu Zhonghai	1/1
Mr. Wu Mijia	1/1
Mr. Lai Chanshu	1/1

The Remuneration Committee reviewed the service agreement and terms of office of Mr. Wang Yinping in relation to his appointment as an executive Director and chief executive officer.

The Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, assessing performance of executive Directors and senior management and make recommendations to the Board on the remuneration packages of executive Directors and senior management during the year.

Details of the remuneration by band of the 9 members of the senior management of the Company (including one joint company secretary), whose biographies are set out on pages 27 to 31 of this annual report, for the year ended 31 December 2015 are set out below:

Remuneration band (RMB'000)	Number of individual
Less than 500	5
500 to 1,000	4

Audit Committee

The Audit Committee currently comprises three members, namely Mr. Wong Chi Hung, Stanley (independent non-executive Director), Mr. Wu Mijia (non-executive Director) and Mr. Xu Zhonghai (independent non-executive Director), the majority of them are independent non-executive Directors. Mr. Wong Chi Hung, Stanley serves as the chairman of the Audit Committee. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

For the year ended 31 December 2015, 2 meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wong Chi Hung, Stanley	2/2
Mr. Wu Mijia	2/2
Mr. Xu Zhonghai	2/2

The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), risk management systems and processes and the reappointment of the external auditor during the year. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

They also reviewed the interim and final results of the Company and its subsidiaries for the interim period and the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. Their written terms of reference are available on the websites of the Company and the Stock Exchange.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2015 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 53 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control and risk management systems to safeguard shareholder investments and Company assets and reviewing the effectiveness of such systems on an annual basis.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board has conducted an annual review of the effectiveness of the internal control and risk management systems of the Group and considered the internal control and risk management systems to be effective and adequate.

AUDITOR'S REMUNERATION

During the Reporting Period, the external auditor of the Group charged HK$3.7 million for audit services and HK$1.1 million for non-audit service. The audit services was annual audit of the Group for the year ended 31 December 2015. The non-audit services represents tax compliance service and consulting service in relation to merge & acquisition project.

JOINT COMPANY SECRETARY

Mr. Min Le, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Yung Mei Yee, senior manager of KCS Hong Kong Limited (a company secretarial service provider), as its joint company secretary of the Company to assist Mr. Min Le to discharge his duties as company secretary of the Company. The primary corporate contact person at the Company is Mr. Min Le, the joint company secretary of the Company.

For the year ended 31 December 2015, Mr. Min Le and Ms. Yung Mei Yee have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Ms. Yung Mei Yee resigned as the joint company secretary of the Company on 29 March 2016. Ms. Mok Ming Wai, a director and the head of listing services of KCS Hong Kong Limited, has been appointed in replacement of Ms. Yung as the joint company secretary of the Company with effect from 29 March 2016. The primary contact person at the Company is Mr. Min Le.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The AGM provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGMs to answer Shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The 2016 AGM will be held on Friday, 20 May 2016. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at www.pioneer-pharma.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association. As regards proposing a person for election as a director, the procedures are available on the websites of the Company and the Stock Exchange.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the principal place of business for the Company in Hong Kong at Room 2207–08, 22/F, Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong (email address: ir@pioneer-pharma.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

There is no change in the memorandum and articles of association of the Company for the year ended 31 December 2015.

Independent Auditor's Report

TO THE SHAREHOLDERS OF CHINA PIONEER PHARMA HOLDINGS LIMITED
(incorporated in the Cayman Islands as an exempted company with limited liability)

We have audited the consolidated financial statements of China Pioneer Pharma Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 140, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touch Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	6	**1,460,899**	1,540,398
Cost of sales		**(998,322)**	(1,048,449)
Gross profit		**462,577**	491,949
Other income	7	**77,877**	51,351
Other gains and losses	8	**(82,687)**	1,396
Distribution and selling expenses		**(135,378)**	(152,652)
Administrative expenses		**(66,745)**	(57,784)
Finance costs	9	**(19,954)**	(14,137)
Share of loss of associates	19	**(28,895)**	(15,435)
Profit before taxation	10	**206,795**	304,688
Income tax expense	11	**(34,294)**	(43,737)
Profit for the year		**172,501**	260,951
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**(18,148)**	(11,373)
– Exchange differences on translation of interest in associates		**608**	–
– Fair value gain (loss) on other investments		**15,711**	(27,154)
Other comprehensive expense for the year		**(1,829)**	(38,527)
Total comprehensive income for the year		**170,672**	222,424
Profit (loss) for the year attributable to:			
Owners of the Company		**174,302**	261,718
Non-controlling interests		**(1,801)**	(767)
		172,501	260,951
Total comprehensive income (expense) attributable to:			
Owners of the Company		**172,953**	225,723
Non-controlling interests		**(2,281)**	(3,299)
		170,672	222,424
		RMB yuan	RMB yuan
Earnings per share			
Basic and diluted	12	**0.13**	0.20

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current Assets			
Property, plant and equipment	15	76,497	103,737
Prepaid lease payments	16	2,219	2,271
Goodwill	17	–	42,265
Intangible assets	18	61,207	158,427
Interest in associates	19	47,070	35,188
Other investments	20	20,000	29,964
Trust investments	20	–	65,000
Finance lease receivables	21	59,446	90,826
Loans to associates	25	15,963	12,238
Deferred tax assets	22	2,132	2,286
Long term receivables	24	–	1,400
		284,534	543,602
Current Assets			
Inventories	23	663,249	619,969
Finance lease receivables	21	21,720	18,604
Trade and other receivables	24	420,366	576,046
Trust investments	20	–	10,000
Amount due from related parties	29	1,296	7,370
Tax recoverable		475	–
Prepaid lease payments	16	52	52
Derivative financial instrument	26	251	–
Pledged bank deposits	27	112,968	518,374
Bank balances and cash	27	317,113	260,834
		1,537,490	2,011,249
Current Liabilities			
Trade and other payables	28	471,690	473,700
Amounts due to related parties	29	–	35,204
Tax liabilities		14,778	14,741
Bank borrowings	30	285,935	610,416
Provision	32	1,870	4,715
Derivative financial instrument	26	–	83,087
Obligations under finance lease	31	1,943	690
		776,216	1,222,553
Net Current Assets		761,274	788,696
Total Assets less Current Liabilities		1,045,808	1,332,298

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Capital and Reserves			
Share capital	33	82,096	82,096
Reserves		915,994	1,045,264
Equity attributable to owners of the Company		998,090	1,127,360
Non-controlling interests		(1,649)	98,615
Total Equity		996,441	1,225,975
Non-current liabilities			
Deferred tax liabilities	22	13,406	43,274
Long-term liabilities	28	20,074	54,416
Liabilities for Share Award Scheme	38	557	–
Obligation under finance leases	31	15,330	8,633
		1,045,808	1,332,298

The consolidated financial statements on pages 54 to 140 were approved and authorised for issue by the Board of Directors on 29 March 2016.

Li Xinzhou	**Zhu Mengjun**
DIRECTOR	DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to the owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 *(Note c)*	Translation reserve RMB'000	Statutory reserve RMB'000 *(Note a)*	Treasury share reserve RMB'000 *(Note b)*	Accumulated profits RMB'000	Investments revaluation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014	82,096	956,993	(50,646)	629	9,000	–	166,623	(7,067)	1,157,628	(343)	1,157,285
Profit (loss) for the year	–	–	–	–	–	–	261,718	–	261,718	(767)	260,951
Other comprehensive expense	–	–	–	(8,841)	–	–	–	(27,154)	(35,995)	(2,532)	(38,527)
Total comprehensive income (expense) for the year	–	–	–	(8,841)	–	–	261,718	(27,154)	225,723	(3,299)	222,424
Appropriation to reserve	–	–	–	–	3,389	–	(3,389)	–	–	–	–
Payments of dividends *(Note 14)*	–	–	–	–	–	–	(255,991)	–	(255,991)	–	(255,991)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	102,046	102,046
Disposal of subsidiaries *(Note 37)*	–	–	–	–	–	–	–	–	–	211	211
At 31 December 2014	82,096	956,993	(50,646)	(8,212)	12,389	–	168,961	(34,221)	1,127,360	98,615	1,225,975
Profit (loss) for the year	–	–	–	–	–	–	174,302	–	174,302	(1,801)	172,501
Other comprehensive (expense) income	–	–	–	(17,060)	–	–	–	15,711	(1,349)	(480)	(1,829)
Total comprehensive (expense) income for the year	–	–	–	(17,060)	–	–	174,302	15,711	172,953	(2,281)	170,672
Purchase of shares under share award scheme *(Note 38)*	–	–	–	–	–	(149,476)	–	–	(149,476)	–	(149,476)
Payments of dividends *(Note 14)*	–	–	–	–	–	–	(187,781)	–	(187,781)	–	(187,781)
Take-over process of non-controlling interests in a subsidiary *(Note d)*	–	–	–	–	–	–	35,034	–	35,034	(35,034)	–
Disposal of a subsidiary *(Note 37)*	–	–	–	–	–	–	–	–	–	(62,949)	(62,949)
At 31 December 2015	**82,096**	**956,993**	**(50,646)**	**(25,272)**	**12,389**	**(149,476)**	**190,516**	**(18,510)**	**998,090**	**(1,649)**	**996,441**

Notes:

(a) According to the relevant rules and regulations in the People's Republic of China ("PRC"), each of the China Pioneer Pharma Holding Limited (the "Company")'s subsidiaries established in the PRC shall provide 10% of the annual profit after tax, based on the subsidiary's PRC statutory accounts, as a statutory reserve, until the balance reaches 50% of the respective subsidiary's registered capital. As at 31 December 2015, the statutory reserve has reached 50% and no additional appropriation has been made.

(b) For the year ended 31 December 2015, the Company paid an amount of RMB149,476,000 to Bank of Communications Trustee Limited ("Trustee") to purchase the Company's existing shares of 35,818,000 in the market pursuant to the Share Award Scheme (the "Scheme") made on 10 April 2015 ("Adoption Date") by the board of directors of the Company. As of 31 December 2015, all the shares were held by the Trustee. For details please refer to note 38.

(c) Other reserve represents the share capital and capital reserve of Pioneer Pharma Shareholding Co., Ltd. ("Pioneer Pharma") amounted to approximately RMB90 million. Also, other reserve reflects the decrease in resource of the Company and its subsidiaries (the "Group") arising upon payment for acquisition of an associate by Pioneer Pharma amounting to RMB16.2 million during the year ended 31 December 2012 and includes the deemed distribution to shareholders and relevant adjustments arising from the group reorganisation for the preparation for the listing of the Company's share on the Stock Exchange during the year ended 31 December 2013.

(d) During the year ended 31 December 2015, the shareholding of Covex, S.A held by the Group has increased from 68.63% to 100%. The Group took over all the equity interests of non-controlling interests with nil consideration. During the take-over process, the Group conducted a capital reduction exercise in Covex, S.A by using all share capital in Covex, S.A to offset its accumulated losses. In order to resume the shareholding in Covex, S.A, the Group and the non-controlling shareholders should have to make further capital contribution to Covex, S.A. The Group made the capital contribution by converting all of its loans to Covex, S.A into the share capital, in which the non-controlling shareholders did not make any further capital contribution. After the completion of the take-over process, the Group owned 100% of equity interest of Covex, S.A. All the share of net assets of Covex, S.A held by non-controlling shareholders has been taken over by the Group. The non-controlling shareholders has appealed to the court regarding their disagreement on the take-over action by the Group and the preliminary hearing is set for the day May 10, 2016. Prior to the hearing, the non-controlling shareholders requested the court to take precaution measures by prohibiting the take-over process by the Group, which was rejected by the court in December 2015. Having considered the legal opinion obtained from lawyers, the directors of the Company considered that the possibility of the take-over process will be revoked nor the Group is liable to compensate the then non-controlling shareholders by restoring their equity interest is low.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**206,795**	304,688
Adjustments for:			
Finance costs		**19,954**	14,137
Interest income on bank deposits		**(25,008)**	(25,689)
Interest income on trust investments		**(4,675)**	(5,125)
Interest income on loans to associates		**(262)**	(1,075)
Depreciation of property, plant and equipment		**7,001**	4,337
Amortisation of intangible assets		**9,880**	3,264
Release of prepaid lease payments		**52**	52
Gain on disposal of subsidiaries	8	**–**	(2,426)
Share of loss of associates		**28,895**	15,435
Loss on fair value changes of derivative financial instruments		**4,837**	–
Gain on fair value changes of structured notes		**–**	(171)
Gain on dilution of interest in associates		**(7,975)**	–
Reversal of allowance for inventories		**(679)**	–
Impairment loss on trade and other receivables		**5,277**	1,326
Impairment on goodwill		**14,696**	–
Impairment loss on investment in an associate		**41,263**	–
Impairment loss on finance lease receivables		**6,871**	–
Write off of trade and other payables		**–**	(3,419)
Reversal of impairment loss previously recognised on trade and other receivables		**(44)**	(42)
Gain on initial recognition of other investments and warrants		**(3,910)**	–
Provision of sales return		**731**	5,634
Operating cash flows before movements in working capital		**303,699**	310,926
Increase in inventories		**(77,086)**	(127,564)
Decrease (increase) in trade and other receivables		**111,591**	(168,647)
Increase in trade and other payables		**35,749**	64,229
Decrease in amount due to related parties		**(1,034)**	(11,063)
Increase in finance lease receivables		**(12,949)**	(35,390)
Increase in liabilities for the Scheme		**557**	–
Cash generated from operations		**360,527**	32,491
Income taxes paid		**(35,883)**	(36,132)
Interest paid		**(19,954)**	(14,137)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**304,690**	(17,778)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
INVESTING ACTIVITIES			
Interest received on bank deposits		**25,008**	25,689
Interest income on trust investments		**4,675**	5,125
Interest received on loan to an associate		**–**	1,075
Loans advance to associates		**(15,963)**	(12,238)
Purchase of other investments and warrants		**(29,561)**	(3,085)
Withdrawal (purchase) of trust investments		**75,000**	(75,000)
Purchases of property, plant and equipment		**(6,149)**	(39,477)
Capital injection in associates		**(10,044)**	(39,202)
Payment for intangible assets		**(1,600)**	(6,314)
Proceeds on disposal of property, plant and equipment		**8**	175
Placement of pledged bank deposits		**(129,188)**	(518,374)
Withdrawal of structured notes		**–**	20,000
Withdrawal of certificate of deposit		**–**	60,000
Withdrawal of pledged bank deposits		**534,594**	304,282
Proceeds on disposal of other investments		**181**	–
Net cash outflow on acquisition of subsidiaries	39	**–**	(72,980)
Net cash (outflow) inflow on disposal of subsidiaries	37	**(26,023)**	1,630
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**420,938**	(348,694)
FINANCING ACTIVITIES			
New bank borrowing raised		**768,910**	848,900
Repayments of bank borrowings		**(1,103,227)**	(663,905)
Dividend paid		**(187,781)**	(255,991)
Payment for repurchase of ordinary shares	38	**(149,476)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(671,574)**	(70,996)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**54,054**	(437,468)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**260,834**	702,073
Effect of foreign exchange rate changes		**2,225**	(3,771)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**317,113**	260,834

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL

The Company is incorporated as an exempted company with limited liability in the Cayman Islands on 5 February 2013. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 5 November 2013. The registered office of the Company is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands and the principal place of business of the Company is at No. 15, Lane 88 Wuwei Road, Putuo District, Shanghai, the PRC. The Company's immediate and ultimate holding company is Pioneer Pharma (BVI) Limited ("Pioneer BVI") and Tian Tian Limited ("Tian Tian"), respectively. Both companies are incorporated in the British Virgin Islands ("BVI") and are controlled by Mr. Li Xinzhou ("Mr. Li") and Mrs. Wu Qian ("Mrs. Li"), the spouse of Mr. Li (collectively referred to as "Controlling Shareholders").

The Company is an investment holding company. The principal activities of the Company and the Group are the marketing, promotion and sale of pharmaceutical products and medical devices.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGES OF ACCOUNTING POLICY

(a) Application of amendments to IFRSs

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGES OF ACCOUNTING POLICY (Continued)

(b) New and amendments to IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[3]
IFRS 15	Revenue from Contracts with Customers[3]
IFRS 16	Leases[4]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 7	Statement of Cash Flows[2]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[2]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for annual periods beginning on or after a date to be determined

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for finance assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGES OF ACCOUNTING POLICY (Continued)

(b) New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9 are described as follows:

- all recognised financial assets that are within the scope of International Accounting Standard ("IAS") 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGES OF ACCOUNTING POLICY (Continued)

(b) New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under the IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND CHANGES OF ACCOUNTING POLICY (Continued)

(b) New and amendments to IFRSs issued but not yet effective (Continued)

IFRS 16 Leases (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company will assess the impact of the application of IFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 16 until the Group performs a detailed review.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 *Property, Plant and Equipment* prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated financial statements.

Except as described above, the directors anticipate that the application of the other new and revised standards and interpretations will have no material impact on the profit or loss and the financial position of the Group.

(c) Changes of accounting policy

In previous years, cost of inventories are determined on the first-in-first-out basis. Having considered the increase in operation scale of the Group, management reassessed the appropriateness of this accounting policy during the period and concluded that using weighted average method would provide more reliable and relevant information on the Group's inventories value to the condensed consolidated financial statements users on a prospective basis.

Consequently, the Group changed its accounting policy on inventories to apply the weighted average method under IAS 2 Inventories retrospectively with effect from 1 January 2015. The effects of changes in accounting policy described above would have been decreased the carrying amount of inventories at 31 December 2014 by approximately RMB2,682,000 and decreased the costs of sales for the year ended 31 December 2014 by approximately RMB699,000. Since the directors of the Company considered the effects of changes in accounting policy does not result in any material impact on the profit or loss for the year ended 31 December 2014 and carrying amount of inventories at 31 December 2014, comparative amounts were not restated.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' report and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamlines with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based payment*, leasing transactions that are within the scope of IAS 17 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair vales, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sales in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Groups cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Investment in a subsidiary

Investment in a subsidiary included in the Company's statement of financial position is stated at cost less any accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after assessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When the Group acquires additional interest in an investee such that it has become an associate after additional acquisition, the investment in the associate is initially recognised at cost, which is the sum of the fair value of the previously held interest at the date when significant influence is obtained and the consideration paid/payable for the additional interest. If the original investment has been classified previously as an available-for-sale financial asset at fair value under IAS 39, the revaluation gain or loss recognised in other comprehensive income is not reclassify from equity to profit or loss. No gain or loss should be recognised in profit or loss on the basis that there has been no realisation event (e.g. a disposal).

When the associate is acquired in stages, goodwill is calculated at the time at which the investment becomes an associate and the goodwill is calculated as the difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in associates (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received. Revenue is reduced for estimated sales returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating lease is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating leases payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributable to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans including state-managed retirement benefit schemes in the PRC, Singapore and Spain and the Mandatory Provident Fund Scheme in Hong Kong are recognised as an expense when employees have rendered service entitling them to the contributions.

Cash-settled share-based payment transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the relevant reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purpose are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whether there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from related parties, loans to associates, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as mentioned in note 24, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company and Pioneer Pharma are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss and included any interest paid on the financial liabilities and in profit or loss. The net gain or loss recognised in profit or loss and any interest paid on the financial liabilities is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related parties and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derivative financial instruments

Derivative financial instruments of the Group include contingent consideration in connection with the acquisition of subsidiaries. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retain interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of other investments

As at 31 December 2014, equity securities (other investments) held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value. Changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

At each reporting period end, the directors of the Company will consider if objective evidence of an impairment exist such as whether there is a significant or prolonged decline in fair value of an investment below its cost. Determining whether investment in equity securities subject to a 'significant or prolonged' decline in fair value requires the application of judgement. In the impairment evaluation carried out by the directors of the Company, various factors including duration of decline in fair value since the Group acquired the investments, share price movements and after assessing these factors, the directors of the Company concluded that no impairment on other investments is required to be recorded for the year ended 31 December 2014.

As at 31 December 2015, the carrying amounts of Group's other investments are approximately RMB20,000,000 (2014: RMB29,964,000). The investment in NovaBay Pharmaceuticals Inc. ("NovaBay") that classified as other investments recorded cumulative losses of RMB18,510,000 (2014: RMB34,221,000) recognised in other comprehensive income.

Estimated impairment of intangible assets

Determining whether intangible asset is impaired require an estimation of the recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and value in use. The Group performed impairment assessment by estimating the value in use of the cash-generating unit in which the intangible assets are attributable to when impairment indicator exist. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The discount rate represents the rate that reflects the current market assessment of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or where there are events or changes in facts or circumstances which resulted in a revision of estimated cash flows, further material impairment loss or reversal of impairment loss may arise. The carrying amounts of other intangible assets at 31 December 2015 were approximately RMB61,207,000 (2014: RMB158,427,000). No impairment loss was recognised for intangible assets for both years.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired require an estimation of the recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and value in use. The Group performed impairment assessment by estimating the value in use of the cash-generating unit in which the property, plant and equipment are attributable to when impairment indicator exists. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The discount rate represents the rate that reflects the current market assessment of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or where there are events or changes in facts or circumstances which resulted in a revision of estimated cash flows, further material impairment loss or reversal of impairment loss may arise. The carrying amounts of property, plant and equipment at 31 December 2015 were approximately RMB76,497,000 (2014: RMB103,737,000). No impairment loss was recognised for property, plant and equipment for both years.

Estimated impairment of interest in associates

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. The Group has carried out impairment testing to determine whether the Group's interest in associates, specifically Q3 Medical Devices Limited ("Q3") and NovaBay, are impaired as indicated by negative financial performance and the decline in the quoted market price of the shares, if applicable. The fair value less costs of disposal is determined based on the quoted market price of the shares of the associate as the directors of the Company considers that the costs of disposal are insignificant. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the associate and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2015, the carrying amount of interest in associates is approximately RMB47,070,000 (2014: RMB35,188,000), net of accumulated impairment loss of RMB41,263,000 (2014: nil). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of trade receivables and finance lease receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2015, the carrying amounts of the Group's trade receivables are approximately RMB308,004,000 (2014: RMB399,275,000), net of allowance for doubtful debts of RMB6,640,000 (2014: RMB1,700,000).

As at 31 December 2015, the carrying amounts of the Group's finance lease receivables are approximately RMB81,166,000 (2014: RMB109,430,000), net of accumulated impairment loss of RMB6,871,000 (2014: nil).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowances for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 December 2015, the carrying amounts of Group's inventories are RMB663,249,000 (2014: RMB619,969,000), net of allowance for inventories of RMB131,000 (2014: RMB810,000).

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 RMB'000	2014 RMB'000
THE GROUP		
Financial assets:		
Fair value through profit or loss		
Designated as at FVTPL	**251**	–
AFS assets	**20,000**	104,964
Finance lease receivables	**81,166**	109,430
Loans and receivables (including cash and cash equivalents)	**827,091**	1,348,536
Financial liabilities:		
Derivative financial liabilities (fair value through profit or loss)	**–**	83,087
Obligation under finance lease	**17,273**	9,323
Amortised cost	**764,845**	1,157,676

(b) Financial risk management objectives and policies

The Group's major financial instruments include trust investments, other investments, trade and other receivables, loans to associates, finance lease receivables, derivative financial instruments, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, obligation under finance leases, and amounts due from/to related parties. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group's exposure to foreign currency risk is arising mainly from:

- Certain bank balances denominated in foreign currencies;
- Certain foreign currency purchases and certain trade payables are denominated in foreign currencies; and
- Certain borrowings denominated in foreign currencies.

At the end of the reporting date, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follow:

	Assets		Liabilities	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
THE GROUP				
United States Dollars ("US$")	**55,583**	33,598	**130,895**	540,527
Euro ("EUR")	**4,906**	95	**10,910**	52,160
Singapore Dollars ("SGD")	**140**	678	**488**	380
Hong Kong Dollars ("HKD")	**25,672**	1,806	**40**	799
Taiwan Dollars ("TWD")	**407**	573	**80**	48
	86,708	36,750	**142,413**	593,914

Sensitivity analysis

The sensitivity analysis includes outstanding foreign currency denominated monetary items and inter-company balances denominated in foreign currencies and adjusts their translation at the year ended for a 5% change in foreign currency rates. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

The group is mainly exposed to US$, HKD and EUR. The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in US$, HKD and EUR against RMB. 5% (2014: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2014: 5%) change in foreign currency rates. The sensitivity analysis includes those financial assets and financial liabilities where the denomination of the loan is in a currency other RMB. A positive number below indicates an increase in post-tax profit and other equity where US$, HKD and EUR weakening 5% (2014: 5%) against the functional currency. For a 5% (2014: 5%) strengthen of US$, HKD and EUR against the functional currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	US$ impact		HKD impact		EUR impact	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Profit (loss) for the year	**2,824**	19,010	**(961)**	(38)	**225**	1,952

No sensitivity analysis for RMB against SGD and TWD is presented as the directors of the Company consider that the foreign currency risk exposure of the Group arose from these two currencies are minimal.

Additionally, as at 31 December 2015, intercompany receivables denominated in RMB which is not the functional currency of the respective group entities are approximately RMB8,901,000 (2014: RMB3,698,000). If RMB weakens or strengthens by 5% against the functional currency of the respective group entity, profit for the year would decrease/increase by approximately RMB334,000 (2014: RMB139,000) for the year ended 31 December 2015.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings (see note 30 for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to pledged bank deposits and bank balances.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the pledged bank deposits.

No sensitivity is presented for variable rate pledged bank deposits and bank balances as the directors of the Company considered that the relevant interest rate fluctuation is minimal.

No variable bank borrowings outstanding as at 31 December 2015 and 31 December 2014.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties represents the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk on finance lease receivables is traced by management by comparing the customer's actual payment and the payment schedule at the inception of finance lease. The management would also consider the recoverable amount of the collateral assets if impairment indicator on receivable is noted.

Credit risk on pledged bank deposits and bank balances cash is limited because the counterparties are banks with good reputation and good credit rating.

The Group has concentration of credit risk on loans to associates. As at 31 December 2015, the carrying amounts of the Group's loans to associates are RMB15,963,000 (2014: RMB12,238,000).

The Group has concentration of credit risk by individual customer as 5% (2014: 2%) of the total trade receivables as at 31 December 2015 were due from the Group's largest customer respectively whereas 24% (2014: 11%) of the total trade receivables as at 31 December 2015 were due from the Group's five largest customers respectively.

The Group has concentration of credit risk by geographical location as majority of the customers are located in PRC as at 31 December 2015.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed maturity dates.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The liquidity analysis for the Group's derivative financial instruments are prepared based on the management expectation on the timing of the cash flows of derivatives with reference to contractual terms.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate existing at the end of each reporting period.

Liquidity tables

THE GROUP

	Weighted average interest rate %	On demand or less than three months RMB'000	Three months to one year RMB'000	More than one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2015						
Non-derivative financial liabilities						
Trade and other payables	–	458,836	–	20,074	478,910	478,910
Obligation under finance leases	6.00	682	2,045	17,728	20,455	17,273
Bank borrowings – fixed rate	3.24	91,631	197,185	–	288,816	285,935
		551,149	199,230	37,802	788,181	782,118

5. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

THE GROUP (Continued)

	Weighted average interest rate %	On demand or less than three months RMB'000	Three months to one year RMB'000	More than one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2014						
Non-derivative financial liabilities						
Trade and other payables	–	457,640	–	54,416	512,056	512,056
Obligation under finance leases	6.00	269	808	10,410	11,487	9,323
Amounts due to related parties	–	35,204	–	–	35,204	35,204
Bank borrowings – fixed rate	2.49	195,297	424,188	–	619,485	610,416
		688,410	424,996	64,826	1,178,232	1,166,999
Derivative financial instrument *(Note 26)*	–	83,087	–	–	83,087	83,087

(c) Fair value measurements

Fair value measurements are categorised into Level 1, 2 and 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

5. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial (liabilities)	Fair value as at 31.12.2015	Fair value as at 31.12.2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
1) Trust investments	N/A	Assets – RMB75,000,000	Level 3	Discounted cash flow. Future cash flows discounted at a rate that reflects the credit risk of various counterparties.	Discount rate	The higher estimated discount rate, the lower the fair value
2) Other investments – listed equity securities in US *(see note 20)*	N/A	Assets – RMB29,964,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
3) Contingent consideration in a business combination *(see note 26)*	N/A	Liabilities – RMB83,087,000	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Probability-adjusted net profit growth rate.	The higher the deviation from committed minimum growth rate of 15%, the lower the fair value.
4) Warrants	Assets – RMB251,000	N/A	Level 3	Binomial Lattice valuation model. The fair value is estimated based on stock price, strike price, historical volatility, time to expiration and risk-free interest rate.	Historical Volatility	The higher the historical volatility, the higher the fair value.
5) Other investments – shares in a private fund	Assets – RMB20,000,000	N/A	Level 2	Net asset value*	N/A	N/A

* The Group has determined that the reported net asset values represent fair value of the unlisted investment funds.

There were no transfers between Level 1 and 2 for the Group in both periods.

As at 31 December 2015, the directors of the Company consider that the carrying amount of financial assets and liabilities carried at amortised cost in the consolidated financial statements approximate their fair values.

5. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements (Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 Inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Reconciliation from the beginning balance to the ending balance of Level 3 fair value measurements of financial assets:

	Trust investment RMB'000	**Contingent consideration** RMB'000	**Warrants** RMB'000	**Total** RMB'000
At 1 January 2014	–	–	–	–
Purchase	75,000	–	–	75,000
Contingent consideration for a business combination *(Note 26)*	–	83,087	–	83,087
At 31 December 2014	75,000	83,087	–	158,087
Addition	–	–	1,115	1,115
Total loss in profit or loss (Included in "Other gains and losses") *(note a)*	–	–	(927)	(927)
Settlement	(75,000)	–	–	(75,000)
Disposal *(Note 37)*	–	(83,087)	–	(83,087)
Exchange adjustments	–	–	63	63
At 31 December 2015	**–**	**–**	**251**	**251**

Note:

(a) The loss in profit or loss represented the fair value change related to the warrants held at the end of the reporting period.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from sales of pharmaceutical products and medical devices in the PRC, South East Asia, Europe and Africa. An analysis of the Group's revenue is as follows:

	2015 RMB'000	2014 RMB'000
Sales of pharmaceutical products	**1,328,093**	1,343,147
Sales of medical devices	**132,806**	197,251
	1,460,899	1,540,398

The Group's chief operating decision maker during the years ended 31 December 2014 and 2015 was the executive directors, who reviews the gross profit of major type of products sold for the purposes of resource allocation and assessment of segment performance. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit earned by each segment.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

(a) Ophthalmic pharmaceutical products – the Group's ophthalmic pharmaceutical products are sold via the provision of channel management services and/or co-promotion services ("Products sold via the provision of co-promotion and channel management services"); and

(b) All of the Group's pharmaceutical products and medical devices except for ophthalmic pharmaceutical products are sold via the provision of comprehensive marketing, promotion and channel management services ("Products sold via the provision of comprehensive marketing, promotion and channel management services").

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

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the year ended 31 December 2015

	Products sold via the provision of comprehensive marketing, promotion and channel management services RMB'000	Products sold via the provision of co-promotion and channel management services RMB'000	Consolidated RMB'000
Segment revenue	597,278	863,621	1,460,899
Cost of sales	(241,820)	(756,502)	(998,322)
Gross profit & segment result	355,458	107,119	462,577
Other income			77,877
Other gains and losses			(82,687)
Distribution and selling expenses			(135,378)
Administrative expenses			(66,745)
Finance costs			(19,954)
Share of loss of associates			(28,895)
Profit before taxation			206,795

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2014

	Products sold via the provision of comprehensive marketing, promotion and channel management services RMB'000	Products sold via the provision of co-promotion and channel management services RMB'000	Consolidated RMB'000
Segment revenue	673,353	867,045	1,540,398
Cost of sales	(306,057)	(742,392)	(1,048,449)
Gross profit & segment result	367,296	124,653	491,949
Other income			51,351
Other gains and losses			1,396
Distribution and selling expenses			(152,652)
Administrative expenses			(57,784)
Finance costs			(14,137)
Share of loss of associates			(15,435)
Profit before taxation			304,688

6. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

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

	2015 RMB'000	2014 RMB'000
Alcon	**863,621**	867,045
Difene	**112,298**	114,327
Fluxum	**122,894**	128,377
Polimod	**73,555**	75,896
Macmiror complex and Macmiror	**37,865**	35,719
Vinpocetine API	**48,554**	63,779
Neoton	**45,265**	17,216
Budesonide Easyhaler and Salbutamol Easyhaler	**4,066**	11,908
FLEET Phospho-Soda	**14,947**	20,036
Medical equipments and supplies	**132,806**	197,251
Others	**5,028**	8,844
	1,460,899	1,540,398

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). Over 72% (2014: 80%) of non-current assets excluding interest in associates and other investments of the Group are located in the PRC. Over 98% (2014: 95%) of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

Information about major customers

No individual customer of the Group contributed 10% or more of the Group's revenue for both years.

7. OTHER INCOME

	2015 RMB'000	2014 RMB'000
Government grants *(Note)*	**31,667**	9,447
Interest on bank deposits	**25,008**	25,689
Interest on trust investments	**4,675**	5,125
Interest on loans to associates	**262**	1,075
Interest income on finance leases	**11,015**	5,243
Service income	**3,095**	3,247
Others	**2,155**	1,525
	77,877	51,351

Note: It represented cash received from unconditional grants by the local government to encourage the business operations in the PRC. Government grants are recognised in profit or loss when received.

8. OTHER GAINS AND LOSSES

	2015 RMB'000	2014 RMB'000
Net foreign exchange losses	**(21,672)**	(3,336)
Reversal of impairment loss previously recognised on trade and other receivables	**44**	42
Impairment loss on trade and other receivables	**(5,277)**	(1,326)
Gain on disposal of subsidiaries	**–**	2,426
Gain on dilution on interest in associates *(Note 19)*	**7,975**	–
Impairment loss on finance lease receivables	**(6,871)**	–
Loss on fair value change of derivative financial instruments	**(4,837)**	–
Gain on fair value changes of structured notes	**–**	171
Gain on initial recognition of other investments and warrants *(Note a)*	**3,910**	–
Write off of trade and other payables *(Note b)*	**–**	3,419
Impairment loss on goodwill	**(14,696)**	–
Impairment loss on investment in an associate *(Note 19)*	**(41,263)**	–
	(82,687)	1,396

Notes:

(a) Amount represents the difference between the fair value at acquisition date of other investments of approximately RMB8,446,000 and warrants of approximately RMB5,025,000 over the total acquisition cost of approximately RMB9,561,000.

(b) Subsequent to the acquisition of Covex, S.A and Covex, Farma S.L. (collectively referred to as "Covex Group") and the completion of debt acquisition as set out in note 39, Covex Group further reached agreement with several creditors to settle long outstanding trade and other payables at discount. A gain on write off of trade and other payables of approximately RMB3,419,000 was recognised during the year ended 31 December 2014.

9. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on:		
Bank borrowings	**19,954**	14,137

10. PROFIT BEFORE TAXATION

	2015 RMB'000	2014 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration *(Note 13)*	**3,953**	3,444
Other staff's retirement benefits scheme contributions	**8,739**	9,038
Other staff costs	**39,107**	40,017
Total staff costs	**51,799**	52,499
Auditors' remuneration	**2,878**	2,931
Reversal of allowance for inventories, net	**(679)**	–
Release of prepaid lease payments	**52**	52
Depreciation for property, plant and equipment	**7,001**	4,337
Amortisation of intangible assets	**9,880**	3,264
Cost of inventories recognised as an expense	**988,322**	1,048,449
Minimum lease payment under operating lease in respect of premises	**1,454**	1,156

11. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**28,572**	31,069
PRC withholding tax on dividends distributed by subsidiaries	**10,000**	14,000
	38,572	45,069
Under provision in prior year		
EIT	**–**	846
Deferred tax *(Note 22)*		
Current year	**(4,278)**	(2,178)
	34,294	43,737

The Company is tax exempted under the laws of the Cayman Islands.

Pioneer Medical (HK) Company Limited ("Pioneer Medical (HK)") and Pioneer HK are incorporated in Hong Kong and subject to Hong Kong Profits Tax at a rate of 16.5% on assessable profits in Hong Kong. No provision for Hong Kong Profits Tax for the year ended 31 December 2014 and 2015 is made as they are loss-making have had no assessable profits since their incorporation.

Pioneer Singapore and Pioneer Medident (SE Asia) Pte. Ltd. ("Pioneer Medident") are subject to Singapore Profits Tax of a rate of 17%. No provision for Singapore Profits Tax was made for the year ended 31 December 2014 and 2015 as the amount involved is insignificant.

A subsidiary, Pioneer Dynamic Co., Ltd., was incorporated in Taiwan and subject to corporate income tax of 17%. No provision for Taiwan income tax was made for the year ended 31 December 2014 and 2015 as it is loss-making and had no assessable profits since its incorporation.

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

According to Circular Zangzhengfa 2011 No. 14, enterprises located in Tibet are subject to a reduced EIT rate of 15% for the period from 2011 to 2020. Moreover, according to Circular Zangzhengfa 2008 No. 62 and Zangzhengbanfa 2011 No. 52, enterprises that are located in Naqu Logistics Center and engaged in specific encouraged industries enjoy a 40% exemption of the EIT for a period from 8 to 10 years. As approved by the in-charge tax bureau, Naqu Area Pioneer Pharma Co., Ltd ("Naqu Pioneer"), which is located in Naqu, Tibet, is subject to a reduced EIT rate of 9% from 2010 to 2019.

11. INCOME TAX EXPENSE (Continued)

Covex, Farma S.L. and Covex, S.A, companies incorporated in Spain, are subject to Spain corporate income tax for small company of 25%. No provision for Spanish income tax was made for the year ended 31 December 2015 as they had no assessable profits since the Group acquisition in July 2014.

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	206,795	304,688
Tax at the applicable income tax rate of 25%	51,699	76,172
Tax effect of expenses not deductible for tax purpose	19,645	4,524
Tax effect of income not taxable for tax purpose	(2)	(935)
Tax effect of tax losses not recognised	4,104	1,384
Tax effect of tax losses not recognised but subsequently used	(31)	(280)
Income tax on concessionary tax rate and tax exemption	(47,621)	(50,474)
Under provision in prior year	–	846
PRC withholding tax on dividends distributed by subsidiaries	10,000	14,000
Utilisation of deferred tax liabilities arising on undistributed profit of PRC subsidiaries	(3,500)	(1,500)
	34,294	43,737

12. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are based on the following data:

	2015	2014
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**RMB174,302,000**	RMB261,718,000
Numbers of shares:		
Weighted average number of ordinary shares (2014: number of ordinary shares) for the purpose of calculating basic earnings per share	**1,312,598,408**	1,333,334,000

For the year ended 31 December 2015, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2015 has been taken into account the ordinary shares purchased by the Trustee on the market pursuant to the Share Award Scheme.

For the year ended 31 December 2015 and 2014, the diluted earnings per share is the same as basic earnings per share as there is no dilutive potential ordinary shares outstanding in both years.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

For the year ended 31 December 2015

	Executive directors (Note d)		Non-executive director (Note e)	Independent non-executive directors (Note f)			Executive director and chief executive (Notes c and d)	
	Li Xinzhou RMB'000	Zhu Mengjun RMB'000	Wu Mijia RMB'000	Xu Zhonghai RMB'000	Lai Chanshu RMB'000	Wong Chihung RMB'000	Wang Yinping RMB'000	Total 2015 RMB'000
Fees	–	–	193	242	242	282	–	959
Other emoluments								
Salaries and other allowance	1,025	781	–	–	–	–	947	2,753
Retirement benefits scheme contributions	–	63	–	–	–	–	78	141
Expense under the Share Award Scheme	–	46	–	–	–	–	54	100
	1,025	890	193	242	242	282	1,079	3,953

For the year ended 31 December 2014

	Executive director (Note d)	Non-executive directors (Note e)			Independent non-executive directors (Note f)			Executive directors and chief executive (Notes c and d)	
	Zhu Mengjun RMB'000	Lu Yuan RMB'000	Wu Mijia RMB'000	Zhang Wenbin RMB'000	Xu Zhonghai RMB'000	Lai Chanshu RMB'000	Wong Chihung RMB'000	Li Xinzhou RMB'000	Total 2014 RMB'000
Fees	–	190	190	190	237	237	277	–	1,321
Other emoluments									
Salaries and other allowance	1,036	–	–	–	–	–	–	1,009	2,045
Retirement benefits scheme contributions	78	–	–	–	–	–	–	–	78
	1,114	190	190	190	237	237	277	1,009	3,444

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

(a) Mr. Lu Yuan and Mr. Zhang Wenbin have resigned as non-executive directors of the Company effective from 1 January 2015.

(b) Mr. Li Xinzhou has resigned as Chief Executive of the Company on 1 January 2015. Mr. Wang Yinping has been appointed as an executive director and the Chief Executive with effect from 1 January 2015.

(c) Mr. Wang Yinping (2014: Mr. Li Xinzhou) is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(d) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(e) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(f) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

The five highest paid individuals include 3 (2014: 2) directors for the year ended 31 December 2015. The emoluments of the remaining 2 (2014: 3) individuals, which were less than HKD1,000,000 for each individual were as follows:

	2015 RMB'000	2014 RMB'000
Salary and other allowances	**1,158**	1,479
Retirement benefits scheme contributions	**125**	187
	1,283	1,666

During both years, no emoluments were paid by the Group to the directors and five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for both years.

14. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends recognised as distribution during the year:		
2015 Interim – RMB5.7 cents per share (2014: RMB8.5 cents per share)	**75,274**	113,491
2014 Final – RMB8.5 cents per share (2013: RMB10.7 cents per share)	**112,507**	142,500
	187,781	255,991

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2015 of RMB3.6 cents (2014: RMB8.5 cents) per share, amounting to RMB47,500,000 (2014: RMB112,507,000) in aggregate, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP						
COST						
At 1 January 2014	400	168	9,840	392	9,045	19,845
Additions	30,999	96	2,492	1,221	4,669	39,477
Disposals	–	–	(202)	–	–	(202)
Transferred from construction in progress	10,899	–	–	–	(10,899)	–
Derecognised on disposal of a subsidiary	–	–	(111)	–	–	(111)
Acquisition through business combination	18,295	6,700	29,156	788	–	54,939
Effect of foreign currency exchange differences	(2,043)	(255)	(1,047)	–	–	(3,345)
At 31 December 2014	58,550	6,709	40,128	2,401	2,815	110,603
Additions	–	9	4,502	156	1,482	6,149
Disposals	–	–	(150)	–	–	(150)
Transferred from construction in progress	–	4,297	–	–	(4,297)	–
Derecognised on disposal of a subsidiary	–	(4,421)	(19,821)	(788)	–	(25,030)
Effect of foreign currency exchange differences	(832)	(104)	(428)	–	–	(1,364)
At 31 December 2015	57,718	6,490	24,231	1,769	–	90,208
ACCUMULATED DEPRECIATION						
At 1 January 2014	80	144	2,181	221	–	2,626
Provided for the year	1,406	108	2,610	213	–	4,337
Elimination on disposals	–	–	(27)	–	–	(27)
Elimination on disposal of a subsidiary	–	–	(4)	–	–	(4)
Effect of foreign currency exchange differences	(3)	(3)	(60)	–	–	(66)
At 31 December 2014	1,483	249	4,700	434	–	6,866
Provided for the year	1,990	1,248	3,391	372	–	7,001
Elimination on disposals	–	–	(142)	–	–	(142)
Effect of foreign currency exchange differences	(2)	(5)	(7)	–	–	(14)
At 31 December 2015	3,471	1,492	7,942	806	–	13,711
CARRYING VALUES						
At 31 December 2015	**54,247**	**4,998**	**16,289**	**963**	**–**	**76,497**
At 31 December 2014	57,067	6,460	35,428	1,967	2,815	103,737

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings and investment properties	5%
Leasehold improvement	Over the lease term of no more than 5 years
Furniture and equipment	20%
Motor vehicles	20%

All the Group's buildings are located in the PRC and Spain with land use rights under medium-term leases.

16. PREPAID LEASE PAYMENTS

Analysed for reporting purposes as:

	2015 RMB'000	2014 RMB'000
Current asset	52	52
Non-current asset	2,219	2,271
	2,271	2,323

All the Group's prepaid lease payments represented prepaid land use rights are located in the PRC under medium-term lease.

17. GOODWILL AND IMPAIRMENT TEST ON GOODWILL

	2015 RMB'000	2014 RMB'000
At 1 January 2015	42,265	–
Arising on acquisition of subsidiaries *(Note 39)*	–	44,112
Arising from disposal of a subsidiary *(Note 37)*	(27,569)	–
Exchange adjustments	–	(1,847)
Impairment loss for the year	(14,696)	–
At 31 December 2015	–	42,265

17. GOODWILL AND IMPAIRMENT TEST ON GOODWILL (Continued)

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to the following cash-generating units:

	2015 **RMB'000**	2014 RMB'000
Covex Group	**14,696**	14,696
Shenyang Zhiying Pharmaceutical Co., Ltd. ("Shenyang Zhiying") *(Note 39)*	**–**	27,569
Impairment loss for the year	**(14,696)**	–
	–	42,265

During the years ended 31 December 2015, management of the Group determines that there is an impairment of RMB14,696,000 (2014: nil) of the above-mentioned cash-generating unit containing the goodwill.

The recoverable amounts of Covex Group has been determined on the basis of value in use calculations. The value in use calculation use cash flow projections based on financial budgets approved by management covering a 5-year period. The rate used to discount the projected cash flow of Covex Group is 14.53% per annum (2014: 15.64% per annum). Cash flow beyond the 5-year period is extrapolated based on past trends of pricing cycle of the Group's pharmaceutical products. Other key assumptions for value in use calculation include gross budgeted sales and gross margin, which are determined based on the units' past performance and management's expectations for the market development.

An impairment loss of RMB14,696,000 arose in the Covex Group during the course of the 2015 year, resulting in the carrying amount of the cash-generating unit being written down to its recoverable amount. The impairment loss represents the difference between the recoverable amount and carrying amount of Covex Group. The recoverable amount of the Covex Group is determined based on the value in use calculation as mentioned above.

If the budgeted sales used in the value-in-use calculation for the Covex Group had been 10% lower than management's estimates at 31 December 2015, the recoverable amount of the Covex Group would be further reduced by approximately RMB11,337,000 and a further impairment will be recorded accordingly.

If the budgeted gross margin used in the value-in-use calculation for the Covex Group had been 10% lower than management's estimates at 31 December 2015, the recoverable amount of the Covex Group would be further reduced by approximately RMB26,612,000 and a further impairment will be recorded accordingly.

18. INTANGIBLE ASSETS

	Licenses and patents RMB'000	Customer base RMB'000	Customer contracts RMB'000	Total RMB'000
THE GROUP				
COST				
At 1 January 2014	16,689	–	–	16,689
Additions	6,314	–	–	6,314
Acquisition of subsidiaries	106,045	35,939	4,891	146,875
Effect of foreign currency exchange difference	(4,321)	(2,521)	–	(6,842)
At 31 December 2014	124,727	33,418	4,891	163,036
Additions	1,600	–	–	1,600
Disposal of a subsidiary *(Note 37)*	(67,607)	(13,359)	(4,891)	(85,857)
Disposals	(290)	–	–	(290)
Effect of foreign currency exchange difference	(1,749)	(1,028)	–	(2,777)
At 31 December 2015	56,681	19,031	–	75,712
ACCUMULATED AMORTISATION				
At 1 January 2014	1,468	–	–	1,468
Provided for the year	2,200	1,064	–	3,264
Effect of foreign currency exchange difference	(62)	(61)	–	(123)
At 31 December 2014	3,606	1,003	–	4,609
Provided for the year	8,025	1,855	–	9,880
Effect of foreign currency exchange difference	20	(4)	–	16
At 31 December 2015	11,651	2,854	–	14,505
CARRYING VALUES				
At 31 December 2015	**45,030**	**16,177**	**–**	**61,207**
At 31 December 2014	121,121	32,415	4,891	158,427

18. INTANGIBLE ASSETS (Continued)

The above items intangible assets are amortised over their estimated useful lives, using the straight-line method, at the following rates per annum:

Licenses and patents	Over the contract period of no more than 20 years
Customer base	10%
Customer contracts	Over the contract period of no more than 5 years

19. INTEREST IN ASSOCIATES

Details of the Group's interest in associates are as follows:

	2015 RMB'000	2014 RMB'000
Cost of unlisted investments in associates	**131,168**	57,711
Share of post-acquisition losses and other comprehensive income	**(50,810)**	(22,523)
Gain on dilution	**7,975**	–
Impairment loss on investment in an associate	**(41,263)**	–
	47,070	35,188

Name of associates	Form of entity	Classes of shares held	Principal activity	Placed incorporation and operation	Proportion of ownership interest (ordinary share) and voting power held by the Group	
					2015	2014
Q3 *(Note a)*	Incorporated	Ordinary shares	Manufacturing and trading of medical devices	Ireland/German	**36.57%**	32.99%
YingSheng 3D Medical Imaging Centre ("YingSheng")	Incorporated	Ordinary shares	Stomatological computed tomography services	PRC	**35%**	35%
NovaBay *(Note b)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	Untied States	**11.71%**	N/A

19. INTEREST IN ASSOCIATES (Continued)

Notes:

(a) During the year, the Group converted a loan of a principal amount of EUR1,500,000 (equivalent to RMB9,778,000) (Note 25) into 26,354 ordinary shares of Q3. The Group also further subscribed 19,500 ordinary shares of Q3 for a total consideration of approximately EUR1,500,000 (equivalent to RMB10,044,000).

Q3 also issued an aggregate of 49,203 ordinary shares to various investors. A gain on dilution of approximately RMB6,475,000 was recognised.

As of 31 December 2015, the Group held a total of 148,165 ordinary shares representing approximately 36.57% (31 December 2014: 32.99%) of the issued capital of Q3.

(b) As of 31 December 2014, the Group held 14.7% of the issued capital of NovaBay and the investment was classified as available-for-sale investment and shown as “Other Investments” on the consolidated statement of financial position.

On 6 March 2015, the Group further subscribed 2,590,000 ordinary shares of NovaBay and subsequent to the subscription, the Group held a total of approximately 16.7% of the issued capital of NovaBay.

Subsequently on 10 April 2015, the Group obtained representation on the board of directors which is the governing body of NovaBay and as a result, the directors of the Company considered that the Group can exercise significant influence over NovaBay and therefore reclassified the Group’s interest in NovaBay with the carrying amount of approximately RMB53,635,000 from “Other Investments” to “Interest in Associates” with effect from the same date.

During the year, NovaBay issued shares to various other investors. The Group’s interest in NovaBay was diluted to 13.9% in May 2015 and 11.71% in December 2015. A deemed gain on dilution of approximately RMB4,144,000 and a deemed loss on dilution of approximately RMB2,644,000 was recognised, respectively.

Indicated by negative financial performance of Q3 and decline quoted market price of NovaBay in the year ended 31 December 2015, the Group takes into consideration to perform annual impairment assessment for their carrying amounts in accordance with IAS 36 Impairment of Assets as single assets.

The Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. As NovaBay is listed securities in New York Stock Exchange in the United States, its fair value less costs of disposal can be determined based on the quoted market price of the shares as management of the Group considers that the cost of disposal are insignificant.

In assessing the value in use of Q3 and NovaBay as at 31 December 2015, it has been determined based on the Company’s share of the present value of the estimated future cash flows expected to be generated by Q3 and NovaBay. The value in use calculations use cash flow projections for the Q3 and NovaBay based on financial budgets approved by management covering a 5-year period. They are based on a discount rate of 15.39% and 15.40%, respectively. Other key assumptions for the value in use calculations relate to the estimation of cash inflow/outflows which include budgeted revenue and gross margins during the budget period. Budgeted revenue and gross margins have been determined based on past performance and management’s expectations for the market development.

The recoverable amount of the investment in Q3 and NovaBay as at 31 December 2015 have been determined based on the value in use calculations and quoted market price, respectively. For NovaBay, the recoverable amount of the investment was less than the corresponding carrying value. Hence, the Company recognised an impairment loss of approximately RMB41,263,000 (2014: nil) for the year ended 31 December 2015 in relation to the interest in associates.

19. INTEREST IN ASSOCIATES (Continued)

As the recoverable amount of Q3 is greater than the corresponding carrying amount, nil impairment loss is recognised for the year ended 31 December 2015. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amounts of Q3 to exceed the aggregate recoverable amount of Q3.

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Q3

	2015 RMB'000	2014 RMB'000
Non-current assets	**75,803**	86,003
Current assets	**52,249**	41,559
Non-current liabilities	**26,692**	34,036
Current liabilities	**27,816**	40,380

	2015 RMB'000	2014 RMB'000
Revenue	**59,990**	52,328
Loss for the year	**47,131**	52,784
Total comprehensive expense for the year	**53,960**	52,784

Reconciliation of the above summarised financial information to the carrying amount of the interest in Q3 recognised in the consolidated financial statement:

	2015 RMB'000	2014 RMB'000
Net assets of the associate	**73,544**	53,146
Proportion of the Group's ownership interest in Q3	**26,895**	17,533
Goodwill	**13,100**	15,780
Carrying amount of the Group's interest in Q3	**39,995**	33,313

19. INTEREST IN ASSOCIATES (Continued)

NovaBay

	2015 RMB'000
Non-current assets	118,394
Current assets	29,383
Non-current liabilities	81,899
Current liabilities	30,073

	From date of acquisition on 10 April 2015 to 31 December 2015 RMB'000
Revenue	22,870
Loss for the period	93,557
Total comprehensive expense for the period	93,557

Reconciliation of the above summarised financial information to the carrying amount of the interest in NovaBay recognised in the consolidated financial statement:

	2015 RMB'000
Net assets of the associate	35,805
Proportion of the Group's ownership interest in NovaBay	4,193
Goodwill	42,421
Impairment	(41,263)
Carrying amount of the Group's interest in NovaBay	5,351
Fair value of NovaBay *(Note)*	5,351

Note: As at 31 December 2015, the fair value of the Group's interest in NovaBay, of which its shares are listed on the New York Stock Exchange, was US$824,000 (equivalent to RMB5,351,000) based on the quoted market price available on the New York Stock Exchange.

19. INTEREST IN ASSOCIATES (Continued)

Aggregate information of associate that is not individually material

	2015 RMB'000	2014 RMB'000
The Group's share of loss	**151**	165
The Group's share of comprehensive income	**–**	–
Carrying amount of the Group's interest	**1,724**	1,875

20. OTHER INVESTMENTS/TRUST INVESTMENTS

Other investments

The balance as of 31 December 2015 represent the investment in a Shanghai Yuhan fund ("the Fund"), which is incorporated in PRC. The Fund specializes in making equity investment to various targets within pharmaceutical industry. As at 31 December 2015, the Fund has received contributions from shareholders of RMB250 million, among which the Company has injected RMB20 million and accounted for 8% of the equity interest of the Fund.

The Company's investment is accounted for AFS. As at 31 December 2015, the Fund has mainly composed by cash and cash equivalent and has not yet made any investments. The management of the Group believes that the fair value of the investment approximates the cost of the investment as at 31 December 2015.

The balance as of 31 December 2014 represent the 14.7% equity interest in NovaBay which was reclassified to interest in associates upon further subscription of the shares and obtaining the representation on the board of directors, as detailed in note 19.

Trust investments

During the year ended 31 December 2014, the Group entered into various fund trust arrangements with a trust company, the trust provide funding to specified corporate borrowers, unrelated to the Group. Funds amounted to approximately RMB10,000,000 and RMB65,000,000 held by the Group are due within twelve months and due after twelve months as of 31 December 2014, respectively.

The trust investments were classified as available-for-sale investments on initial recognition and the fair value were determined based on future cash flow discounted at a rate that reflect the credit risk of various counterparties. Certain trust investments were pledged with properties located in PRC and one of the trust investments allows the Group to redeem the principal and accrued interest prior to the maturity date.

During the year ended 31 December 2015, all the trust investments have been redeemed.

21. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Finance lease receivables comprise:				
Within one year	43,720	36,071	21,720	18,604
In more than one year but not more than two years	30,384	27,965	18,146	16,375
In more than two years but not more than five years	57,139	86,142	44,078	66,760
More than five years	4,360	8,717	4,093	7,691
	135,603	158,895	88,037	109,430
Less: unearned finance income	(47,566)	(49,465)	N/A	N/A
Present value of minimum lease payment receivables	88,037	109,430	88,037	109,430
Impairment on finance lease receivable	(6,871)	–	(6,871)	–
	81,166	109,430	81,166	109,430
Analysed for reporting purposes as:				
Current assets			21,720	18,604
Non-current assets			59,446	90,826
			81,166	109,430

The Group's sales of medical devices usually involve immediate transfer of legal ownership and are to be settled by instalments over a period, which is usually 12 to 36 months. Such sales of medical devices are accounted for under IAS 18 Revenue.

In addition, the Group has also entered into sale contracts with its customers pursuant to which legal ownership is only transferred to the customers upon full payment of the contract sum (the "Contracts"). The mode of payment of contract sum under the Contracts depends on the utilisation of devices by the customer during the contract period, subject to annual minimum purchases during the term of the Contracts. As the feature of these contracts is such that substantially all the risks and rewards incidental to the ownership of the medical devices have been transferred to the customers upon inception of the contract, notwithstanding that the titles to the medical devices may only be transferred to the customers upon full payment of the contract sum which may occur at any time during the contract period, the sales of medical devices under such Contracts have been accounted for as finance lease under IAS 17 Leases and finance lease receivables have been recognised accordingly.

21. FINANCE LEASE RECEIVABLES (Continued)

Effective interest rates per annum of the above finance lease receivables for the year are as follows:

	2015	2014
Effective interest rate	1% to 22%	1% to 22%

Movement in provision for finance lease receivables

	2015 RMB'000
1 January	–
Impairment losses recognised on receivables	6,871
31 December	6,871

As at 31 December 2015, impairment loss on finance lease receivables of RMB6,871,000 has been made in respective of debtors, as in the opinion of the directors of the Company, these amounts cannot be recovered due to default in payments.

Except the mentioned debtor, finance lease receivables which are neither past due nor impaired, the directors of the Company assessed that the balances are with good credit quality according to their past repayment history.

Security deposits of approximately RMB870,000 (2014: RMB1,270,000) have been received by the Group to secure the finance lease receivables. In addition, the finance lease receivables are secured over the leased assets mainly medical equipment as at 31 December 2015. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

Estimates of fair value of collateral are made during the credit approval process, determined using valuation techniques commonly used for the corresponding assets. These estimates of valuations are made at the inception of finance lease, and generally not updated except when the receivable is individually impaired. When a finance lease receivable is identified as impaired, the corresponding fair value of collateral of that loan is updated by reference to market value such as recent transaction price of the assets.

Security deposits received have been classified into non-current liabilities of RMB870,000 (2014: RMB1,270,000) based on the final lease instalment due date stipulated in the finance lease agreements.

22. DEFERRED TAX

	2015 RMB'000	2014 RMB'000
Deferred tax assets	**2,132**	2,286
Deferred tax liabilities	**(13,406)**	(43,274)
	(11,274)	(40,988)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the year ended 31 December 2015:

	Allowances RMB'000	Unrealised profit on inventories RMB'000	Provision for sale return RMB'000	Accrued expenses RMB'000	Undistributed profit of subsidiaries RMB'000	Fair value adjustments RMB'000	Total RMB'000
THE GROUP							
At 1 January 2014	129	539	380	1,094	(7,500)	–	(5,358)
Credit (charge) to profit or loss for the year	90	(82)	44	92	1,500	534	2,178
Acquisition through business combination	1,211	–	–	–	–	(40,622)	(39,411)
Effect of foreign currency exchange differences	–	–	–	–	–	1,603	1,603
At 31 December 2014	1,430	457	424	1,186	(6,000)	(38,485)	(40,988)
Credit (charge) to profit or loss for the year	844	(244)	(256)	(498)	3,500	932	4,278
Disposal of a subsidiary	(1,211)	–	–	–	–	25,981	24,770
Effect of foreign currency exchange differences	–	–	–	–	–	666	666
At 31 December 2015	**1,063**	**213**	**168**	**688**	**(2,500)**	**(10,906)**	**(11,274)**

22. DEFERRED TAX (Continued)

The Group has unused tax losses of approximately RMB199,004,000 (2014: RMB187,712,000) as at 31 December 2015 respectively available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	2015 RMB'000	2014 RMB'000
2017	**2,420**	2,420
2018	**5,156**	5,156
2019	**25,280**	25,280
2020	**11,424**	6,420
No expiry	**154,724**	143,436
	199,004	182,712

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 5%, if applicable. As at 31 December 2015, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries amounted to RMB248,212,000 (2014: RMB174,853,000). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB198,212,000 (2014: RMB54,853,000) as the Group has set aside such fund for the business development in the PRC and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax liabilities approximately RMB2,500,000 (2014: RMB6,000,000) was recognised as at 31 December, 2015.

23. INVENTORIES

All inventories represented finished goods of pharmaceutical products and medical devices. As at 31 December 2015, inventories including goods in transit of approximately RMB80,172,000 (2014: RMB129,906,000).

During the year ended 31 December 2015, reversal of allowance for inventories amounting to RMB679,000 (2014: nil) have been recognised by the Group and included in cost of sales.

24. TRADE AND OTHER RECEIVABLES AND LONG TERM RECEIVABLES

	2015 RMB'000	2014 RMB'000
THE GROUP		
Trade receivables	314,644	400,975
Less: Allowance for doubtful debts	(6,640)	(1,700)
	308,004	399,275
Bill receivables	83,895	121,170
	391,899	520,445
Other receivables, prepayments and deposits	20,716	6,884
Less: Allowance for doubtful debts	(129)	(53)
	412,486	527,276
Interest receivables	3,249	13,691
Advance payment to suppliers	3,276	2,569
Other tax recoverable	1,355	1,711
Other receivables *(Note)*	–	32,199
Total trade and other receivables	420,366	577,446
Classified as:		
– Non Current		
Trade receivables	–	1,400
	–	1,400
– Current		
Trade receivables	308,004	399,275
Bill receivables	83,895	121,170
Other receivables, prepayments and deposits	28,467	55,601
	420,366	576,046
	420,366	577,446

Note: Amount represented prepayment made by Shenyang Zhiying to the local government for the acquisition of land use rights during the year ended 31 December 2013. However, after consideration of the future development of Shenyang Zhiying, management of Shenyang Zhiying concluded not to acquire the targeted land and did not submit the land use development document to the local government to complete the transaction. The entire deposit was disposed through disposal of subsidiary in note 37.

24. TRADE AND OTHER RECEIVABLES AND LONG TERM RECEIVABLES (Continued)

In relation to the sales of pharmaceutical products, the Group allows a credit period from 30 to 180 days to its trade customers.

For sales of medical devices, except for sales of medical devices under finance lease pursuant to which the legal ownership is transferred upon full payment of the contract sum as disclosed in note 21, the remaining sales of medical devices involved immediate transfer of legal ownership with contract sums to be settled by instalments over a general period of 12 to 36 months as stated in contracts are included in trade receivables. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the year ended date, which approximated the respective revenue recognition dates:

	2015 RMB'000	2014 RMB'000
THE GROUP		
0–60 days	**197,365**	287,524
61 days to 180 days	**77,349**	59,253
181 days to 1 year	**21,514**	40,248
1 year to 2 years	**11,776**	12,250
	308,004	399,275

The aged analysis of bills receivable presented based on the issue date at respective reporting dates:

	2015 RMB'000	2014 RMB'000
THE GROUP		
0–60 days	**42,339**	90,712
61 days to 180 days	**34,172**	29,595
181 days to 1 year	**7,284**	363
1 year to 2 years	**100**	500
	83,895	121,170

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB70,593,000 (2014: RMB81,673,000), which are past due as at 31 December 2015. Based on the historical experience of the Group, those trade receivables that are past due but not impaired are generally recoverable due to the long term cooperation history. The Group does not hold any collateral over these balances.

24. TRADE AND OTHER RECEIVABLES AND LONG TERM RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired:

	2015 RMB'000	2014 RMB'000
THE GROUP		
61 days to 180 days	49,605	45,719
181 days to 1 year	11,358	28,836
1 year to 2 years	9,630	7,118
	70,593	81,673

Movement in the allowance for doubtful debts:

	2015 RMB'000	2014 RMB'000
THE GROUP		
Balance at beginning of the year	1,753	469
Impairment losses recognised on receivables	5,277	1,326
Amounts written off during the year as uncollectible	(217)	–
Impairment losses reversed	(44)	(42)
Balance at end of the year	6,769	1,753

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB6,769,000 (31 December 2014: RMB1,753,000) which have delayed payments with poor settlement record.

25. LOANS TO ASSOCIATES

On 31 December 2013, Pioneer Singapore entered into a loan agreement (the "Q3 Loan Agreement") with Q3, an associate of the Company, for the granting of a unsecured loan of EUR1,500,000 (the "Q3 Loan") (equivalent to RMB12,607,000) by Pioneer Singapore to Q3 and to be repaid on or before 31 December 2016. The Q3 Loan was fully drawn down on 14 January 2014 at an interest rate of 10% per annum on the principal outstanding.

During the year, the Group fully converted the Q3 Loan principal into 26,354 ordinary shares (Note 19).

During the year, Pioneer Singapore entered into loan agreement with Q3, for the granting of an unsecured loan of EUR1,000,000 (equivalent to RMB7,099,000) by Pioneer Singapore to Q3 and to be repaid on or before 1 December 2017. Pioneer Singapore also granted promissory note in the principal amount of US$1,365,000 (equivalent to RMB8,864,000) to NovaBay an associate of the Company and to be repaid on or before 22 December 2018. The loan and promissory note were fully drawn down on 3 December 2015 and 23 December 2015 at interest rates of 10% per annum and 6% per annum, respectively on the principal outstanding.

As of 31 December 2015, the Company has accrued interest receivable of RMB1,296,000 (2014: RMB1,075,000) regarding the loans and promissory note.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Contingent consideration

As at 31 December 2014, derivative financial liabilities represent contingent consideration arose from the acquisition of approximately 51% equity interest of Shenyang Zhiying in December 2014 and classified as a derivative financial instrument (financial liability at fair value through profit or loss) in consolidated financial statements. During the year, the Group disposed of its entire 51% interest in Shenyang Zhiying as disclosed in note 37 and the related derivative financial liabilities was derecognised accordingly.

Warrants

The Group entered into a securities purchase agreement with NovaBay on 6 March 2015, pursuant to which the Group purchased 2,590,000 common shares, 2,590,000 unit of warrants with expiry date on 5 June 2016 and 1,942,500 unit of warrants with expiry date on 5 September 2020 for a total consideration of US$1,554,000 (equivalent to RMB9,561,000).

The first warrant ("Warrant A") which is exercisable beginning on the date six months after the date of issuance on 6 March 2015, entitles the holder to purchase one share of common stock at a price of $0.60 per share, and includes a provision for forced conversion if the common stock trades at or above $1.10 for 10 out of 20 consecutive trading days. This warrant will expire, unless exercised, 15 months following the date of issuance.

The second warrant ("Warrant B") entitles the holder to purchase seventy-five percent (75%) of one share of common stock at a price of $0.65 per share, and is exercisable beginning on the date six months after the date of issuance on 6 March 2015. This warrant will expire, unless exercised, on 5 September 2020.

In December 2015, NovaBay changed the exercise price of Warrant A and Warrant B to US$0.2 per share, with a change of expired date of Warrant A and Warrant B to 60 months following the date of issuance, unless exercised. Other conditions of Warrant A and Warrant B remain unchanged.

Pursuant to the reverse stock split effective in December 2015, each twenty-five (25) shares of outstanding common stock will be combined into one (1) new share, with no change in authorized shares or par value per share. Proportional adjustments will be made to the exercise prices of NovaBay's outstanding warrants. The reverse stock split will not affect any stockholder's ownership percentage of the NovaBay's common stock, except to the limited extent that the reverse stock split would result in any stockholder owning a fractional share. As a result, Warrant A and Warrant B entitled the holder to purchase one share of common stock at a price of US$5.00 per share.

26. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Warrants (Continued)

The Binomial Lattice valuation model has been used to estimate the total fair value of the warrants on date of issuance and at the end of reporting period and the fair value of the warrants are estimated at approximately RMB5,025,000 and RMB251,000, respectively, by a firm of independent qualified valuer not connected to the Group.

	As at 6 March 2015		As at 31 December 2015	
	Warrant A	Warrant B	Warrant A	Warrant B
Exercise price	US$0.60	US$0.65	US$5.00	US$5.00
Stock price	US$0.53	US$0.53	US$2.02	US$2.02
Expected volatility	59.93%	61.34%	66.10%	55.59%
Expected life	1.25 years	5.5 years	5.0 years	5.0 years
Risk free rate	0.39%	1.87%	0.38%	1.76%
Expected dividend yield	0%	0%	0%	0%
Financial assets at fair value in US$	297,646	519,036	922	37,770
Financial assets at fair value in RMB	1,831,505	3,193,784	5,673	245,462

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

The Group's pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group and issue of letter of credit, which are therefore classified as current assets. The deposits are to be released upon the settlement of relevant bank borrowings.

During the year ended 31 December 2015, the Group entered into several contracts of structured deposits with a bank for a term of one year. The principal of RMB100,708,000 (2014: nil) was guaranteed by the relevant bank and with a guaranteed minimal interest yield ranging between 2.90% to 3.10% per annum. These deposits contain non-closely related embedded derivatives and are subject to floating return determined by reference to the performance of 3-month LIBOR on US$ deposit. The directors of the Company considered the fair values of non-closely related embedded derivatives are insignificant as at 31 December 2015. As at 31 December 2015, the structured deposits have not been redeemed and were pledged to a bank as security for short term bank borrowings denominated in US$ granted to a group entity.

Other pledged bank deposits carry fixed interest rate at 0.35% (2014: from 3.30% to 4.00%) per annum as at 31 December 2015.

Bank balances and cash

The Group's bank balances carry interest at market rates that range from 0.35% to 0.50% (2014: from 0.00% to 0.50%) per annum as at 31 December 2015.

28. TRADE AND OTHER PAYABLES AND LONG TERM LIABILITIES

	2015 RMB'000	2014 RMB'000
THE GROUP		
Trade payables	**426,078**	391,751
Payroll and welfare payables	**6,424**	10,221
Advance from customers	**4,045**	5,072
Other tax payables	**1,457**	13,458
Marketing service fee payables	**4,404**	12,002
Interest payables	**1,726**	2,619
Deposits received from distributors	**7,094**	5,839
Amount due to a former related party *(Note a)*	**–**	4,800
Amount due to a former non-controlling shareholder *(Note a)*	**–**	12,500
Accrued purchase	**20,074**	54,416
Other payables and accrued charges	**20,462**	15,438
	491,764	528,116
Less: Amounts due after one year shown under long-term liabilities *(Note b)*	**(20,074)**	(54,416)
	471,690	473,700

Notes:

(a) These balances were disposed upon the disposal of Shenyang Zhiying on 13 March 2015 (Note 37).

(b) The amount represents the accounts for the cost of medical devices which are sold under the finance lease contracts and is not payable within one year.

The Group typically receives credit periods on its purchases of goods from 30 days to 180 days.

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

	2015 RMB'000	2014 RMB'000
THE GROUP		
0 to 90 days	**425,561**	389,438
91 to 180 days	**–**	2,206
181 to 365 days	**416**	86
Over 365 days	**101**	21
	426,078	391,751

29. RELATED PARTIES DISCLOSURES

(a) The name of related companies of the Group and their relationships with the Group are as follows:

Name of related companies	Relationships with the Group
(1) 海南三風友製藥有限公司 Hainan San Feng You Limited ("Hainan San Feng You")	Company controlled and beneficially owned by close family member of Mr. Li
(2) 洋浦新洲投資有限公司 Yangpu Xinzhou Investment Company Limited ("Xinzhou Investment")	Company controlled and beneficially owned by Mr. Li
(3) 洋浦安邦投資有限公司 Yangpu Anbang Investment Company Limited ("Anbang Investment")	Company controlled and beneficially owned by Mr. Li
(4) 先鋒醫藥股份有限公司 Pioneer Pharma	Company controlled and beneficially owned by Mr. Li
(5) 深圳影勝醫療技術有限公司 YingSheng	Associate of the Group from 17 January 2014
(6) Q3	Associate of the Group
(7) NovaBay	Associate of the Group from 10 April 2015
(8) 瀋陽富山清泉飲料銷售有限公司 Shenyang FuShanQingQuan Beverage Trading Limited* ("Fushan") *(Note)*	Company controlled and beneficially owned by non-controlling shareholder of Shenyang Zhiying
(9) 瀋陽華創投資有限公司 Shenyang HuaChuang Investment Limited* ("Huachuang") *(Note)*	Company controlled and beneficially owned by non-controlling shareholder of Shenyang Zhiying
(10) 瀋陽和旺實業有限公司 Shenyang HeWang Company Limited* ("Hewang") *(Note)*	Company controlled and beneficially owned by non-controlling shareholder of Shenyang Zhiying
(11) 瀋陽華興投資有限公司 Shenyang HuaXing Investment Limited* ("Huaxing") *(Note)*	Company controlled and beneficially owned by non-controlling shareholder of Shenyang Zhiying
(12) 瀋陽華仕達投資有限公司 Shenyang HuaShiDa Investment Limited* ("Huashida") *(Note)*	Company controlled and beneficially owned by non-controlling shareholder of Shenyang Zhiying

* The English name is for identification purpose only.

Note: These parties are no longer the related parties of the Group upon the disposal of Shenyang Zhiying on 13 March 2015.

29. RELATED PARTIES DISCLOSURES (Continued)

(b) The name of related parties of the Group who are individual and their relationships with the Group are as follows:

Name of related parties	Relationships with the Group
(1) Mr. Zhou Jianhua ("Mr. Zhou") *(Note)*	Non-controlling shareholder of Shenyang Zhiying
(2) Mr. Shen Quan ("Mr. Shen") *(Note)*	Non-controlling shareholder of Shenyang Zhiying

Note: These parties are no longer the related parties of the Group upon the disposal of Shenyang Zhiying on 13 March 2015.

(c) Except as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties during the reporting period:

	2015 RMB'000	2014 RMB'000
Purchase of finished goods from Hainan San Feng You	**1,935**	1,038
Purchase of finished goods from Covex, S.A. *(Note 1)*	**–**	3,138
Purchase of finished goods from Pioneer Pharma	**–**	–
Interest on loan to Q3	**256**	1,075
Interest on loan to NovaBay	**6**	–
Rental expense paid to Xinzhou Investment *(Note 2)*	**–**	450
Rental expense paid to Pioneer Pharma *(Note 2)*	**–**	252

Notes:

(1) Covex, S.A. was an associate of the Group from 18 June 2014 to 30 June 2014 and became a subsidiary of the Group since 1 July 2014.

(2) Starting from 1 January 2015, the office premises in Hainan from Xinzhou Investment and two vehicles from Pioneer Pharma were used by the Group free of charge.

29. RELATED PARTIES DISCLOSURES (Continued)

(d) Balances with related parties at end of reporting period are as follows:

	2015 RMB'000	2014 RMB'000
Name of the related parties		
Amount due from associates – current		
Q3 *(Note a)*	1,290	–
NovaBay *(Note a)*	6	–
	1,296	–
Amount due from related parties		
– Trade receivables		
Aged 0-90 days		
Fushan	–	800
Huachuang	–	6,570
	–	7,370
Loans to associates – non current		
Q3 *(note 25)*	7,099	12,238
NovaBay *(note 25)*	8,864	–
	15,963	12,238
– Other payables		
Hewang *(Note a)*	–	(7,000)
Huaxing *(Note a)*	–	(15,400)
Huashida *(Note a)*	–	(5,880)
Mr. Zhou *(Note a)*	–	(5,674)
Mr. Shen *(Note a)*	–	(1,250)
	–	(35,204)

Note:

(a) Amounts are non-trade nature, unsecured and repayable on demand.

29. RELATED PARTIES DISCLOSURES (Continued)

(e) Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	6,885	6,191
Retirement benefits scheme contribution	426	422
	7,311	6,613

The Group determines remuneration of key management personnel by reference to the performance of individuals and market trend.

30. BANK BORROWINGS

	2015 RMB'000	2014 RMB'000
THE GROUP		
Carrying amount of bank loans repayable within one year and shown under current portion	285,935	610,416
Analysed as:		
Secured	125,935	520,416
Unsecured	160,000	90,000
	285,935	610,416

As at 31 December 2015, the Group entered into various borrowings with the banks, mainly to finance its business operations. Such borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	2015 RMB'000	2014 RMB'000
Pledge of assets		
Bills receivables	7,629	6,614
Trade receivables	304,629	338,423
Pledged bank deposits	100,708	518,374
	412,966	863,411

The ranges of effective interest rates on the Group's fixed-rate borrowings are 1.01% to 4.97% (2014: 1.20% to 7.28%).

31. OBLIGATION UNDER FINANCE LEASES

During the year ended 31 December 2015, the Group lease certain of its medical devices from suppliers. Pursuant to the agreement, the legal ownership of the medical devices will automatically be transferred to the Group upon completion of the consumables purchase commitment within the lease term of 5 years. Interest rates underlying all obligation under finance leases are fixed at respective contract dates at 6% per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Amount payable under finance lease:				
Within one year	**2,727**	1,077	**1,943**	690
In more than one year but not more than two years	**4,627**	1,436	**3,545**	979
In more than two years but not more than five years	**13,101**	8,974	**11,785**	7,654
	20,455	11,487	**17,273**	9,323
Less: future finance charges	**(3,182)**	(2,164)	**N/A**	N/A
Present value of lease obligations	**17,273**	9,323	**17,273**	9,323
Analysed for reporting purposes as:				
Current liabilities			**1,943**	690
Non-current liabilities			**15,330**	8,633

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

32. PROVISION

	Provision for sales return RMB'000
THE GROUP	
COST	
At 1 January 2014	4,222
Additions	5,634
Utilisations	(5,141)
At 31 December 2014 and 1 January 2015	4,715
Additions	3,083
Reversal	(2,352)
Utilisations	(3,576)
At 31 December 2015	**1,870**

The Group provides for sales returns based on its previous experience and the expiry dates of the products sold.

33. SHARE CAPITAL

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised:			
On 1 January 2014, 31 December 2014 and 31 December 2015	**3,000,000,000**	**30,000,000**	**82,096**
Issued and fully paid:			
At 1 January 2014, 31 December 2014 and 31 December 2015	**1,333,334,000**	**13,333,340**	**82,096**

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

At the end of each reporting period, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group 2015 %	Equity interest attributable to the Group 2014 %	Principal activities
Directly held						
Pioneer HK 先鋒醫藥(香港)有限公司	Hong Kong	19 February 2013	US$5,000,000	100	100	Investment holding
Indirectly held						
Pioneer Medical (HK) 先鋒醫療器材(香港)有限公司	Hong Kong	27 June 2012	HKD1,000,000	60	60	Sales of medical devices in Hong Kong
Pioneer Medident	Singapore	27 August 2012	SGD120,000	60	60	Sales of medical devices in Southeast Asia
Xiantao Medical*1 仙桃先鋒醫療服務有限公司	PRC	22 March 2013	US$1,000,000	100	100	Sales of pharmaceutical products and medical devices
Xiantao Pioneer*2 仙桃市先鋒醫藥有限公司	PRC	31 July 2009	RMB10,000,000	100	100	Sales of pharmaceutical products
Pioneer Ruici*2 上海先鋒瑞瓷醫療器械有限公司	PRC	2 September 2011	RMB6,000,000	70	70	Sales of dental devices
Pioneer Singapore 先鋒醫藥(新加坡)私人有限公司#	Singapore	16 February 2011	SGD1	100	100	Sales of medical devices
Naqu Pioneer*2 那曲地區先鋒醫藥有限公司	PRC	21 January 2010	RMB8,000,000	100	100	Sales of imported in-licensed prescription products
Haikau Pioneer Pharma Leasing Company Limited1 海口先鋒醫藥租賃有限公司	PRC	18 December 2013	RMB150,000,000	100	100	Sales of medical devices and ancillary tools and accessories leasing

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group		Principal activities
				2015 %	2014 %	
Pioneer Dynamic Co., Ltd* 先鋒泰醫藥股份有限公司	Taiwan	10 October 2013	TWD10,000,000	52	60	Sales of medical devices
Covex, S.A[4]	Spain	20 May 1977	EUR14,500,000	100	68.63	Manufacturing of chemical and pharmaceutical products
Covex, Farma S.L.[4]	Spain	10 July 1991	N/A	N/A	100	Trading of pharmaceutical products
Shenyang Zhiying[1,3] 瀋陽志鷹藥業有限公司	PRC	23 November 1981	RMB30,000,000	–	51	Manufacturing of pharmaceutical products

* The English name is for identification purpose only.

\# The Chinese name is for identification purpose only.

Notes:

1. Established in the PRC in the form of wholly foreign-owned enterprise.
2. Established in the PRC in the form of domestic companies with limited liabilities.
3. The subsidiary was disposed during the year ended 31 December 2015 with details set out in note 37.
4. Covex, Farma S.L. was merged with Covex S.A. to become a single entity – Covex, S.A. on 4 December 2015. The new issued and fully paid capital is EUR14,500,000.

35. OPERATING LEASES

As lessee

As at 31 December 2015, the Group had commitments to make the following future minimum lease payments in respect of premises rented under non-cancellable operating leases which fall due as follows:

	2015 RMB'000	2014 RMB'000
THE GROUP		
Within one year	**497**	2,171
In the second to fifth years inclusive	**87**	4,207
	584	6,378

Operating lease payments represent rentals payable by the Group for certain of its properties. The leases terms are negotiated within 3 years and rentals are fixed for the terms.

As lessor

Equipment rental income earned for the year ended 31 December 2015 was RMB1,374,000 (2014: RMB1,370,000). All leases have fixed terms of 3 years.

As at 31 December 2015, the Group had contracted with tenants for the following future minimum lease payments:

	2015 RMB'000	2014 RMB'000
THE GROUP		
Within one year	**1,708**	1,472
In the second to fifth years inclusive	**629**	1,434
	2,337	2,906

36. RETIREMENT BENEFITS SCHEME

The Group's PRC subsidiaries, Singapore subsidiaries and Spain subsidiaries are required to make contributions to the state-managed retirement schemes operated by respective local governments based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The only obligation of these subsidiaries with respect to the state-managed schemes is to make the specified contributions.

The Group's employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The Group's contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

36. RETIREMENT BENEFITS SCHEME (Continued)

The total cost charged to profit or loss of approximately RMB8,880,000 (2014: RMB9,116,000) for the year ended 31 December 2015, represents contributions paid to the retirement benefits scheme by the Group.

As at 31 December 2014 and 2015, there was not outstanding contributions to the schemes.

37. DISPOSAL OF A SUBSIDIARY

Subsequent to the completion of the acquisition of Shenyang Zhiying on 30 December 2014, the Group was unable to reach consensus with Huachuang on the future strategic direction of Shenyang Zhiying. On 13 March 2015, the Group entered into a share transfer agreement with Dianbai County Fuhong Investments Co., Ltd. ("Dianbai Fuhong") to dispose of its entire 51% interest in Shenyang Zhiying at the same consideration as stipulated under the share acquisition agreement dated 19 November 2014.

	RMB'000
Net assets disposed of excluding intangible assets and goodwill	42,610
Intangible assets *(Note 18)*	85,857
Attributable goodwill *(Note 17)*	27,569
Contingent consideration arrangement *(Note 26)*	(83,087)
Non-controlling interests	(62,949)
Total consideration satisfied by cash	10,000
Net cash outflow arising on disposal:	
Total cash consideration received	10,000
Bank balances and cash disposed of	(36,023)
At 31 December 2015	**(26,023)**

38. SHARE AWARD SCHEME

The Company adopted the Scheme on the Adoption Date with a duration of 10 years commencing from the Adoption Date. The objective of the Scheme is to recognise the contribution by certain employees including directors and senior management of the Group (the "Selected Participants"), and to provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

The Company has set up a trust (the "Trust") for the purpose of facilitating the purchase, holding and sale of shares in the Group for the benefit of the employees of the Group. All the shares repurchased by the Group through the Trust in the Stock Exchange are recorded as treasury stock in the reserve and are for the Scheme only.

The Company will grant the shares under the treasury stock to the Selected Participants (the "Awarded Shares"), in which the Selected Participants will benefit by the appreciation of the shares over its award price on the grant date. The Awarded Shares will be vested in full in three years with one third to be vested on each of the first, the second and the third anniversary of the date of grant respectively.

38. SHARE AWARD SCHEME (Continued)

In accordance with the terms and conditions of the Scheme, the Selected Participant is entitled to receive cash only (and not the Awarded Shares) upon vesting of the Awarded Shares, and should the Selected Participant elects to accept such vesting, the amount the Selected Participant would receive would be equal to the number of the vested Award Shares multiply by the gain (being any positive amount resulting from the average sale proceeds less the award price) (the "Gain") and less any relevant personal income tax, if any.

Upon the vesting of the Awarded Shares, the Trustee shall effect the sale of such Awarded Shares at the prevailing market price and transfer the amount representing the Gain in relation to the vested Awarded Shares to the relevant Selected Participant. The proceeds (other than the Gain in relation to the vested Awarded Shares) shall be transferred to the Company or otherwise to be held in any way as determined by the Company (or the board) in its sole and absolute discretion.

For the avoidance of doubt, the Trustee will not be obligated to transfer any money to the Selected Participant if the amount resulting from the average sale proceeds less the award price is a negative amount.

During the year, the Company repurchased its own ordinary shares through the Trust as follows:

Month of repurchase	Number of ordinary Shares	Price per share Highest HKD	Lowest HKD	Aggregate consideration paid HKD'000
April 2015	7,150,000	5.93	5.83	42,096
May 2015	9,206,000	5.88	5.14	50,391
June 2015	13,395,000	5.50	4.52	66,360
July 2015	3,940,000	4.58	3.35	14,733
August 2015	2,127,000	3.62	3.60	7,685

On 9 October 2015, the Group has grant a total of 25,060,000 Awarded Shares to 150 employees with an award price of HKD5.076, which represents the average purchase cost per share in relation to all the shares that the Trustee purchased on the market between 22 April 2015 to 28 August 2015 pursuant to the Scheme.

The Awarded Shares represent approximately 18.8% of the scheme limit under the Scheme.

As at 31 December 2015, all the Awarded Shares are remain at the Trust.

As at 31 December 2015, the Group has recorded liabilities of RMB557,000 (equivalent to HKD665,000) (31 December 2014: nil). The fair value of the cash-settled share based payment is determined using the Black-Scholes pricing model based on the assumptions. The Group recorded total expenses of RMB557,000 (equivalent to HKD665,000) (2014: nil) during the year in respect of the cash-settled share based payment.

39. BUSINESS COMBINATIONS

Subsidiaries acquired

2014

	Principal activity	Date of acquisition	Proportion of shares acquired (%)
Covex Group	Trading and manufacturing of pharmaceutical products	1 July 2014	*Note*
Shenyang Zhiying	Manufacturing of pharmaceutical products	31 December 2014	51%

Note: The Group acquired 100% equity interest in Covex, Farma S.L. and approximately 68.63% equity interest in Covex S.A during the year ended 31 December 2014.

Covex Group is a manufacturer of Vinpocetine API in Spain. Currently, the Group obtained an exclusive right to market and distribute Vinpocetine API to domestic manufacturers of Vinpocetine in the PRC and through the acquisition of Covex Group, it can also help to secure a long-term and stable supply of Vinpocetine API.

Shenyang Zhiying is a processing manufacturer of Vinpocetine in the PRC and it was acquired to broaden the Group's business model by extending the industrial chain.

39. BUSINESS COMBINATIONS (Continued)

Consideration transferred

	Covex Group RMB'000	Shenyang Zhiying RMB'000	Total RMB'000
Cash paid for business acquisitions	24,390	10,000	34,390
Debt acquisitions *(Note a)*	58,637	–	58,637
Contingent consideration agreement *(Note b)*	–	83,087	83,087
	83,027	93,087	176,114

Notes:

(a) On 1 July 2014, Pioneer Singapore entered into the debt acquisition agreement with 65 creditors of Covex, S.A and Covex, Farma S.L., pursuant to which Pioneer Singapore acquired certain debts from these creditors with an aggregate face value of EUR18,639,355 (equivalent to RMB157,470,000) for a consideration of EUR6,983,831 (equivalent to RMB58,637,000). The debt acquisition is completed and settled on the same date.

(b) The contingent consideration requires the Group to pay the vendor a consideration equals to 51% of the audited net profit of Shenyang Zhiying for the year ended 31 December 2014, multiplied by a profit-earnings multiple of 14 times less the initial payment of RMB10 million. The audited financial result of Shenyang Zhiying for the year ended 31 December 2014 has to be prepared in accordance with the IFRS by an auditor appointed by the Company. If the vendor does not agree with the amount of consideration payable, both the Purchaser and the Seller should jointly appoint a third party auditor to conduct a re-audit. Up to the date of the report, the vendor yet to agree to the audited financial result of Shenyang Zhiying.

In addition, the vendor has provided a guarantee that the audited net profit of Shenyang Zhiying for the three consecutive fiscal years starting from 1 January 2015, prepared in accordance with the IFRSs, will continue to achieve a minimum annual growth of 15% compared to the immediate, preceding financial year audited result. If Shenyang Zhiying fails to achieve the target in any of the three consecutive fiscal years, Dianbai County Fuhong Investments Co., Ltd. ("Dianbai Fuhong"), the vendor, shall pay compensation to Xiantao Pioneer, the acquirer, in accordance with the formula stated in the acquisition agreement.

Based on financial budgets approved by the directors of Shenyang Zhiying, it will achieve an annual growth of 15% to 23% from 2015 to 2017. The Company will continue to assess the financial performance and budgets of Shenyang Zhiying at each of the reporting period end and recognise a corresponding derivative financial asset, if any, at its fair value.

Acquisition-related costs amounting to RMB2,741,000 (Covex Group: RMB1,831,000; Shenyang Zhiying: RMB910,000) have been excluded from the consideration transferred and have been recognised as an expense in prior year, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

39. BUSINESS COMBINATIONS (Continued)

Assets acquired and liabilities recognised at the date of acquisition

	Covex Group RMB'000	Shenyang Zhiying RMB'000	Total RMB'000
Current assets			
Inventories	31,103	37,276	68,379
Trade and other receivables	7,243	72,587	79,830
Amount due from related parties *(Note 29d)*	–	7,370	7,370
Bank balances and cash	16,223	3,824	20,047
Non-current assets			
Property, plant and equipment	29,909	25,030	54,939
Intangible assets	61,018	85,857	146,875
Other investment	555	–	555
Current liabilities			
Trade and other payables	(13,658)	(40,375)	(54,033)
Amount due to related parties *(Note 29d)*	–	(35,204)	(35,204)
Tax liabilities	–	(3,127)	(3,127)
Non-current liabilities			
Deferred tax liabilities	(14,640)	(24,771)	(39,411)
	117,753	128,467	246,220

The allocation of the cost of acquisition of Covex Group and Shenyang Zhiying to the identifiable assets and liabilities is completed when the appraisal of certain intangible assets is acquired, which is completed in March 2015. Accordingly, the above goodwill arising on the acquisition is based on the appraisal.

The fair values of property, plant and equipment and intangible assets were estimated by applying depreciated replacement market approach (with reference to recent market prices for similar land in similar locations) and income approach, respectively.

The receivables acquired (which principally comprised trade receivables, amount due from related parties and long term receivables) in these transactions with a fair value of RMB87,200,000 had gross contractual amounts of RMB87,200,000.

Non-controlling interests

The non-controlling interests in Covex, S.A and Shenyang Zhiying recognised at the acquisition date was measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of the company and amounted to approximately RMB39,097,000 and RMB62,949,000, respectively.

39. BUSINESS COMBINATIONS (Continued)

Goodwill arising on acquisition

	Covex Group RMB'000	Shenyang Zhiying RMB'000	Total RMB'000
Consideration transferred	83,027	93,087	176,114
Plus: Investment in an associate (24% in Covex, S.A) *(Note)*	12,172	–	12,172
Plus: non-controlling interest (31.37% in Covex, S.A)	39,097	–	39,097
Plus: non-controlling interest (49% in Shenyang Zhiying)	–	62,949	62,949
Less: fair value of identifiable net assets acquired	(117,753)	(128,467)	(246,220)
Goodwill arising on acquisition	16,543	27,569	44,112

Note: On 1 July 2014, Pioneer Singapore entered into the share acquisition agreement with Memory Secret S.L., to acquire the entire issued share capital of Covex, Farma S.L.. Covex, Farma S.L. holds approximately 44.63% equity interest in Covex, S.A.

On 16 May 2014, Pioneer Pharma entered into a share purchase agreement with Pioneer Pharma, pursuant to which Pioneer Singapore acquired 2,095,841 shares, representing approximately 24% of the entire issued share capital of Covex, S.A, for a total consideration of EUR1,450,000 (equivalent to RMB12,172,000). The acquisition was completed on 18 June 2014 and Covex, S.A became an associate of the Group.

Following the completion of share acquisition of Covex, Farma S.L., Pioneer Singapore holds, together with the previous acquired 24.0% interest in Covex, S.A, an aggregate of approximately 68.63% of the equity interest in Covex, S.A and it became a subsidiary of the Group.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of subsidiaries

	Covex Group RMB'000	Shenyang Zhiying RMB'000	Total RMB'000
Consideration paid in cash	83,027	10,000	93,027
Less: cash and cash equivalent balances acquired	(16,223)	(3,824)	(20,047)
	66,804	6,176	72,980

39. BUSINESS COMBINATIONS (Continued)

Impact of acquisitions on the results of the Group

Included in the profit for the year ended 31 December 2014 is RMB717,000 attributable to the additional business generated by Covex Group, and nil attributable to Shenyang Zhiying. Revenue for the year ended 31 December 2014 includes RMB18,123,000 in respect of Covex Group and nil in respect of Shenyang Zhiying.

Had these business combinations been effected at 1 January 2014, the revenue of the Group would have been RMB1,640,823,000, and the profit for the year ended 31 December 2014 would have been RMB229,185,000. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the "pro-forma" revenue and profit of the Group had Covex Group and Shenyang Zhiying been acquired at the beginning of the prior year, the directors of the Company have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payments and other intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

40. NON-CASH TRANSACTIONS

During 2015, the Group obtained representation on the board of directors which is the governing body of NovaBay and as a result, the directors of the Company considered that the Group can exercise significant influence over NovaBay. Therefore, reclassified the Group's interest in NovaBay with the carrying amount of approximately RMB53,635,000 from "Other Investments" to "Interest in Associates" on 10 April 2015.

41. SUMMARY OF FINANCIAL INFORMATION

(a) Statement of financial position of the Company

	2015 RMB'000	2014 RMB'000
Non-current Assets		
Investment in a subsidiary	825,424	1,010,906
Other investments	319	2,352
	825,743	1,013,258
Current Assets		
Other receivables	1,174	4,877
Amounts due from subsidiaries	–	2,654
Pledged bank deposits	–	332,952
Bank balances and cash	75,296	6,307
	76,470	346,790
Current Liability		
Other payables	5	2,614
Amounts due to subsidiary	8,511	7,988
Bank borrowings	–	303,281
	8,516	313,883
Net Current Assets	67,954	32,907
Total Assets less Current liability	893,697	1,046,165
Capital and Reserves		
Share capital	82,096	82,096
Reserves	811,601	964,069
Total Equity	893,697	1,046,165

41. SUMMARY OF FINANCIAL INFORMATION (Continued)

(b) Movement in reserves

	Share Capital RMB'000	Share premium RMB'000	Accumulated (loss)/ profits RMB'000	Investment valuation reserve RMB'000	Treasury share reserve RMB'000	Total RMB'000
At 1 January 2014	82,096	956,993	(11,851)	140	–	1,027,378
Profit for the year	–	–	276,322	–	–	276,322
Other comprehensive income	–	–	–	(1,544)	–	(1,544)
Total comprehensive income	–	–	276,322	(1,544)	–	274,778
Payments of dividends	–	–	(255,991)	–	–	(255,991)
At 31 December 2014 and 1 January 2015	82,096	956,993	8,480	(1,404)	–	1,046,165
Profit for the year	–	–	186,822	–	–	186,822
Other comprehensive income	–	–	–	(2,033)	–	(2,033)
Total comprehensive income	–	–	186,822	(2,033)	–	184,789
Payments of dividends	–	–	(187,781)	–	–	(187,781)
Purchase of shares under share award scheme	–	–	–	–	(149,476)	(149,476)
At 31 December 2015	**82,096**	**956,993**	**7,521**	**(3,437)**	**(149,476)**	**893,697**

42. SUBSEQUENT EVENTS

Subsequent to 31 December 2015, the Group has the following subsequent events:

On 16 February 2016, Pioneer Singapore entered into a security purchase agreement with NovaBay to purchase 696,590 common shares in NovaBay for a consideration of US$1,330,000 (equivalent to RMB8,670,000). After subscription of the security, the Group held a total of 1,104,742 ordinary shares of NovaBay, representing approximately 22.1% equity interest in NovaBay, and it remains as an associate of the Group. The exercise price of warrant A and warrant B have been adjusted to US$1.81 per share with other conditions remain unchanged. The management of the Company are still in the process of accessing the financial impact of the acquisition.