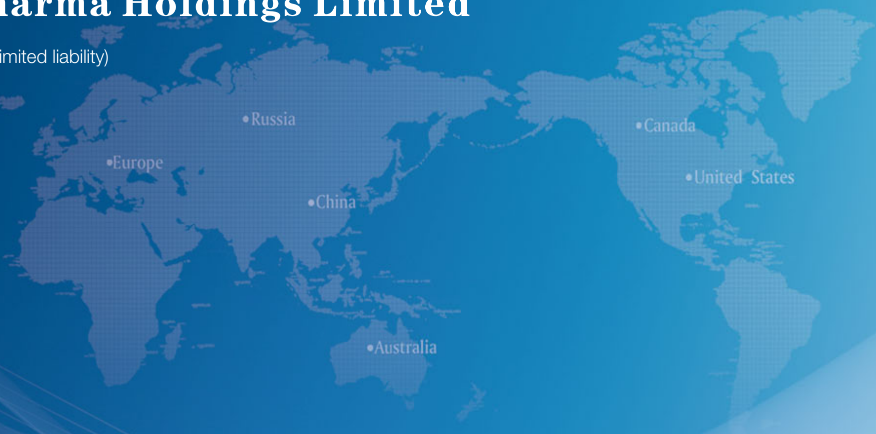
中国先锋医药控股有限公司
China Pioneer Pharma Holdings Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code : 01345



先機為重 PIONEERING
鋒行天下 SUCCESS

ANNUAL REPORT 2017

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Li Xinzhou *(Chairman)*
Mr. Zhu Mengjun *(Chief Executive Officer)*

Non-executive Directors
Mr. Wang Yinping
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
Mr. Min Le

COMPANY SECRETARY
Mr. Min Le

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
36/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
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

Allen & Overy

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 increased by 20.3% to RMB2,153.9 million in 2017 from RMB1,790.3 million in 2016.
- Gross profit of the Group increased by 21.6% to RMB721.4 million in 2017 from RMB593.4 million in 2016.
- Net profit of the Group increased by 17.6% to RMB280.6 million in 2017 from RMB238.6 million in 2016. Excluding a net amount of RMB34.9 million from the reversal of impairment loss on investment in associates in 2016, net profit of the Group increased by 37.7% to RMB280.6 million in 2017 from RMB203.7 million in 2016.
- Basic earnings per share of the Company was RMB0.22 in 2017, which represents a 22.2% increase compared to RMB0.18 in 2016.

	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Operating results					
Revenue	1,272,247	1,540,398	1,460,899	1,790,275	**2,153,935**
Gross profit	386,647	491,949	462,577	593,417	**721,421**
Profit before income tax	272,486	304,688	206,795	282,350	**309,317**
Profit for the year	235,754	260,951	172,501	238,624	**280,607**
Profit for the year, all attributable to the owners of the Company	238,372	261,718	174,302	237,445	**278,925**
Profitability					
Gross margin (%)	30.4%	31.9%	31.7%	33.1%	**33.5%**
Net profit margin (%)	18.5%	16.9%	11.8%	13.3%	**13.0%**
Total assets	1,996,915	2,554,851	1,822,024	1,748,472	**1,834,046**
Total equity	1,157,285	1,225,975	996,441	1,110,551	**1,141,065**
Total liabilities	839,630	1,328,876	825,583	637,921	**692,981**
Gearing ratio (%)	21.5%	23.9%	15.7%	4.4%	**1.6%**
Equity attributable to equity owners of the Company	1,157,628	1,127,360	998,090	1,110,859	**1,140,123**
Cash and cash equivalents	702,073	260,834	317,113	309,640	**226,154**

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" or "We", "Our" and "Us"), I would like to express my gratitude to all shareholders of the Company (the "Shareholders") for their continued interest in and unwavering support for China Pioneer Pharma. 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 2017 (the "Reporting Period").

2017 was an extraordinary year. While the growth rate of China's macro-economic development continued to slow down, China's economy still maintained a steady growth on the whole. Meanwhile, the government vigorously promoted economic reform and economic restructuring, in line with the supply-side structural reform. Under this background, China's new round of health care reform continued to develop and expand in depth and breadth. Reform has been intensified in a number of areas including reform of public hospitals, improvements to the national medical insurance system to cover the entire population, development of private hospitals, strengthening of pharmaceutical supply system, classification of medical treatments and encouragement of the use of local clinics and reformation of the basic healthcare institutions. A number of policies related to the Chinese pharmaceutical sector have been announced, including the introduction of several detailed regulations relating to the "Consistent Evaluation of Generic Drugs", the formal implementation of the "Two-Invoice System", the issue of the new "National Drug Reimbursement Catalogue", and the issue of "Reform Opinions on Deepening the Review and Approval System of Medical Products". The pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail industries have undergone tremendous changes as a result of these policies.

Founded in 1996, the Group has over two decades of operating history, dedicated to providing comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices in China. Operating in a distinctive and important segment of the Chinese pharmaceutical industry, the Group, leveraging its competitive strengths, endeavors to seize opportunities to further develop its business amidst a changing and challenging market environment. During the Reporting Period, the Group's operating performance achieved satisfactory results. The revenue of the Group increased by 20.3% to RMB2,153.9 million from RMB1,790.3 million in 2016; profit for the year increased by 17.6% to RMB280.6 million from RMB238.6 million in 2016. Excluding a net amount of RMB34.9 million from the reversal of impairment loss on investment in associates in 2016, net profit of the Group increased by 37.7% to RMB280.6 million in 2017 from RMB203.7 million in 2016. Basic earnings per share of the Company increased by 22.2% to RMB0.22 from RMB0.18 in 2016.

Despite the pressures of increasing medical insurance cost control and decreasing drug prices in tender processes, as the policy direction becomes clearer and the standard of regulatory compliance rises across the industry, the overall pharmaceutical industry appears to have largely stabilized and its performance is now trending upwards, from which the Group benefits. During the Reporting Period, the Group made full use of its products' advantages of high-quality and definite clinical effects, combining with refined and differentiated academic promotion activities, so as to expand the market coverage of its products, focus on the development of potential products, and continuously enhance its market share. The Group's business relating to products sold via the provision of comprehensive marketing, promotion and channel management services, which is also called initiative promotion such as Difene, Fluxum, Polimod, Neoton, Macmiror Complex, odontology equipment and consumables, etc, have achieved pleasing results. In particular, the annual sales of Fluxum and Polimod amounted to more than RMB200 million. The Group will continue to optimize the market positioning of its products and reinforce its marketing activities to continuously improve the profitability of these products.

The Group has been providing co-promotion and channel management services for all of Alcon's ophthalmic pharmaceutical products in China for over 20 years, and the current cooperation agreement entered into between the two parties is due to expire on 31 December 2018. During the Reporting Period, the Group's business cooperation with Alcon has attracted extensive attention. In August 2017, Alcon and its related party, Beijing Novartis Pharmaceutical Co., Ltd. ("Beijing Novartis") have indicated to the Group that they do not intend to extend the agreement on the same terms following its expiry. As disclosed in the Company's announcement dated 28 December 2017, the Group entered into a transitional agreement with Alcon and Beijing Novartis in December 2017, pursuant to which Alcon and Beijing Novartis agreed to continue to supply an agreed minimum value of the ophthalmic pharmaceutical products supplied under the current cooperation agreement (the "Alcon Products") to the Group in 2018, and the total value (i.e. the total cost) of the Alcon Products which the Group may sell in 2018 will be no less than RMB617 million (net of tax). Subject to the terms of the transitional agreement, if the gross profit margin of the Group for the sale of the Alcon's products in 2018 is less than 8%, Alcon and/or Beijing Novartis will compensate the Group with the effect of making up the shortfall so that the Group's gross profit margin for the Alcon's products will reach 8%. In addition to the arrangements under the transitional agreement, the Group continues to be in talks with Alcon regarding other possible future cooperation arrangements. The Group and Alcon have been cooperating with each other for over 20 years and both witnessed the development and changes of the ophthalmic pharmaceutical market in China. Even though it is conceivable that such change in cooperation with Alcon will have a negative impact on the Group's operating results temporarily, with the rapid growth of the Group's initiative promotion products and its ever-expanding product portfolio, the Group is confident to eliminate the negative impact in a short time. Meanwhile, the concentration of our resources on the initiative promotion products with higher profit contribution will also help the Group adjust and upgrade the product mix and enhance the profitability of the Group as a whole.

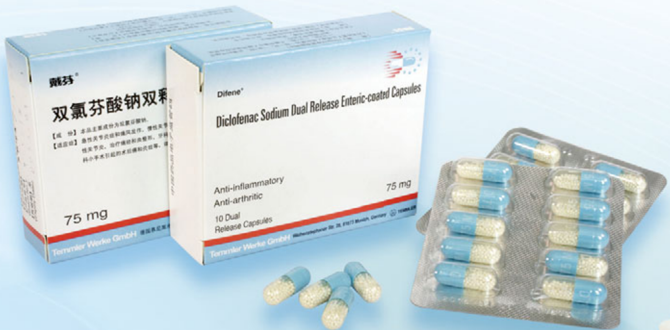
For the year of 2017, in addition to several products in respect of which the Group is applying for registration with the China Food and Drug Administration ("CFDA"), the Group entered into a distribution agreement with Ortho Development Corporation ("Ortho Development") of the United States in June 2017, pursuant to which the Group was granted the exclusive distribution rights with respect to its Balanced Knee® System products (the "BKS Products") in China (excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan). The registration of the medical device for this product has been completed. Nowadays, China has become the second largest market for orthopedic medical devices in the world. Owing to the aging population and improvement in government policies related to health insurance, the market size for orthopedic medical devices continues to grow rapidly in China. This agreement will facilitate the Group's entry into the area of knee treatment, expand the Group's offering of orthopedic treatment products, enhance the Group's product portfolio and generate sustainable revenue for the Group. In addition, the Group proactively maintains a close liaison with a number of overseas pharmaceutical and medical device companies in order to introduce products which have market potentials or market foundations for marketing, promotion and sales in a timely manner.

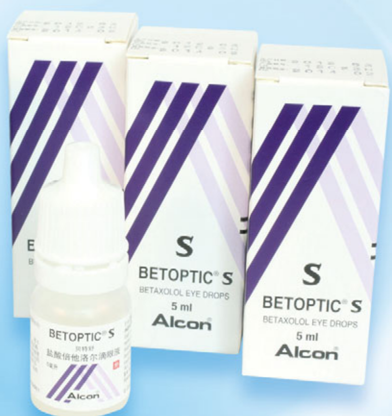
China's pharmaceutical industry has undergone tremendous changes, and each corporation in the industry is faced with the pressures and challenges, as well as benefiting from both the aging of the population and the two-child policy. Looking forward, the Group will focus on introducing and developing new products, exploring marketing and promotion capabilities, expanding market coverage through win-win cooperation, and enriching the industrial chain through mergers and acquisitions so as to comprehensively enhance the Company's core competitiveness. The Group will actively respond to the changes and challenges, as well as make innovation to realize the new blue print of its future development.

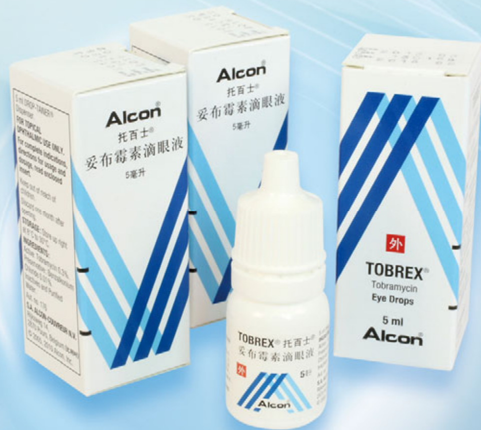
Li Xinzhou
Chairman of the Board

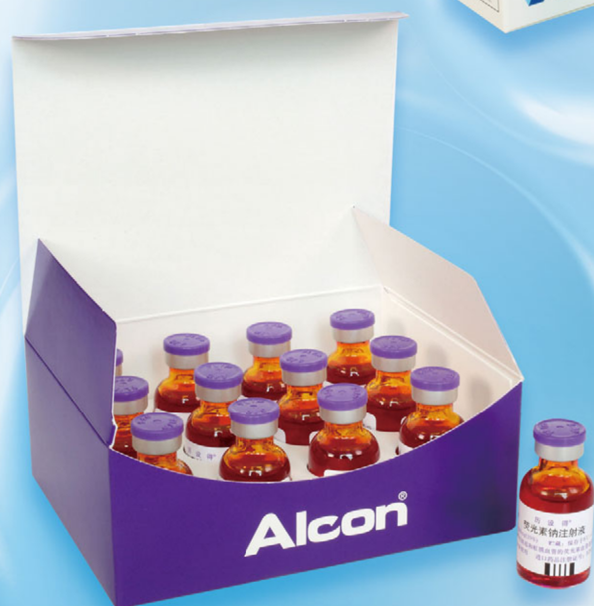
21 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS







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伤口清洁液体敷料
40 mL
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TRAVATAN®
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苏为坦®
曲伏前列素滴眼液
Alcon
2.5mL
Sterile
注射用磷酸肌酸钠 1g
里尔统® NEOTON® 1 g
注射用磷酸肌酸钠
里尔统® NEOTON® 1g
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®
ORAL SOLUTION
POLIMOD®
规格：每7毫升含匹多莫德400mg
生产企业：普利化学工业公司 意大利多帕药业有限公司
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Management Discussion and Analysis

OPERATIONAL REVIEW

For the year of 2017, under the continued pressure of medical insurance cost controls, policies on China's pharmaceutical sector are still directed towards pursuing the most efficient use of medical insurance funds. The pressure of decreasing drug prices in tender processes all over China, the integration of the pharmaceutical distribution industry driven by the "Two-Invoice System", and the reduction in non-market factors for the use of certain drugs through the separation of hospitals and pharmacies, are all aimed at improving the efficiency of utilizing medical insurance funds. The structure of China's pharmaceutical industry is undergoing profound adjustments and changes. On the other hand, China's pharmaceutical industry is benefiting from both the trend of aging population and the escalation in the demand for medical products resulting from consumption upgrades, which give rise to unprecedented development opportunities for each corporation in the industry.

The Group is dedicated to providing the comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices in China. During the Reporting Period, the Group has proactively managed the impact of the aforementioned pricing policies and market changes, achieving pleasing results through emphasizing the development of its key products, while taking into account the market position and promotion of potential products. For the Reporting Period, the Group's revenue increased by 20.3% year-on-year to RMB2,153.9 million (2016: RMB1,790.3 million), gross profit increased by 21.6% year-on-year to RMB721.4 million (2016: RMB593.4 million) and net profit for the year increased by 17.6% year-on-year to RMB280.6 million (2016: RMB238.6 million).

For the Reporting Period, the Group's revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 29.2% compared to last year to RMB818.5 million, representing 38.0% of the Group's revenue for the Reporting Period. Gross profit increased by 30.4% compared to last year to RMB524.7 million, representing 72.7% of the Group's gross profit for the Reporting Period.

During the Reporting Period, the medical device business was negatively affected by the fact that the medical device products recently launched by the Group are still at the stage of marketing and distribution. Meanwhile, some medical device consumables were impacted by the decrease in bidding prices and market competition. For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 8.8% compared to last year to RMB126.0 million, representing 5.9% of the Group's revenue for the Reporting Period. Gross profit decreased by 11.5% compared to last year to RMB73.2 million, representing 10.2% of the Group's gross profit for the Reporting Period.

During the Reporting Period, the Group continued to provide co-promotion and channel management services for all of Alcon's ophthalmic pharmaceutical products sold in China. The Group's revenue generated from products sold via the provision of co-promotion and channel management services increased by 18.7% compared to last year to RMB1,209.4 million, representing 56.1% of the Group's revenue for the Reporting Period. Gross profit increased by 13.9% compared to last year to RMB123.5 million, representing 17.1% of the Group's gross profit for the Reporting Period.

1. Product Development

As of 31 December 2017, the Group had a product portfolio of pharmaceutical products (mostly were prescription products) covering ophthalmology, pain management, cardiovascular, immunology, gynecology, gastroenterology and other therapeutic areas; and medical devices covering several medical specialties including ophthalmology, orthopedics, odontology and wound care.

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

Category	**2017 RMB'000**	**Percentage of the Group's total revenue/ gross profit (%)**	2016 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Pharmaceutical Products	**818,478**	**38.0**	633,584	35.4
Medical Devices	**126,041**	**5.9**	138,196	7.7
Gross Profit:				
Pharmaceutical Products	**524,667**	**72.7**	402,244	67.8
Medical Devices	**73,220**	**10.2**	82,718	13.9

During the Reporting Period, although existing pressures from medical insurance cost controls, drug price reduction in tender processes and drug consumption limitations in medical institutions have continued, the rate of decline of drug prices has slowed down and demand for drugs has continued to be robust and to grow. The Group adopted a sensible bidding strategy in tenders, highlighting the Group's products' superior quality, resulting in the Group securing a stable market position for its products. Meanwhile, the Group reinforced its marketing efforts with the aim of expanding market coverage and increasing sales volume. The Group's business segment of provision of comprehensive marketing, promotion and channel management services for pharmaceutical products maintained rapid growth. During the Reporting Period, revenue generated from this segment increased by 29.2% compared to last year to RMB818.5 million, representing 38.0% of the Group's revenue for the Reporting Period. Gross profit increased by 30.4% compared to last year to RMB524.7 million, representing 72.7% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from the sales of Difene was RMB144.2 million, representing an increase of 6.8% compared to last year. Difene has established a strong reputation and brand recognition in China after years of market positioning, brand building and marketing network expansion. For the Reporting Period, through increased marketing activities, such as education programmes for doctors and patients on the products, and expanding its application to different departments in hospitals, the Group worked to increase the sales of Difene at each target hospital. Furthermore, the Group increased its efforts to expand market coverage through further enhancing management of promotion teams, accelerating its network penetration into more hospitals and small-sized medical institutions, and closing gaps identified in certain marketing areas. As the sole dosage product of its type in the market, Difene comes in 10-pack and 20-pack packaging specifications. In the past, revenue from Difene mainly originated from sale of the 10-pack specification. Difene won favourably priced bids in those provinces where tender processes were held, maintaining a stable market position and development. Meanwhile, the market promotion activities focusing on the development of the 20-pack specification in certain provinces has begun. The Group will leverage Difene's solid market foundation and more sophisticated marketing strategies to increase its market coverage and sales volume.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB222.0 million, representing an increase of 39.2% compared to last year, and Fluxum has become one of the products of the Group with annual sales of over RMB200.0 million. Since 2017, the Group's in-house marketing team have worked closely with third-party promotion partners through closely following and effectively participating in clinical promotions of Fluxum, effectively delivering product information to clinicians, and fully covering potential departments to expand patient group and increase its market share. Meanwhile, the Group grasped the opportunity resulted from the exit of a number of competitors to enter into certain new markets where the sales contribution of the product was significant. During the Reporting Period, the Group continued to build on its future network coverage for Fluxum by adding over 506 new hospitals. In addition, Fluxum was listed as the only imported low molecular weight heparin product in the national essential medical insurance, industrial injury insurance and maternity insurance drug catalogue (the "New National Drug Reimbursement Catalogue") published by the Ministry of Human Resources and Social Security of the People's Republic of China in February 2017 which will create further opportunities to increase its market potential. The Group believes that the development of new markets and the adoption of more appropriate market positioning will lay a solid foundation for the sustainable and rapid growth of Fluxum.

For the Reporting Period, the Group's revenue generated from sales of Polimod was RMB250.1 million, representing an increase of 56.2% compared to last year, and Polimod has become another product of the Group with annual sales of over RMB200.0 million besides Fluxum. After the areas where the Group was entitled to market, promote and sell Polimod were extended from eight provinces to the whole territory of China in March 2016, the market potential of the Group's products has improved significantly and the development of the product have entered into a rapid stage. Having prepared the markets for the sale of Polimod for over a year, in new regions where the Group is authorised to market and promote Polimod, the Group has successfully taken over the market and business, ensuring the product to rapidly enter into those markets, as well as laying the foundations for the product's overall market position in the country. Polimod has obvious advantages in quality and clinical efficacy compared with generic products and has established a strong reputation and brand recognition among doctors and patients. Relying on its advantages in product quality, the Group will improve its promotion strategy through active marketing measures tailored for different market environments in different regions, in order to tap into the large potential market in the expanded marketing territory, and accelerate the further development of Polimod.

For the Reporting Period, the business segment of drugs of the Group has also continued to improve the market positioning and seize opportunities for its other pharmaceutical products, discovered their niche markets and achieved excellent results. For the Reporting Period, the Group's revenue generated from sales of these products was RMB202.1 million, representing an increase of 13.0% compared to last year. Specifically, the Group's cardiovascular product Neoton, following the new round of tender processes in different provinces, successfully entered a number of important new markets, laying the foundations for long term growth. Meanwhile, the Group took the opportunity presented by the exit of a number of competitors and used the international academic status of the product as a basis for promotional activities, strengthening the recognition of the product among doctors and patients and increasing its market share, with a revenue increase of 41.3% compared to last year for the Reporting Period. The Group's gynecological product Macmiror Complex is the only nifuratel product in suppository dosage in the market, which lays a solid ground for the academic promotion of the product. During the Reporting Period, the Group continues to take the opportunity of its inclusion in the National Drug Reimbursement Catalogue to strengthen academic marketing and promotion activities targeted at hospitals and departments covered by its network, and to grow its share in the gynecology therapeutic market, with a revenue increase of 57.7% compared to last year for the Reporting Period. The Group will take full advantage of the competitive edge of these products, and take advantage of market development opportunities for each of these products, so as to continuously increase their contribution to the Group's revenue.

The Group's medical device products, which launched for a short time, are still in the stage of preliminary market positioning. Meanwhile, some medical device consumables have been affected by the decrease in bidding prices and market competition, resulting in a negative impact on the overall performance of the medical devices segment. For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services was RMB126.0 million, decreased by 8.8% compared to last year, representing 5.9% of the Group's revenue for the Reporting Period. Gross profit decreased by 11.5% compared to last year to RMB73.2 million, representing 10.2% of the Group's gross profit for the Reporting Period. At present, the Group has a wide range of medical devices products covering ophthalmic surgical equipment and consumables, orthopedics consumables, odontology equipment and consumables and wound care products. The Group has initialed its work on market access and product promotion for the BKS Products (therapeutic field of knee-joint), on which the Group has obtained exclusive distribution rights in China at the end of June 2017. It is expected to make its contribution to the Group's revenue. As for the medical consumable product, NeutroPhase (a wound cleanser product), since its official launch in 2015, its sales were impacted obviously due to the fact that it lacked a charge code at most hospitals. During the Reporting Period, the Group, following its significant efforts, has made significant progress in rectifying such issue in several provinces, and has begun planning to develop new markets in the provinces concerned. The Group will gradually enhance the market position of medical devices products, expand its product portfolio, and improve the contribution of this business segment to the Group's revenue.

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

Category	2017 RMB'000	Percentage of the Group's total revenue/ gross profit (%)	2016 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**1,209,416**	**56.1**	1,018,495	56.9
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**123,534**	**17.1**	108,455	18.3

During the Reporting Period, the Group continued to provide co-promotion and channel management services for all of Alcon's ophthalmic pharmaceutical products sold in China. Notwithstanding the continued pricing downward pressure in certain provinces, the sales of Alcon's ophthalmic drugs have increased steadily in 2017, thanks to its product quality, brand strength, precisely-targeted promotional activities and scrupulous cultivation of the market. For the Reporting Period, the Group's revenue generated from the sales of Alcon's ophthalmic pharmaceutical products increased by 18.7% compared to last year to RMB1,209.4 million, representing 56.1% of the Group's revenue for the Reporting Period. Gross profit increased by 13.9% compared to last year to RMB123.5 million, representing 17.1% of the Group's gross profit for the Reporting Period.

The Group has been providing co-promotion and channel management services for all of Alcon's ophthalmic pharmaceutical products in China for over 20 years, and the current cooperation agreement entered into between the two parties is due to expire on 31 December 2018. During the Reporting Period, the Group's business cooperation with Alcon has attracted extensive attention. In August 2017, Alcon and its affiliate, Beijing Novartis have indicated to the Group that they do not intend to extend the agreement on the same terms following its expiry. As disclosed in the Company's announcement dated 28 December 2017, in December 2017, the Group entered into a transitional agreement with Alcon and Beijing Novartis, pursuant to which Alcon and Beijing Novartis agreed to continue to supply an agreed minimum value of the Alcon Products to the Group in 2018, and the total value (i.e. the total cost) of the Alcon Products which the Group may sell in 2018 will be no less than RMB617 million (net of tax). Subject to terms of the transitional agreement, if the gross profit margin of the Group for the sale of the Alcon's products in 2018 is less than 8%, Alcon and/or Beijing Novartis will compensate the Group with the effect of making up the shortfall so that the Group's gross profit margin for the Alcon's products will reach 8%. In addition to the arrangements under the transitional agreement, the Group continues to be in talks with Alcon regarding other possible future cooperation arrangements.

The Group and Alcon have been cooperating with each other for over 20 years and both witnessed the development and changes of the ophthalmic pharmaceutical market in China. Even though it is conceivable that such change in the cooperation with Alcon will have a negative impact on the Group's operating results temporarily, with the rapid growth of the Group's initiative promotion products and its ever-expanding product portfolio, the Group is confident to eliminate the negative impact in a short time. Meanwhile, the concentration of resources in initiative promotion products with higher profit contribution will also help the Group adjust and upgrade the product mix and enhance the profitability of the Group as a whole.

1.3 Product Pipeline

The Group is dedicated to exploring opportunities for distributing, promoting and selling prospective products of overseas pharmaceutical and medical device companies. In addition to its existing selling products referred to the 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 will sustain the Group's long-term growth. When selecting prospective products, the Group considers factors such as clinical effectiveness, competitive environment, registration and regulatory regime and reputation of suppliers.

During the Reporting Period, as disclosed in the Company's announcement dated 30 June 2017, the Company entered into a distribution agreement with Ortho Development of the United States in June 2017, pursuant to which the Company was granted the exclusive distribution rights with respect to Ortho Development's BKS Products in China (excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan). The term of the agreement continues until the end of 2022. Upon the expiry of the initial term referred to above, the agreement may be extended by a year upon mutual consent of the parties. The BKS Products include implants and surgical instruments used in total knee replacement procedures. The system design is based on a proven technology and has over 17 years of successful clinical use. The implants are offered in a wide range of sizes and options to match the different physical conditions of individual patients. The system includes a patented locking mechanism specifically designed to minimize micro-motion between tibial insert and tibial base plate implants. The medical device registration for such products has been completed. The Group intends to market these products as soon as practicable. Currently, China has become the second largest market for orthopedic medical devices in the world. Owing to the aging population and improvement in government policies related to health insurance, the market size for orthopedic medical devices continues to grow rapidly in China. This agreement will facilitate the Group's entry into the area of knee treatment, expand the Group's offering of orthopedic treatment products, enhance the Group's product portfolio and generate sustainable revenue for the Group.

In addition, after streamlining its product pipeline in accordance with the new healthcare product review and registration policy, the Group has retained several products in respect of which it is applying or will apply for registration with CFDA. During the Reporting Period, Bioequivalence study has been finished smoothly for Mirtazapine Orodispersible Tablets (produced by Ehypharm of France, mainly used for the treatment of depressive episodes). IDL (Imported Drug License) filing is under preparation and it is expected to be submitted to CFDA in the first half of 2018. The Group is also currently preparing the application documents for Intacs® Corneal Implants (produced by AJL of Spain, used for reduction or elimination of myopia caused by keratoconus) and it is expected to be submitted to CFDA in the first half of 2018.

The Group proactively maintains close liaison with a number of overseas pharmaceutical and medical device companies in order to timely introduce their products with potentials or market foundations for marketing, promotion and sales.

2. Marketing Network Development

In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group's development. As the "Two-Invoice System" policy has been in force since 2017 in various provinces, the Group's business system was adjusted and optimized accordingly. The Group, as the sole importer of certain overseas medical products which it brings into China, is considered as the manufacturer of these imported medical products under the "Two-Invoice System". In addition, the Group has refined its business system and consolidated product distribution channels to meet the requirements of "Two-Invoice System" policy. At the same time, the adjustments to the business system significantly enhanced the Group's operational efficiency and prevented operational risk.

The Group's marketing and promotion model involves both in-house teams and third-party promotion partners. To maintain the efficiency and stability of the marketing network, the Group has established an in-house sales and product manager team for each product business unit, to manage and support their third-party promotion partners. The Group's marketing and promotional activities are carried out by the in-house teams and third-party promotion partners. The in-house teams are primarily responsible for formulating marketing and promotion strategies, conducting pilot marketing programs, and appointing, training and supervising third-party promotion partners. Third-party promotion partners are responsible for most of the day-to-day marketing and promotional activities for the Group's products.

During the Reporting Period, the Group endeavored to enhance the recognition of clinical users and the brand awareness of patients through sophisticated position of medical products, delivery of product information and feedback of clinical cases. Therefore, the marketing network still focused on the two objectives of "professional" and "efficient", adjusted and optimised flexibly, so as to respond more promptly to market changes and improve operational efficiency of the business. While strengthening the frequency and depth of in-house marketing teams' involvement in marketing activities such as direct participation in academic promotions, the Group is also increasing its efforts in optimising the network structure of third-party promotion partners, and improving the quality of third-party promotion partners, including providing further training and support to improve their understanding of the Group's products, and assisting them in providing doctors with clinical solutions related to the products. During the Reporting Period, the development of the Group's marketing network led to significant improvement to its market coverage. The number of hospitals and medical institutions using Difene has increased by over 876 hospitals, the number of hospitals using Fluxum has increased by over 506, and the number of hospitals and medical institutions using Polimod has increased by over 616. The Group will continue to improve the communication mechanism and platform with third-party promotion partners through the in-house teams so as to create a win-win marketing ecosystem and continuously drive the Group's product development.

3. Significant Investment

NovaBay Pharmaceuticals, Inc. ("NovaBay") is a biopharmaceutical company incorporated in Delaware, United States developing products for the eye care market, and currently focuses primarily on commercializing the prescription of Avenova® for managing hygiene of 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 has made several rounds of investments in NovaBay since 2013. As of 31 December 2017, the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 33.9% of its equity interest, and does not hold any NovaBay warrants.

NovaBay is focusing primarily on commercializing the prescription of Avenova® for managing hygiene of eyelids and lashes in the United States, which results in significant increase on sales performance. The investment allows the Group to enhance its business relationship with NovaBay, and the Group is confident with NovaBay's future development.

4. Future and Outlook

China's pharmaceutical industry has entered a new era. Profound reform of the industry will bring about pressure and challenges to the enterprises in the industry in the short term. However, benefiting from both the aging of the population and the growth in consumption, the long-term potential and demand in the pharmaceutical industry remain positive and strong. Looking forward, enterprises with superior product quality, professional marketing network and high responsiveness to market changes will gain more development opportunities. The Group will focus on new product introduction and development, enhancing marketing and promotion capabilities, expanding market coverage through win-win cooperation, enriching the industrial chain through mergers and acquisitions, and responding proactively amidst the environment full of challenges and changes so as to comprehensively enhance the Company's core competitiveness. The Group will explore different means to further improve its operational and cost efficiency including considering adding its own production facilities in China. The Group will remain innovative to achieve the new blueprint of the Group's future development.

FINANCIAL REVIEW

Revenue

Revenue increased by 20.3% from RMB1,790.3 million in 2016 to RMB2,153.9 million in 2017. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 29.2% from RMB633.6 million in 2016 to RMB818.5 million in 2017, primarily due to the Group's continual efforts to promote and expand the coverage of these products through its marketing network. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 8.8% from RMB138.2 million in 2016 to RMB126.0 million in 2017, primarily due to a decrease in sales volume and price of certain medical device consumables resulted from market competition. Revenue generated from products sold via the provision of co-promotion and channel management services increased by 18.7% from RMB1,018.5 million in 2016 to RMB1,209.4 million in 2017, primarily due to the sales of Alcon's ophthalmic pharmaceutical products which maintained a satisfactory growth, as well as the significant performance of the Group's efforts on co-promotion services for Alcon's products.

Cost of sales

Cost of sales increased by 19.7% from RMB1,196.9 million in 2016 to RMB1,432.5 million in 2017, primarily due to an increase of sales. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 27.0% from RMB231.3 million in 2016 to RMB293.8 million in 2017. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 4.8% from RMB55.5 million in 2016 to RMB52.8 million in 2017. Cost of sales for products sold via the provision of co-promotion and channel management service increased by 19.3% from RMB910.0 million in 2016 to RMB1,085.9 million in 2017.

Gross profit and gross profit margin

Gross profit increased by 21.6% from RMB593.4 million in 2016 to RMB721.4 million in 2017. The Group's average gross profit margin increased from 33.1% in 2016 to 33.5% in 2017. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased from 63.5% in 2016 to 64.1% in 2017, primarily due to an increase in the sales price of some products in certain regions. The Group's gross profit margin for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased from 59.9% in 2016 to 58.1% in 2017, primarily due to an decrease in the sales price of some medical device consumables. The Group's gross profit margin for products sold via the provision of co-promotion and channel management services decreased from 10.6% to 10.2% in 2017, primarily due to a decrease in the bid price of certain Alcon's ophthalmic pharmaceutical products.

Other income

Other income decreased by 12.0% from RMB50.8 million in 2016 to RMB44.7 million in 2017, primarily due to a decrease in the amount of government grants received by the Group.

Distribution and selling expenses

Distribution and selling expenses increased by 33.4% from RMB277.5 million in 2016 to RMB370.3 million in 2017, primarily due to an increase of marketing and promotion activities for expanding the market shares of certain products, as well as an increase of marketing and promotion expense as a result of an increase in sales price of some products in certain regions. Distribution and selling expenses as a percentage of revenue increased from 15.5% in 2016 to 17.2% in 2017.

Administrative Expenses

Administrative expenses decreased by 9.3% from RMB73.4 million in 2016 to RMB66.6 million in 2017, primarily due to a decrease in the administrative expenses related to the disposal of the Group's subsidiaries in the second half of year 2016. Administrative expenses as a percentage of revenue decreased from 4.1% in 2016 to 3.1% in 2017.

Finance costs

Finance costs decreased by 58.3% from RMB5.5 million in 2016 to RMB2.3 million in 2017 primarily due to a decrease in the amount of bank loans which results in lower interest expense.

Other gains and losses

The Group recorded other gains and losses at a net loss of RMB5.0 million in 2017 primarily due to an increase in a net foreign exchange loss, as compared to a net gain of RMB33.7 million in 2016 primarily due to a reversal of impairment loss on investment in NovaBay and a net foreign exchange gain.

Income tax expense

Income tax expense decreased by 34.3% from RMB43.7 million in 2016 to RMB28.7 million in 2017. The Group's effective income tax rate in 2017 and 2016 was 9.3% and 15.5%, 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%.

Profit for the year

As a result of the above factors, the Group's profit increased by 17.6% from RMB238.6 million in 2016 to RMB280.6 million in 2017. The Group's net profit margin slightly decreased from 13.3% in 2016 to 13.0% in 2017. Excluding a net amount of RMB34.9 million from the reversal of impairment loss on investment in associates in 2016, net profit of the Group increased by 37.7% to RMB280.6 million in 2017 from RMB203.7 million in 2016.

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 slightly decreased from RMB309.6 million as of 31 December 2016 to RMB226.2 million as of 31 December 2017.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2017:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash from operating activities	**233,628**	342,039
Net cash used in investing activities	**(12,088)**	(6,079)
Net cash used in financing activities	**(303,305)**	(346,908)
Net decrease in cash and cash equivalents	**(81,765)**	(10,948)
Cash and cash equivalent at beginning of the year	**309,640**	317,113
Effect of foreign exchange rate changes	**(1,721)**	3,475
Cash and cash equivalents at end of the year	**226,154**	309,640

Net cash from operating activities

In 2017, the Group's net cash from operating activities was RMB233.6 million compared to net cash from operating activities of RMB342.0 million in 2016. This was mainly due to an increase in certain product's inventories whose supplier changed name and registration certificates were due for renewal.

Net cash used in investing activities

In 2017, the Group's net cash used in investing activities was RMB12.1 million compared to net cash used in investing activities of RMB6.1 million in 2016. This was mainly due to an increase in certificate of deposits.

Net cash used in financing activities

In 2017, the Group's net cash used in financing activities was RMB303.3 million compared to net cash used in financing activities of RMB346.9 million in 2016. This was mainly due to repayment of bank loans, payment of dividends and repurchase of shares during the Reporting Period.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB29.0 million as at 31 December 2017 compared to RMB76.3 million as at 31 December 2016. On 31 December 2017, the effective interest rate of the Group's bank borrowings was 4.79%, and all of the Group's bank borrowings were denominated in Renminbi. On 31 December 2017, bank borrowings of RMB29.0 million under banking facility were pledged by the Group's trade receivables. On 31 December 2016, bank borrowings of RMB36.2 million were secured by the pledge of the Group's bank deposits. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 1.6% as at 31 December 2017 compared to 4.4% as at 31 December 2016.

Net Current Assets

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current Assets		
Inventories	**623,388**	520,244
Finance lease receivables	**46,197**	29,299
Trade and other receivables	**509,165**	436,837
Amounts due from related parties	**–**	39,805
Tax recoverable	**16**	78
Prepaid lease payments	**52**	52
Certificate of deposits	**50,000**	–
Pledged bank deposits	**74,867**	73,120
Bank balances and cash	**226,154**	309,640
	1,529,839	1,409,075
Current Liabilities		
Trade and other payables	**626,439**	481,925
Amounts due to related parties	**–**	2,827
Tax liabilities	**16,446**	28,598
Bank and other borrowings	**29,000**	76,251
Provision	**1,886**	1,886
Obligations under finance lease	**5,336**	3,186
	679,107	594,673
Net Current Assets	**850,732**	814,402

As of 31 December 2017, the Group has sufficient working capital and financial resources for daily operations.

Inventories

The Group's inventory balances increased by 19.8% from RMB520.2 million as at 31 December 2016 to RMB623.4 million as at 31 December 2017, primarily due to an increase in inventories in order to meet the demand of sales growth as well as those products whose registration certificate were due for renewal.

Trade and Other Receivables

The Group's trade and other receivables increased by 16.6% from RMB436.8 million as at 31 December 2016 to RMB509.2 million as at 31 December 2017. Trade receivables turnover days decreased from 69.8 days as at 31 December 2016 to 66.6 days as at 31 December 2017, primarily due to the Group's intensive efforts in collecting accounts receivable while having a growth in sales.

Trade and Other Payables

The Group's trade and other payables increased by 30.0% from RMB481.9 million as at 31 December 2016 to RMB626.4 million as at 31 December 2017. The Group's trade payables turnover days decreased from 128.5 days as at 31 December 2016 to 125.6 days as at 31 December 2017, primarily due to an increase in the proportion of products purchased with shorter payment term for the Reporting Period.

Capital Expenditure

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

	For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Purchases of property, plant and equipment	**9,726**	5,193
Purchases of intangible assets	**860**	2,775
Total	**10,586**	7,968

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 2017			
Bank borrowings	**29,000**	**–**	**29,000**
Trade payables	**568,369**	**575**	**568,944**
As of 31 December 2016			
Bank borrowings	76,251	–	76,251
Trade payables	416,839	75	416,914

Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2017.

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.

Dividends

For the year ended 31 December 2017, the aggregate amount of the interim dividends for the six months ended 30 June 2017 and the final dividends for the year ended 31 December 2016 was RMB81.9 million and RMB133.4 million respectively. The Board does not propose a payment of final dividend for the year ended 31 December 2017.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2017, the Group had a total of 312 employees. For the year ended 31 December 2017, the staff costs of the Group was RMB54.7 million as compared to RMB53.2 million for the year ended 31 December 2016.

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. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute for the Reporting Period.

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.

Director and Senior Management

EXECUTIVE DIRECTORS

LI Xinzhou (李新洲), aged 55, is our chairman and executive Director. Mr. Li is the founder of the 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 the Group's strategies. Mr. Li has over 21 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. NovaBay is one of our suppliers and also a company in which the Company held an approximately 33.9% equity interest as of 31 December 2017. Mr. Li has provided his vision and strategic thinking in respect of the entry of NovaBay's products into China and Southeast Asian markets as well as thoughts with respect to the collaboration between NovaBay and the Group. With effect from 10 April 2015, Mr. Li was appointed as a director of NovaBay. 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 has over 24 years of experience in international trading and management. Prior to joining the Group, Mr. Li worked at the Hainan branch of Sumitomo Corporation. From August 1984 to August 1988, Mr. Li worked as an English translator in 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 has also held various positions in trade associations. 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 has 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 the Nomination Committee.

ZHU Mengjun (朱夢軍), aged 47, is our executive Director and chief executive officer. Mr. Zhu joined the Group in March 1998 and served as Pioneer Pharma's chief accountant and manager of the 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. Mr. Zhu was appointed as the chief financial officer of the Group in October 2013, and was redesignated to the position of the chief executive officer of the Group in December 2016. Mr. Zhu is also currently chairman of the board of directors of the Company's subsidiary Shanghai Pioneer Ruici Medical Facilities Company Limited ("Pioneer Ruici"). Mr. Zhu has over 21 years of experience in accounting and corporate finance. Prior to joining the 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 in professional accountancy from The Chinese University of Hong Kong in December 2007. Mr. Zhu also obtained the qualification of Intermediate Level Accountant in September 2002 and has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since April 1998.

NON-EXECUTIVE DIRECTORS

WANG Yinping (王引平), aged 56, is a non-executive Director. Mr. Wang joined the Group in January 2015 as an executive Director and chief executive officer but in December 2016 he was redesignated to the position of non-executive Director and has resigned as chief executive officer. 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 assumed various senior positions within the Sinochem Group until 2014, when he resigned as the group's vice president. During the 27 years he spent with Sinochem Group, Mr. Wang held the following major positions: (i) from 1988 to 1992, vice general manager of Sinochem Group Hainan Company (中化集團海南公司); (ii) from 1993 to 1997, general manager of Sinochem Group Pudong Company (中化集團浦東公司); (iii) from 1997 to 1998, 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 Sinochem Group company; (iv) from 1998 to 1999, general manager of the human resources department of Sinochem Group and vice president of the Sinochem Group; (v) from 2001 to 2004, 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 and director of the 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; (vi) in 2005, re-appointed as the vice president of Sinochem Group; and (vii) from 2010 to 2014, 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), chairman of the board and general manager of Sinochem Lantian Co., Ltd. (中化藍天集團有限公司), and 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 was a director of Western Potash Corp., a company listed on the Toronto Stock Exchange (stock quote: WPX) from 16 September 2015 to 29 September 2016. On 31 December 2016, Mr. Wang was appointed as an independent non-executive director of Yida China Holdings Limited (億達中國控股有限公司), a company listed on the Stock Exchange with the stock code of 3639. Mr. Wang was appointed as the director of Western Resources Corp., a company listed on the Toronto Stock Exchange (stock quote: WRX) on 5 April 2017. 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.

WU Mijia (吳米佳), aged 44, is a non-executive Director. Mr. Wu joined the Company in October 2013. Mr. Wu has over 14 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 2007 and a vice president at BNP Paribas, Hong Kong branch 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 from the Manchester Business School of the University of the Manchester in June 2001 and an executive master's degree in business administration from the 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 56, is an independent non-executive Director. Mr. Xu joined the 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 in the Tibet Autonomous Region Health Department (西藏自治區衛生廳) until March 1998, responsible mainly for the management of professional medical staff and assessment of medical technical qualifications, and as a chief inspector at the Tibet Autonomous Region Health and Epidemic Prevention Station (西藏自治區衛生防疫站) starting in March 1989, responsible mainly 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 the title of professor by the 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 70, is an independent non-executive Director. Mr. Lai joined the Company in October 2013. Mr. Lai is experienced in the pharmaceutical industry. He worked as the general manager of the 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 (台北醫學大學) with a bachelor's degree in pharmacy in June 1971. Mr. Lai has been a pharmacist registered with the Department of Health of the 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 55, is an independent non-executive Director. Mr. Wong joined the 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 exchange (stock quote: KBSF) since August 2014 and resigned on 15 March 2015. He was an independent non-executive director of Great Wall Motor Company Limited (長城汽車股份有限公司) from November 2010 to 11 May 2017, a company listed on the Stock Exchange (stock code: 2333) and the Shanghai Stock Exchange (stock code: 601633). On 1 July 2016, he was appointed as an executive director of Talents Alliance Ltd.. 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. (中國生物製品有限公司) 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 the 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

YU Yue (余悦), aged 36, is our government affairs director. Ms. Yu joined the Group in October 2013 and was appointed as government affairs director of the Group, responsible for the Group's government affairs and government relation management. Ms. Yu graduated from Dongbei University of Finance and Economics with a bachelor's degree in management in September 2004, and with a master's degree in enterprise management in January 2007.

LIU Xuefeng (劉雪峰), aged 42, is our business development director. Mr. Liu joined the 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 13 years of working experience in the pharmaceutical industry. Prior to joining the 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 the international council at the Chinese Society of Biochemistry and Molecular Biology (中國生物化學與分子生物學會) from 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 a bachelor's degree in biopharmaceuticals from China Pharmaceutical University (中國醫科大學) in July 1999 and a master's degree in microbiology and biochemical pharmacy from the Shanghai Institute of Pharmaceutical Industry (上海醫藥工業研究院) in July 2005.

YANG Xiuyan (楊秀顏), aged 55, is our general manager of the Polichem business unit. Ms. Yang joined the Group in December 1998 and worked as the manager for the 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 activities of our Group, in particular in the Northern Yangtze River area. In September 2014, Ms. Yang was promoted to general manager of the AW (Alfa Wassermann) Business Unit, with responsibility for the promotion and sales of AW's products. In November 2015, Ms. Yang was appointed as the general manager of the Polichem Business Unit, and is responsible for the promotion and sales of Polichem's products. She has nearly 19 years of 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 a bachelor's degree in clinical medicine by the Binzhou Medical University (濱州醫學院) in July 1986.

CHEN Zhi (陳志), aged 39, is our general manager of the Alfa Wassermann (AW) business unit. Mr. Chen joined the 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 the AW business unit in September 2014. In November 2015, Mr. Chen was promoted to be the director of the AW business unit. In January 2017, he was appointed as the general manager of the AW business unit and is responsible for the promotion and sales of Alfa Wassermann's products. Mr. Chen has over 16 years of working experience in the pharmaceutical industry. Prior to joining the Group, Mr. Chen worked at Yung Shin PharmaInd (Kun Shan) Co., Ltd., Hong Kong Bright Future Pharmaceutical Laboratories Limited, Health Vision Co., Ltd, and Jilin Yinglian Biopharmaceutical Co., Ltd. Mr. Chen graduated from Shenyang Pharmaceutical University with a bachelor's degree in economics in medical enterprise management in 2001.

SHAO Jin (邵錦), aged 41, is our general manager of the Pain Management and Digestive Products business unit. Mr. Shao joined the Group in July 2004 and worked as a sales supervisor of the 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 to director of the Difene business unit, and in January 2016 he was promoted to be the general manager of the Pain Management and Digestive Products Business Unit where he is responsible for the promotion and sales of Difene and digestive products. Mr. Shao has over 16 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.

WANG Rongrong (王榮榮), aged 39, is our general manager of the Alcon business unit and national director of the commerce department. Ms. Wang joined the Group in July 2004, and worked as a manager of the commerce department from September 2006 to August 2014. In September 2014, Ms. Wang was promoted to be our national director of the commerce department, mainly responsible for bidding, pricing, receivables management and channel management and other business related work. Ms. Wang was appointed as our general manager of the Alcon business unit in January 2016, mainly responsible for co-promotion and channel management of Alcon's products. Ms. Wang has more than 18 years of working experience in pharmaceutical industry. Prior to joining the Group, Ms. Wang worked in the 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.

HUANG Wenfei (黃文斐), aged 48, is our general manager of the ophthalmology business unit. Ms. Huang joined the 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 to general manager of our ophthalmology business unit, responsible for the promotion and sales of all ophthalmic medical device products of the Group. Ms. Huang has nearly 23 years of working experience in the pharmaceutical industry. Prior to joining the 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 from Tongji University (同濟大學) in March 2009.

JIANG Li (江俐), aged 43, is general manager of Pioneer Ruici. Ms. Jiang joined the Group in January 2013 and served as an odontology product manager. In December 2016, she was appointed as the general manager of Pioneer Ruici, and is responsible for the promotion and sales of odontology products of the Group. Ms. Jiang has over 20 years of working experience in the medical device industry. Prior to joining the Group, Ms. Jiang worked at Shanghai Tesco Dental Trading Co., Ltd., Singapore Kavo Dental Asia Pacific Private Limited, SHOFU Dental Equipment Trade (Shanghai) Co., Ltd. and Beijing Bien Air Medical Technologies Co., Ltd. Ms. Jiang graduated from Shanghai Second University School of Medicine with a bachelor's degree in prosthodontics in 2003.

ZHANG Qi (張琦), aged 32, is our general manager of Medical Device business unit. Mr. Zhang joined the Group in August 2017, responsible for the promotion and sales of BKS products. In December 2017, he was appointed as the general manager of Medical Device business unit and is responsible for the promotion and sales of medical device products. Mr. Zhang has over 10 years of working experience in the medical device industry. Prior to joining the Group, Mr. Zhang worked at Chongqing Xishan Science & Technology Co., Ltd., Bayer Healthcare Co., Ltd., and Stryker (Beijing) Healthcare Products Co., Ltd. Mr. Zhang graduated from HeFei University of Technology with a bachelor's degree of economics in international economy and trade in June 2008.

XUE Yi (薛毅), aged 42, is our chief financial officer. Mr. Xue joined the Group in January 2002 and served as the manager of the audit department of Pioneer Pharma between January 2002 and January 2003, and was appointed as the manager of the finance department of Pioneer Pharma in February 2003. Mr. Xue was appointed as the Company's deputy financial officer in February 2015, responsible for assisting the chief financial officer with finance and accounting management, and was appointed as the chief financial officer in December 2016. Mr. Xue is also the executive director of the Company's wholly-owned subsidiary Naqu Area Pioneer Pharma Co., Ltd. Mr. Xue has over 20 years of experience in the accounting and auditing field. Prior to joining the Group, Mr. Xue worked at Sichuan Dazhou Foods Company (四川省達州市食品公司). Mr. Xue obtained a bachelor's degree in accounting from Southwestern University of Finance and Economics in June 1997, and obtained the qualification of Intermediate Level Accountant in August 2000.

COMPANY SECRETARY

MIN Le (閔樂), aged 36, is our company secretary. Mr. Min joined the 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 the 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 2017.

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 services 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 2017 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 67 of this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend payment of any final dividend for the year ended 31 December 2017 (2016: RMB0.103 per share).

There are no arrangements under which 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 2017 and the business outlook of the Group are set out in the section headed "Management Discussion and Analysis" on pages 8 to 23 of this annual report.

KEY FINANCIAL PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the year ended 31 December 2017 are set out in the section "Financial Highlights" on page 4 of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Saturday, 5 May 2018 to Tuesday, 15 May 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on Tuesday, 15 May 2018. 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 Friday, 4 May 2018.

FINANCIAL SUMMARY

A summary of the Group's results, assets and 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

The Company raised total net proceeds (after deducting relevant offering expenses) of approximately HK$1,307.8 million (the "IPO Proceeds") from the global offering and listing on the Main Board of the Stock Exchange of its shares in 2013. In order to enhance the effectiveness of the use of the IPO Proceeds, on 9 May 2016, the Directors resolved that the unused IPO Proceeds, amounting to HK$213.9 million, be used as follows:

- HK$147.3 million to fund purchases of imported pharmaceutical products and medical devices from overseas suppliers;

- HK$5.9 million to enlarge the Group's product portfolio; and

- HK$60.7 million for the Group's working capital and other general corporate purposes.

As of 31 December 2017, the unused IPO Proceeds of approximately HK$50.6 million were deposited in licensed banks in Hong Kong. For details of the adjustments to use of IPO Proceeds, please refer to the announcement of the Company dated 9 May 2016.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the Group's products purchased from the largest supplier, accounted for 72.5% (2016: 76.3%) of total products purchased, and products purchased from the five largest suppliers accounted for 97.0% (2016: 97.3%) of the Group's total products purchased.

For the year ended 31 December 2017, the Group's sales to its largest customer accounted for 3.6% (2016: 4.1%) of the Group's revenue, and sales to the five largest customers accounted for 15.3% (2016: 16.2%) of the Group's 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 2017 are set out in note 14 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2017 are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 29 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out on pages 70 to 71 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association (the "Articles of Association"), amounted to approximately RMB348.8 million (as at 31 December 2016: RMB285.4 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2017 are set out in note 26 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the Share Award Scheme as set out in the section headed "Share Award Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects may 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 resulting in the government promoting structural reforms on the supply side
	(ii)	Changes of government policy and the market in respect of healthcare products in China in 2017
Operational risks	(i)	Product liability claims, product recalls and complaints as a result of marketing, promoting and selling pharmaceutical products and medical devices in China
	(ii)	Reliance on key personnel – business and growth may be disrupted if the Group is not able to retain the key personnel
Financial risks	(i)	Currency risk
	(ii)	Interest rate risk
	(iii)	Credit risk
	(iv)	Liquidity risk

Details in respect of financial risk management are set out in note 35 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 be material in the future.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business is mainly 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. More details of the Group's environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report" on pages 55 to 61 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations and particularly those which have a significant impact on the Group. As a listed company in Hong Kong, the shares of the Company having been 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") contained 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 comply with disclosure requirements in respect of inside information. The Board will monitor the Group's policies and practices in respect of compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in 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 of 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 2017. 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 2017 and up to the date of this annual report were:

Executive Directors:

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

Non-executive Directors:

Mr. Wang Yinping
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. Li Xinzhou, 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 13 April 2018.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 24 to 29 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 2017 and as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Mr. Li Xinzhou, an executive Director, has automatically renewed his service agreement with the Company for a term of one year commencing from 16 October 2017, which may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Zhu Mengjun, an executive Director, entered into a service agreement with the Company for a term of three years commencing from 29 December 2016, and this may be terminated by not less than one month's notice in writing served by either party to the other.

Mr. Wu Mijia, a non-executive Director, and each of the independent non-executive Directors have automatically renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2017. Mr. Wang Yinping, a non-executive Director, entered into a service agreement with the Company for a term of three years commencing from 29 December 2016, and this may be terminated by not less than one month's notice in writing served by either party to the other.

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 25 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 2017.

EMPLOYEES AND EMOLUMENT POLICY

As of 31 December 2017, the Group had an aggregate of 312 full-time employees. The remuneration committee of the Company (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.

The Company has adopted the Share Award Scheme as incentive to eligible employees, details of the scheme are set out in the section headed "Share Award Scheme" below.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Company are set out in note 33 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 note 12 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 2017, changes in Directors' information are set out below:

Mr. Wang Yinping, a non-executive Director, was appointed as the director of Western Resources Corp., a company listed on the Toronto Stock Exchange (stock quote: WRX) on 5 April 2017.

Save as disclosed above, during the year ended 31 December 2017, there were no changes to information which is 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 2017, 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:

Interests in the shares of the Company

Name of Directors	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Li Xinzhou	Founder of a discretionary trust(1)	858,392,000 (L)	64.93%
	Interest of spouse(2)	1,403,000 (L)	0.11%
	Beneficial owner	34,714,000 (L)	2.63%
Zhu Mengjun	Beneficial owner	1,100,000 (L)(3)	0.08%
Wang Yinping	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 a discretionary trust and is deemed to be interested in 858,392,000 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 1,100,000 Shares, all of which were awarded and granted to Mr. Zhu Mengjun under the Share Award Scheme on 9 October 2015.

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

Save as disclosed above, as at 31 December 2017, 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) (i) which were required to be notified to the Company and the Stock Exchange, or (ii) which were required to be recorded in the register to be kept by the Company under section 352 of the SFO, or (iii) which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2017 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 spouses or children under 18 years of age, nor were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouses 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 2017, 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 Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Wu Qian	Founder of a discretionary trust[1]	858,392,000 (L)	64.93%
	Interest of spouse[2]	34,714,000 (L)	2.63%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited[5]	Interest of controlled corporation[3]	858,392,000 (L)	64.93%
UBS Trustees (BVI) Limited	Trustee[4]	858,392,000 (L)	64.93%
Pioneer Pharma (BVI) Co., Ltd.[5]	Beneficial owner	858,392,000 (L)	64.93%

Remark:

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

Notes:

1. Ms. Wu Qian is a founder of a discretionary trust and is deemed to be interested in 858,392,000 Shares held under the discretionary trust.

2. Such 34,714,000 Shares are held by Mr. Li Xinzhou, the spouse of Ms. Wu Qian. Accordingly, Ms. Wu Qian is deemed to be interested in such 34,714,000 Shares.

3. Tian Tian Limited through its controlled corporation, Pioneer Pharma (BVI) Co., Ltd., is deemed to be interested in 858,392,000 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 858,392,000 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 2017, 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. 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 of HK$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme during the year ended 31 December 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No controlling shareholders or their subsidiaries had a material interest, either directly or indirectly, in any transaction, arrangement or 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 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had bought back the following Shares on the Stock Exchange during the year ended 31 December 2017 with details as set out below:

		Price per Share		
Month of Purchase	Number of Shares Purchased	Highest Price Paid HK$	Lowest Price Paid HK$	Total Paid HK$
September 2017	11,400,000	2.72	2.47	29,946,980

All of the shares bought back were subsequently cancelled. The Board considers that the value of the Shares in the capital market was undervalued. The market value of the Shares was far below their intrinsic value, taking into account the Group's sufficient and strong financial resources. The Board believes that the Company's healthy financial position allows the Company to conduct the above buy-backs while maintaining sufficient financial resources for the continuous growth of the Group's operations. The Board also believes the share buy-backs and subsequent cancellation of the repurchased Shares can improve the return to Shareholders. Save as disclosed above and the purchases of the Shares by the trustee pursuant to the Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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 their compliance with the deed of non-competition for disclosure in this annual report for the year ended 31 December 2017. 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 2017.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2017, 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 Group 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 2017 are disclosed in note 25 to the consolidated financial statements. Except for the purchases of certain products from Covex, S.A. (a company indirectly wholly-owned by Mr. Li Xinzhou, an executive Director, and thus a connected person of the Company) during the year ended 31 December 2017 which constitutes a connected transaction of the Company but is exempt from all announcement, reporting and independent shareholders' approval requirement pursuant to Rule 14A.76(1) of the Listing Rules, none of such related party 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 2017, the Group made no charitable or other donations.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2017, 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 2017, 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

There is no material post balance sheet event undertaken by the Company or by the Group after 31 December 2017.

DISCLOSURE UNDER RULES 13.20 TO 13.22 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in a disclosure obligation under Rules 13.20 to 13.22 of the Listing Rules.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company (the "Audit Committee") include the review and supervision of the Group's financial reporting system, the preparation of financial statements and review risk management and internal control systems and associated 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 2017 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 2017.

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 54 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 2017.

Deloitte Touche Tohmatsu shall retire in the forthcoming AGM and, being eligible, will offer itself 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, 21 March 2018

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 2017.

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 and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance. 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 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 two executive Directors, namely Mr. Li Xinzhou (the Chairman of the Board) and Mr. Zhu Mengjun, two non-executive Directors, namely Mr. Wang Yinping and 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 "Directors and Senior Management" of this annual report.

For the year ended 31 December 2017, 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 to code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted such a board diversity policy which is summarised below:

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

The Company sees increasing diversity at Board level as essential to supporting attainment of its strategic objectives and to achieve sustainable and balanced development. In designing the Board's composition, Board diversity has been considered from a number of perspectives, 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 to the benefits of board diversity. The Board should have a balance of skills and experience and a 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

Each newly appointed Director receives a formal, comprehensive and tailored induction programme on the first occasion of his/her appointment to ensure appropriate understanding of the business and operation of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules and relevant statutory requirement.

The Company arranges regular seminars to provide Directors with updates on the latest developments 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.

The Company encourages Directors to participate in continuous professional development to develop and refresh their knowledge and skills. During 2017, all Directors participated in continuous professional development to develop and refresh their knowledge and skills in compliance with code provision A.6.5 of the CG Code. The Company's external lawyers facilitated Directors' further training by providing 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 external company secretarial services firm engaged by the Company from time to time to update and provide written training material relating to the roles, functions and duties of a director. All the Directors studied those 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. Zhu Mengjun, respectively, with a 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

Mr. Li Xinzhou, an executive Director, has automatically renewed his service agreement with the Company for a term of one year commencing from 16 October 2017, which may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Zhu Mengjun, an executive Director, entered into a service agreement with the Company for a term of three years commencing from 29 December 2016, and this may be terminated by not less than one month's notice in writing served by either party to the other.

Mr. Wu Mijia, a non-executive Director, and each of the independent non-executive Directors have automatically renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2017. Mr. Wang Yinping, a non-executive Director, entered into a service agreement with the Company for a term of three years commencing from 29 December 2016, and this may be terminated by not less than one month's notice in writing served by either party to the other.

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 and 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. Notice of not less than fourteen days is given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda. 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 company secretary of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and committee meetings record 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 Board meetings are opened for inspection by Directors.

For the year ended 31 December 2017, 5 board meetings and 1 general meeting (2017 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**	**General Meeting**
Mr. Li Xinzhou	5/5	0/1
Mr. Zhu Mengjun	5/5	1/1
Mr. Wang Yinping	5/5	0/1
Mr. Wu Mijia	5/5	0/1
Mr. Xu Zhonghai	5/5	0/1
Mr. Lai Chanshu	5/5	0/1
Mr. Wong Chi Hung, Stanley	5/5	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 presence of 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 2017.

Delegation by the Board

The Board reserves the right to decide 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 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 has delegated the following corporate governance duties to the Nomination Committee:

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 in respect of 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 recommendations to the Board where appropriate to enhance Shareholders' relationship with the Company.

For the year ended 31 December 2017, the Company has updated the compliance manuals on notifiable transactions and inside information in accordance with the Listing Rules as guidelines for its employees to report unpublished inside information to the Company in order to ensure consistent and timely disclosure and fulfilment 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), and as such, the majority of Nomination Committee members 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 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 2017, 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 and considered the re-appointment of the retiring Directors during the year.

Remuneration Committee

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), and as such, the majority of Remuneration Committee members are independent non-executive Directors. Mr. Xu Zhonghai serves as the chairman of the Remuneration Committee.

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 policies 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. The Remuneration Committee's written terms of reference are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2017, 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 discussed and reviewed the service agreements, appointment letters and remuneration policy for Directors and senior management of the Company, assessing performance of executive Directors and senior management and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management during the year.

Details of the remuneration by band of the 11 members of the senior management of the Company, whose biographies are set out on pages 24 to 29 of this annual report, for the year ended 31 December 2017, are set out below:

Remuneration band (RMB'000)	Number of individual
Less than 500	6
500 to 1,000	5

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), and as such, the majority of Audit Committee members 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 the external auditor; and

- To review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems 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 2017, 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, risk management and internal control systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), and processes and the re-appointment of the external auditor during the year. The Board has not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

The Audit Committee 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 the course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control systems and other matters. The Audit Committee's 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 to prepare financial statements for the year ended 31 December 2017 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 explanations 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 the Company's performance, position 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 its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 62 to 66 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board understands that it is the responsibility of the Board to assess and determine the nature and extent of risks that the Group is willing to accept in achieving its strategic objectives, and to ensure that the Group establishes and maintains an appropriate and effective risk management and internal control systems. The Board shall also supervise the design, implementation and monitoring of the risk management and internal control systems by the management, and the management shall provide the Board with confirmation of the effectiveness of the systems.

The Board is responsible for the risk management and internal control systems, and in March of each year conducts a review of the effectiveness of the risk management and internal control systems during the previous year. The Board continues to review the effectiveness of the risk management and internal control systems through the Audit Committee, including monitoring procedures for finance, operations, compliance, risk identification and assessment, and implementation of risk response measures. The audit procedures include:

(i) the internal audit department of the Group assessing the relevant systems;

(ii) operational management ensuring the maintenance of an effective risk management and internal control systems; and

(iii) external auditors discovering internal control problems when carrying out statutory audits.

The Audit Committee, with the support of the internal audit department of the Group, is responsible for reviewing the adequacy of resources, staff qualifications, experience, training and related training budgets for the accounting, financial reporting, financial analysis and internal audit functions. The Audit Committee has ensured the adequacy of the above areas during the annual review.

The Board's annual review considers:

(a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

(b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;

(c) the extent and frequency of communication of monitoring results to the Board;

(d) significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and

(e) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.

The Group's procedures for identifying, assessing and managing significant risks consist of six parts: "Objectives understanding", "Event identification", "Risk assessment", "Risk response", "Risk monitoring" and "Risk reporting". Specifically, they include:

(a) understanding the future development vision and development objectives of the Group in order to determine the relevant issues affecting the achievement of its objectives;

(b) recognising the matters affecting the achievement of the Group's objectives, and identifying the major risk items related to the Group's business activities;

(c) evaluating the main risk events according to the vulnerability of risk occurrence and the impacts on the Group's objectives after risk occurrence, and sequencing the risks so as to enable the Group to rationally allocate resources to respond to risks or improve response measures, to reduce the Company's overall risk level to an acceptable range;

(d) formulating and implementing risk response programs;

(e) identifying the risks that the Company may or will face in the course of its business activities, and issuing warning signals to the management of the Company in a timely manner so as to enable the management of the Company to regulate and control operations; and

(f) after the risk assessment, the risk management working group of the Group (the "Risk Management Working Group") shall prepare a risk database and a risk assessment report. The risk assessment report shall be submitted to the Audit Committee by the Risk Management Working Group, and examined and approved by the Board.

Key features of the Group's risk management and internal control systems include:

(a) setting core values and beliefs which form the basis of the Group's overall risk philosophy and appetite;

(b) defining a management structure with clear lines of responsibility and authority limits which hold individuals accountable for their risk management and internal control responsibilities;

(c) imposing an organisational structure which provides necessary information flow for risk analysis and management decision-making;

(d) imposing budgetary and management accounting controls to efficiently allocate resources and providing timely financial and operational performance indicators to manage business activities and risks;

(e) ensuring effective financial reporting controls to record complete, accurate and timely accounting and management information; and

(f) assuring through the Audit Committee that appropriate risk management and internal control procedures are in place and functioning effectively.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness to protect the interests of Shareholders and other stakeholders. These systems are designed to:

(a) identify, assess, quantify, and respond to and manage all current and future significant risks so as to maintain them within the risk level acceptable to the management of the Group;

(b) provide a continuous and effective monitoring and reporting mechanism for all significant risks;

(c) provide reasonable assurance that the Group complies with relevant laws, regulations and rules; and

(d) provide reasonable assurance for the implementation of significant measures taken to achieve the Group's objectives.

Such risk management and internal control systems are designed to mitigate or manage the Group's risks to a an acceptable level rather than eliminate the risk of failure to achieve business objectives. Accordingly, such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

In order to resolve material internal control defects, the audit team adopts inspection, sampling, inquiry, stock taking, calculation, analytical review and other audit methods, to obtain adequate, relevant and reliable audit evidence in the implementation of audit. The audit team will promptly report to the Chief Executive Officer if it finds material internal control defects in audit processes. The person in charge of the internal audit office shall report to the Chief Executive Officer and the Audit Committee after reviewing a special audit report. The internal audit function shall conduct follow-up audits in respect of important matters according to the actual situation of the Company, and check and supervise any corrective measures taken by the audited entity and their effect on any problems discovered in the audit process.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Group:

(a) is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the safe harbours with the SFO;

(b) conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in October 2008 respectively; and

(c) has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in designated areas.

The Company has established internal audit functions, including the Audit Committee (supervisory organisation) and the internal audit department (risk supervisor). The Audit Committee is responsible for monitoring the implementation of the Company's risk management and reporting the results to the Board in a timely fashion. The Internal Audit Department, which is independent of the other participants in Enterprise Risk Management (ERM), is responsible for coordinating the operation of the ERM mechanism, independently reviewing the mechanism, and reporting to the Audit Committee continuously.

The Board is of the view that the risk management and internal control systems of the Group during the Reporting Period are valid and sufficient, and the Group has complied with the relevant code provisions of the CG Code relating to risk management and internal controls.

AUDITOR'S REMUNERATION

During the Reporting Period, the external auditor of the Group charged HK$2.1 million for audit services and HK$1.0 million for non-audit services. The audit services provided were the annual audit of the Group for the year ended 31 December 2017. The non-audit services provided were tax compliance services and interim financial report review in 2017.

COMPANY SECRETARY

Mr. Min Le ("Mr. Min"), the company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and applicable laws, rules and regulations are followed. For the year ended 31 December 2017, Mr. Min has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding 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 informed investment decisions.

The AGM provides an opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company and the chairmen of the Board Committees 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 2018 AGM will be held on Tuesday, 15 May 2018. The AGM notice has been sent to the Shareholders on 13 April 2018.

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 at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (email address: ir@pioneer-pharma.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

There is no change in the memorandum and Articles of Association for the year ended 31 December 2017.

Environmental, Social and Governance Report

In accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules issued by the Stock Exchange, the Company hereby presents this Environmental, Social and Governance ("ESG") Report for the year ended 31 December 2017.

This report serves the purposes of introducing the Company's ESG policies, activities and performances of its principal business of selling pharmaceutical products and medical devices business in the China.

To determine the materiality and identify material ESG issues, we have engaged and discussed with various management personnel and other internal key stakeholders. The summary of material ESG issues of the Company is listed below:

SUMMARY OF MATERIAL ESG ISSUES FOR THE COMPANY

A. Environmental

A1 Emissions

- *Waste Management*
- *Greenhouse Gas ("GHG") Emissions*

A2 Use of Resources

- *Management of the Use of Resources*
- *Use of Water*
- *Use of Packaging Materials*

A3 The Environment and Natural Resources

- *Other Negative Impact on the Environment and Natural Resources*

B. Social (Employment and Labour Practices, Operating Practices and Community)

B1 Employment

- *Recruitment, Dismissal, Promotion, Working Hours and Rest Periods*
- *Compensation and Other Benefits*
- *Equal Opportunity, Diversity and Anti-discrimination*

B2 Health and Safety

- *Workplace Health and Safety*

B3 Development and Training

- *Training and Development for Employees*

B4 Labour Standards

- *Anti-child and Forced Labour*

B5 Supply Chain Management

- *Management of Environmental and Social Risks of Supply Chain*

B6 Product Responsibility

- *Products and Services Responsibility*
- *Customer Services*
- *Data Privacy*

B7 Anti-corruption

- *Anti-bribery, Corruption and Money Laundering*

B8 Community Investment

- *Community Programs, Employee Volunteering and Donation*

A) Environment

A1 Emissions

As a marketing, promotion and channel management service provider dedicated to imported pharmaceutical products and medical devices in China, the Company has no significant air emissions, water discharges or hazardous wastes generated from its business activities. Nonetheless, for the sake of protecting the environment and society, the Company strives to promote green and sustainable development in its operations and has complied with all relevant environment laws and regulations including but not limited to "Thirteen Five Plan of Energy Development" and "Guideline on Promoting Green Consumption" issued by the National Development and Reform Commission.

Waste Management

The Company aims at reducing the negative environmental impacts of the wastes generated by the Group and ensures the disposal of waste materials in an environmentally responsible manner. All waste handling practices shall comply with the relevant laws and shall have no harmful effect on the environment and human health.

We have applied the waste management principles of "reduce", "reuse", "recycle" and "replace" to reduce waste generation. Multiple measures have been adopted to promote reuse and recycling practices in daily operations, facilitate source separation and enable waste recycling. The green procurement practices and administrative approaches help to achieve an effective waste management programme and enhance general awareness of the importance of waste reduction.

During the year, the major type of non-hazardous wastes generated from the Company's business operations was paper waste. It amounted to 2.73 tonnes (approximately 0.91 tonnes per office), while approximately 1.50 tonnes of paper wastes (approximately 0.50 tonnes per office) had been recycled.

In order to reduce paper waste, which is the most significant waste generated from operations, the Company seeks to minimize the use of disposables such as paper cups and disposable utensils. Therefore, glass cups and metal utensils have been used for guest reception. In the offices, duplex printing is compulsory for internal administrative documents. The Company is proactively implementing electronic systems for administrative work so as to cut down on the use of paper records and correspondence. Memoranda and posters have been displayed in office spaces to deliver the message of paper reduction to all staff.

Greenhouse Gas Emission

Greenhouse gases generated by the Company are mainly from the use of fossil fuels resulting in direct emissions and use of electricity resulting in indirect emissions and other emissions. The amount of greenhouse gases generated from both direct and indirect sources was as follows:

Type of energy	CO2e (tonnes)
Electricity	313.74
Diesel	9.54
Petrol	40.65
Liquefied petroleum gas ("LPG")	2.57
GHG emissions in total	366.50

A2 Use of Resources

Management of the Use of Resources

The Company conserves resources for environmental and operating efficiency purposes. To this end, we have implemented various initiatives throughout our operations such as deploying energy efficient devices, minimising use of paper, reducing water consumption and driving behavioural changes of employees. Through actively monitoring and managing the use of resources, we aim to reduce our operating costs and our carbon footprint.

During the year, there were four major types of energy/resources consumption by the Company's business operations as follows:

Type of energy	Unit	Consumption in total	Intensity (per facility/ per office)
Electricity	kWh	476,153.00	158,717.67
Diesel	Liter	3,650.00	1,216.67
Petrol	Liter	17,215.00	5,738.33
LPG	Kg	945.00	315.00

The Company has deployed LED lighting systems in offices which are considered more energy efficient compared to traditional lighting systems. Staff are required to turn off lights and computers that are not in use. The office air-conditioning temperature must be set at 26℃ or above. Furthermore, during the summer, slogans, memoranda and posters promoting energy saving are put up around office areas to promote staff's awareness. The Company offers training in energy saving and environmental protection to communicate relevant knowledge and latest market practices to staff.

Use of Water

During the year, the total amount of water consumed by the Company equals to 4,158.00 m^3 (1,386.00 per office).

In order to conserve water resources, the Company has installed water saving devices such as automated sensors in faucets and dual flush toilets in washrooms. In addition, posters promoting water saving are displayed in areas such as pantry and washrooms to raise staff's awareness.

Use of Packaging Materials

Since the Company is principally engaged in sales of pharmaceutical products and medical devices, packaging materials are used to contain and protect its products. Despite the fact that the use of packaging materials is necessary, the Company has minimised the amount of packaging materials by adopting environmentally friendly design.

During the year, the amount of packaging materials used was as follows:

Type of materials	Unit	Amount
Bubble wrap	tonnes	0.23
Cardboard boxes	tonnes	82.80
Plastic wrap	tonnes	4.54
Total packaging material used for finished products	tonnes	87.57

A3 The Environment and Natural Resources

Other Negative Impact on the Environment and Natural Resources

The Company's business is to market, promote and sell pharmaceutical products and medical devices, which in general does not have any material negative impact on the environment and natural resources. The Company is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Company endeavours to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. In 2017, there were no non-compliance cases in respect of environmental laws and regulations involving the Company.

B) Social (Employment and Labour Practices, Operating Practices and Community)

B1 Employment

Recruitment, Dismissal, Promotion, Working Hours and Rest Periods

The Company values employees as our the most important asset and endeavours to maintain a strong and close relationship with our employees. To enhance work satisfaction and involvement of all grades and functions, the Company has formulated a set of human resources policies to document all human resource related procedures, namely recruitment, dismissal, promotion, working hours, leave and other staff benefits. All these practices have been formulated and executed in compliance with local labour laws and regulations including but not limited to the PRC Labour Law and the PRC Employment Contract Law enacted by National People's Congress. In 2017, the Company was not involved in any non-compliances in respect of human resources-related laws and regulations.

Compensation and Other Benefits

The level of compensation of the Company’s employees is reviewed annually on a performance basis with reference to the local market, overall remuneration standard in the industry, the inflation level and the Company's sales performance. The Company considers paying annual bonuses to employees according to certain performance criteria and appraisal results. Social insurance contributions are made by the Company for its employees in mainland China in accordance with the relevant regulations.

The Company has also adopted a share award scheme to recognise the contribution by certain employees including Directors and senior management of the Company, and to provide them with incentives in order to retain them for the development of the Company.

Equal Opportunity, Diversity and Anti-discrimination

The Company respects and values cultural and individual diversity and believes that diversity benefits the Company. Discrimination and the unfavourable treatment of anyone according to his or her personal characteristics (i.e. age, gender, nationality, disability, religion, pregnancy, etc.) are strictly prohibited. Opportunities for employment, training and career development are equally open to all qualified employees.

B2 Health and Safety

Workplace Health and Safety

Consistent with the Company's human resources policy, workplace health and safety is the Company's top priority. We endeavour to provide a safe and hazard-free workplace for our employees, as well as all other people who are influenced by our workplaces, operations and activities.

The Company has adopted multiple measures, including suitable training, fire drill and hazard-proof equipment, in relation to occupational health and safety. All workplace practices and arrangements are in accordance with applicable laws and other related requirements including but not limited to the Law of the PRC on Work Safety. Necessary safety equipment and tools are provided to our employees at offices and warehouses.

In 2017, the Company was not involved in any non-compliances in respect of workplace health and safety-related laws and regulations.

B3 Development and Training

Training and Development for Employees

The Company's excellent talent pool has contributed to the success of its business. Therefore, we put much emphasis on continuous learning and training for our employees' development. We hold the "Company Regulation and Moral Training" seminars for every new employee and organise the "Annual Working Performance Sharing Meeting" every year. We believe sufficient and adequate training can provide the necessary knowledge, skill sets and experiences for our employees to work competently. By providing in-house training programmes, seminars, workshops and conferences, regular sharing sessions, peer learning and on-the-job coaching, we encourage and support our employees in professional training for their personal and career development. We believe that this is a mutually beneficial practice for achieving both personal and corporate goals as a whole.

B4 Labour Standards

Anti-child and Forced Labour

The Company strictly prohibits the employment of child and forced labour. No abuse or physical punishment of any kind is allowed. The human resources staff perform background check on every candidate before hiring to ensure compliance with these requirements. Furthermore, when engaging suppliers and contractors, the Company screens out those that are known to employ child or forced labour.

In 2017, the Company was involved in no non-compliance cases in respect of child and forced labour-related laws and regulations including but not limited to the Provisions on Prohibition of Child Labour.

B5 Supply Chain Management

Management of Environmental and Social Risks of Supply Chain

The Company has established a supply chain management policy. With its active participation in the pharmaceutical and medical industries, the Company has maintained a strong and close relationship with various world-renowned pharmaceutical and medical device brands in the world. These suppliers are leaders in their respective fields and their products are accredited and of high quality.

Despite the above, the Company's quality control team monitors product quality by performing sample testing to ensure the safety of its products.

The Company has implemented a set of green procurement processes. We seek to continuously contribute to the quality of the environment through responsible purchasing and the use of environmentally preferable materials for packaging that have a reduced negative effect on our environment.

B6 Product Responsibility

Products and Services Responsibility

The Company is committed promoting high quality pharmaceutical and medical device products to customers. We do not engage in unfair business activities of any kind.

The Company guarantees that its marketing, product and service delivering processes provide clear and open information which do not contain false or exaggerated descriptions. We have produced our advertisements according to the requirements of local regulations relevant to the pharmaceutical and medical device fields.

Meanwhile, we ensure our products and services comply with related local laws and international standards (especially relevant laws and regulations issued by CFDA). Any acts that destroy customer confidence or infringe customer rights are strictly prohibited. In 2017, the Company was involved in no non-compliance cases in respect of product and services-related laws and regulations.

Customer Services

With a strong and competent sales team, the Company has established an extensive sales network in the mainland of China. Given the existence of such a sizeable network, the Company has formulated a comprehensive customer services policy to continuously provide excellent products and services to the customers in all aspects. A customer service department consisting of a pool of customer service officers has been set up to handle the feedbacks and opinions from customers. All customer complaints are investigated and followed up according to internal guidelines.

Data Privacy

The Company understands the importance of stakeholders' data privacy, regardless of whether that data relates to customers or employees. We are committed to complying with the statutory requirements relating to data privacy protection to fulfil a high standard of data security and confidentiality.

The Company strictly adheres to the following data protection principles:

- Only personal data relevant and required to conduct our business will be collected
- Personal data will only be used for the purpose for which data is collected or for a directly related purpose unless consent with a new purpose is obtained
- No transfer or disclosure of personal data to any entity that is not part of the Group without consent unless it is required by law or it was previously notified
- Appropriate security systems and measures designed to prevent unauthorized access to personal data have been adopted

B7 Anti-corruption

Anti-bribery, Corruption and Money Laundering

The Company emphases integrity, honesty and fairness. We require all our employees to possess high ethical standards and demonstrate professional conduct. There is no tolerance for corruption, bribery, extortion, money-laundering and other fraudulent activities. We require all of our employees to strictly comply with all local laws and regulations when carrying out their duties.

The Company's Code of Conduct and Employee Handbook contain the guidelines and standards of ethical, personal and professional conduct. Regular declarations of potential conflicts are compulsory for certain staff depending on their job responsibility. Whistle-blowing mechanisms have been established for employees to report suspicious misconduct to the top management directly to avoid embarrassment. Furthermore, the Company relies on a prudent risk management and internal control systems, which is reviewed for effectiveness on a regular basis to prevent anti-corruption.

In 2017, the Company was involved in no non-compliance cases in respect of bribery, extortion, fraud and money laundering-related laws and regulations.

B8 Community Investment

Community Programs, Employee Volunteering and Donation

We are dedicated to providing products of a high quality and safety standard to the community. Our marketing and promotion team has developed a nationwide network with hospitals and medical institutions and pharmacies across China, enjoying a leading position in the pharmaceutical and medical devices industries.

The Company strives to take an active part in the communities in which it operates. In recent years, we have engaged in various community activities, including pharmaceutical donations, rescue support and volunteering services. We also encourage our employees to actively participate in volunteer works. When selecting charities to support, we evaluate their vision and their background. Charities with unclear financial position and operations are not considered so as to ensure community investment goes to needy.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA PIONEER PHARMA HOLDINGS LIMITED
中國先鋒醫藥控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

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 67 to 144, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recoverability of finance lease receivables	
We identified the recoverability of finance lease receivables as a key audit matter due to the use of judgment and estimates in assessing the recoverability of finance lease receivables. As at 31 December 2017, the carrying amount of the Group's finance lease receivables was approximately RMB68 million. The impairment assessment requires the management to make significant judgment regarding the identification of impaired finance lease receivables and the estimation of future cash inflows from it, any adjustment may have a material effect on the carrying amount of these balances. Details relating to the Group's finance lease receivables are set out in note 19 to the consolidated financial statements.	Our procedures in relation to the recoverability of finance lease receivables included: • Evaluating the basis of the finance lease repayment schedule prepared by the management and checking its mathematical accuracy; • Evaluating the historical accuracy of the impairment estimated by the management by comparing impairment loss recognised in the past to the actual settlement and actual loss incurred and tracing, on a sample basis, to the source documents; and • Testing, on a sample basis, the subsequent collection of the finance lease receivables.

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We identified the recoverability of trade receivables as a key audit matter due to the use of judgment and estimates in assessing the recoverability of trade receivables. In determining the allowance for trade receivables, the management considers the credit history including default in payments, settlement records and subsequent settlements and any changes in the creditability of its customers. As at 31 December 2017, the carrying amount of the Group's trade receivables was approximately RMB404 million (net of allowance for doubtful debts of approximately RMB12 million). Details relating to the Group's trade receivables are set out in note 22 to the consolidated financial statements.	Our procedures in relation to the recoverability of trade receivables included: • Understanding the management's basis and assessment in relation to the recoverability of trade receivables; • Testing the accuracy of ageing analysis of trade receivables, on a sample basis, to source documents and performing recalculation of the ageing report; • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default in payments, settlement records and subsequent settlements; • Testing, on a sample basis, the subsequent settlements to source documents; and • Evaluating the historical accuracy of the allowance for doubtful debts estimated by the management by comparing historical allowance made to the actual settlement and actual loss incurred and tracing, on a sample basis, to source documents.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Po Chi.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	5	**2,153,935**	1,790,275
Cost of sales		**(1,432,514)**	(1,196,858)
Gross profit		**721,421**	593,417
Other income	6	**44,665**	50,753
Other gains and losses	7	**(4,998)**	33,745
Distribution and selling expenses		**(370,272)**	(277,488)
Administrative expenses		**(66,557)**	(73,370)
Finance costs	8	**(2,301)**	(5,523)
Share of loss of associates	17	**(12,641)**	(39,184)
Profit before tax		**309,317**	282,350
Income tax expense	9	**(28,710)**	(43,726)
Profit for the year	10	**280,607**	238,624
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of foreign operations		**13,210**	(18,425)
– Share of exchange differences of associates		**(5,175)**	6,792
– Release of translation reserve upon disposal of subsidiaries	30	**–**	30,263
Other comprehensive income for the year		**8,035**	18,630
Total comprehensive income for the year		**288,642**	257,254
Profit for the year attributable to:			
Owners of the Company		**278,925**	237,445
Non-controlling interests		**1,682**	1,179
		280,607	238,624
Total comprehensive income for the year attributable to:			
Owners of the Company		**286,964**	256,191
Non-controlling interests		**1,678**	1,063
		288,642	257,254
		RMB yuan	RMB yuan
Earnings per share			
Basic and diluted	11	**0.22**	0.18

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current Assets			
Property, plant and equipment	14	**52,336**	49,853
Prepaid lease payments	15	**2,115**	2,167
Intangible assets	16	**15,187**	15,883
Interest in an associate	17	**72,053**	89,223
Other investment	18	**20,000**	20,000
Finance lease receivables	19	**21,589**	38,905
Deferred tax assets	20	**5,373**	5,947
Amount due from a related party	25	**115,554**	117,419
		304,207	339,397
Current Assets			
Inventories	21	**623,388**	520,244
Finance lease receivables	19	**46,197**	29,299
Trade and other receivables	22	**509,165**	436,837
Amounts due from related parties	25	**–**	39,805
Tax recoverable		**16**	78
Prepaid lease payments	15	**52**	52
Pledged bank deposits	23	**74,867**	73,120
Certificate of deposits	23	**50,000**	–
Bank balances and cash	23	**226,154**	309,640
		1,529,839	1,409,075
Current Liabilities			
Trade and other payables	24	**626,439**	481,925
Amounts due to related parties	25	**–**	2,827
Tax liabilities		**16,446**	28,598
Bank borrowings	26	**29,000**	76,251
Provision	28	**1,886**	1,886
Obligations under finance leases	27	**5,336**	3,186
		679,107	594,673
Net Current Assets		**850,732**	814,402
Total Assets less Current Liabilities		**1,154,939**	1,153,799

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Capital and Reserves			
Share capital	29	81,391	82,096
Reserves		1,058,732	1,028,763
Equity attributable to owners of the Company		1,140,123	1,110,859
Non-controlling interests		942	(308)
Total Equity		1,141,065	1,110,551
Non-current liabilities			
Deferred tax liability	20	–	7,250
Long-term liabilities	24	9,060	23,302
Liabilities for Share Award Scheme	36	20	1,464
Obligations under finance leases	27	4,794	11,232
		1,154,939	1,153,799

The consolidated financial statements on pages 67 to 144 were approved and authorised for issue by the Board of Directors on 21 March 2018 and are signed on its behalf by:

Li Xinzhou
DIRECTOR

Zhu Mengjun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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)*	Investments revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	82,096	956,993	(50,646)	(25,272)	12,389	(149,476)	(18,510)	190,516	998,090	(1,649)	996,441
Profit for the year	–	–	–	–	–	–	–	237,445	237,445	1,179	238,624
Other comprehensive income (expense)	–	–	–	18,746	–	–	–	–	18,746	(116)	18,630
Total comprehensive income for the year	–	–	–	18,746	–	–	–	237,445	256,191	1,063	257,254
Appropriation to reserve	–	–	–	–	61	–	–	(61)	–	–	–
Repurchase of ordinary shares under share award scheme *(Note 36)*	–	–	–	–	–	(922)	–	–	(922)	–	(922)
Payments of dividends *(Note 13)*	–	–	–	–	–	–	–	(142,500)	(142,500)	–	(142,500)
Disposal of subsidiaries *(Note 30)*	–	–	–	–	–	–	–	–	–	278	278
At 31 December 2016	82,096	956,993	(50,646)	(6,526)	12,450	(150,398)	(18,510)	285,400	1,110,859	(308)	1,110,551
Profit for the year	–	–	–	–	–	–	–	278,925	278,925	1,682	280,607
Other comprehensive income (expense)	–	–	–	8,039	–	–	–	–	8,039	(4)	8,035
Total comprehensive income for the year	–	–	–	8,039	–	–	–	278,925	286,964	1,678	288,642
Appropriation to reserve	–	–	–	–	193	–	–	(193)	–	–	–
Shares repurchased and cancelled *(Note 29)*	(705)	(24,650)	–	–	–	–	–	–	(25,355)	–	(25,355)
Repurchase of ordinary shares under share award scheme *(Note 36)*	–	–	–	–	–	(15,405)	–	–	(15,405)	–	(15,405)
Payments of dividends *(Note 13)*	–	–	–	–	–	–	–	(215,294)	(215,294)	–	(215,294)
Acquisition of additional interest in a subsidiary *(Note d)*	–	–	(1,646)	–	–	–	–	–	(1,646)	(382)	(2,028)
Deregistration of a subsidiary *(Note 31)*	–	–	–	–	–	–	–	–	–	(46)	(46)
At 31 December 2017	**81,391**	**932,343**	**(52,292)**	**1,513**	**12,643**	**(165,803)**	**(18,510)**	**348,838**	**1,140,123**	**942**	**1,141,065**

For the year ended 31 December 2017

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.

(b) For the year ended 31 December 2017 and 2016, the Company paid an amount of RMB15,405,000 and RMB922,000, respectively, to Bank of Communications Trustee Limited ("Trustee") to purchase the Company's existing shares of 7,557,000 and 3,295,000, respectively, 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 2017 and 2016, all the shares were held by the Trustee. For details please refer to note 36.

(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) The Group accounts for changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over those subsidiaries as equity transactions and recognises any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received in other reserve.

During the year ended 31 December 2017, the Group acquired an additional 16.67% equity interest in an existing subsidiary from the non-controlling interests. The difference between the amount of consideration paid and the carrying value of the interests acquired from non-controlling interests amounting to RMB1,646,000 is recorded in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**309,317**	282,350
Adjustments for:		
Finance costs	**2,301**	5,523
Interest income on bank deposits	**(3,565)**	(6,815)
Interest income on loans and promissory note to associates	**–**	(563)
Interest income on amount due from a related party	**(6,608)**	(165)
Depreciation of property, plant and equipment	**6,763**	6,879
Amortisation of intangible assets	**1,556**	6,301
Release of prepaid lease payments	**52**	52
Gain on disposal of subsidiaries	**–**	(2,794)
Share of loss of associates	**12,641**	39,184
Loss on fair value changes of derivative financial instruments	**–**	9,107
Gain on dilution of interest in an associate	**(646)**	(5,899)
(Reversal of allowance) allowance for inventories	**(2,461)**	2,334
(Reversal of impairment loss) impairment loss on trade and other receivables	**(5,197)**	13,013
Impairment loss on investment in an associate	**–**	6,378
Reversal of impairment loss on investment in an associate	**–**	(41,263)
(Reversal of impairment loss) impairment loss on finance lease receivables	**(1,521)**	661
Gain on initial recognition of warrants	**–**	(8,856)
Written off of interest receivable from an associate	**–**	1,290
Loss on disposal of an associate	**–**	1,683
Provision of sales return	**–**	16
(Reversal of provision) provision for the Scheme	**(1,444)**	907
Operating cash flows before movements in working capital	**311,188**	309,323
(Increase) decrease in inventories	**(114,925)**	100,291
Increase in trade and other receivables	**(78,213)**	(6,661)
Increase (decrease) in trade and other payables	**170,481**	(41,365)
Decrease (increase) in amount due from a related party	**50**	(50)
(Decrease) increase in amounts due to related parties	**(2,827)**	62
(Increase) decrease in finance lease receivables	**(2,349)**	15,529
Cash generated from operations	**283,405**	377,129
Income taxes paid	**(47,476)**	(29,567)
Interest paid	**(2,301)**	(5,523)
NET CASH FROM OPERATING ACTIVITIES	**233,628**	342,039

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Interest received on bank deposits		**3,565**	6,815
Interest received on loan to an associate		**–**	204
Loans and promissory note advance to associates		**–**	(7,114)
Repayment from associates		**–**	23,077
Purchases of property, plant and equipment		**(9,726)**	(5,193)
Capital injection in associates		**–**	(60,446)
Purchases of intangible assets		**(860)**	(2,775)
Proceeds on disposal of property, plant and equipment		**480**	1,114
Placement of pledged bank deposits		**(92,348)**	(167,654)
Withdrawal of pledged bank deposits		**90,601**	207,502
Placement of certificate of deposits		**(50,000)**	–
Proceeds on disposal of an associate		**–**	10
Repayment from a related party		**48,228**	–
Net cash outflow on disposal of subsidiaries	*30*	**–**	(1,619)
Acquisition of additional interest in a subsidiary		**(2,028)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(12,088)**	(6,079)
FINANCING ACTIVITIES			
New bank borrowing raised		**80,000**	280,023
Repayments of bank borrowings		**(127,251)**	(483,509)
Dividends paid		**(215,294)**	(142,500)
Payment for repurchase of ordinary shares under the Scheme	*36*	**(15,405)**	(922)
Shares repurchased and cancelled		**(25,355)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(303,305)**	(346,908)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(81,765)**	(10,948)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**309,640**	317,113
Effect of foreign exchange rate changes		**(1,721)**	3,475
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**226,154**	309,640

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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") since 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, respectively. Both companies are incorporated in the British Virgin Islands and are controlled by Mr. Li Xinzhou ("Mr. Li") and Ms. Wu Qian, the spouse of Mr. Li.

The Company is an investment holding company. The principal activities of 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 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to International Accounting Standard ("IAS") 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

Except as described below, 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 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IFRSs that are mandatorily effective for the current year (Continued)

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

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

New and revised IFRSs issued but not yet effective (Continued)

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

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 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 fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting 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; and

- 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.

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 18: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of IFRS 9, the fair value gains or losses relating to these securities would be adjusted to investments revaluation reserve as at 1 January 2018;

Investments revaluation reserve amounting to approximately RMB18,510,000 was arising from a listed equity security previously classified as available-for-sale investment carried at fair value, which became an associate of the Group. The fair value gains or losses accumulated in the investments revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. Upon initial application of IFRS 9, investments revaluation reserve of RMB18,510,000 would be transferred to accumulated profits at 1 January 2018.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables and finance lease receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits and increase the deferred tax assets at 1 January 2018.

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

New and revised 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 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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 16 Leases (Continued)

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

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB31,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

New and revised IFRSs issued but not yet effective (Continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   (i) the original liability is derecognised;

   (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

   (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The directors of the Company do not anticipate that the application of these amendments to IFRS 2 will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the 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 consolidated financial statements have been prepared on the historical cost basis 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount 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 relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

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 made 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 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 to fair value at subsequent reporting dates, 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 Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control

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

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

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

The comparative amounts in the consolidated financial statements are presented as if the businesses 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.

Investments 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 or joint control over those policies.

The results and assets and liabilities of associates 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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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 reclassified 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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognise in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, 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. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant 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) upon disposal/partial disposal of the relevant associate.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria lower been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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 finance and operating leases is described in the accounting policy below.

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 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, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building for own use

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on 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 arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise except for 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 disposal or partial disposal of the Group's interests in associates.

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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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 and the Mandatory Provident Fund Scheme in Hong Kong are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset. A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 differences 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 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 profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 are 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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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 relevant 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

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 (or a cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: available-for-sale ("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.

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 fair value through profit or loss ("FVTPL").

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

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 a related party, pledged bank deposits, certificate of deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any 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 each 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;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 22, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets 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 the 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.

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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

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.

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 are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 form 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.

Financial liabilities at amortised cost

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.

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 retained 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, 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 have expired. 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 judgments, 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.

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 investment

As at 31 December 2017, an unlisted private equity securities (other investment) held by the Group that are classified as AFS financial assets measured at cost less impairment. 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. Where the actual future cash flows are less than expected, an impairment loss may arise.

As at 31 December 2017, the carrying amount of Group's other investment was approximately RMB20,000,000 (2016: RMB20,000,000).

Estimated impairment of intangible assets

Determining whether intangible asset is impaired requires 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 indicators 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 amount of other intangible assets at 31 December 2017 was approximately RMB15,187,000 (2016: RMB15,883,000). No impairment loss has been 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 requires 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 amount of property, plant and equipment at 31 December 2017 was approximately RMB52,336,000 (2016: RMB49,853,000). No impairment loss has been recognised for property, plant and equipment for both years.

Estimated impairment of interest in an associate

When there is an 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 an associate, specifically NovaBay Pharmaceuticals, Inc. ("NovaBay"), is impaired as indicated by negative financial performance, 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 consider 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 recoverable amount is less than the carrying amount of interest in an associate, an impairment loss may arise.

As at 31 December 2017, the carrying amount of interest in an associate was approximately RMB72,053,000 (2016: RMB89,223,000), with nil accumulated impairment loss (2016: nil). Details of the recoverable amount calculation are disclosed in note 17.

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 2017, the carrying amount of the Group's trade receivables was approximately RMB404,329,000 (2016: RMB350,616,000), net of allowance for doubtful debts of RMB11,877,000 (2016: RMB19,409,000).

As at 31 December 2017, the carrying amount of the Group's finance lease receivables was approximately RMB67,786,000 (2016: RMB68,204,000), net of accumulated impairment loss of RMB6,011,000 (2016: RMB7,532,000).

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 2017, the carrying amount of Group's inventories was RMB623,388,000 (2016: RMB520,244,000), net of allowance for inventories of RMB4,000 (2016: RMB2,465,000).

5. 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:

	2017 **RMB'000**	2016 RMB'000
Sales of pharmaceutical products	**2,027,894**	1,652,079
Sales of medical devices	**126,041**	138,196
	2,153,935	1,790,275

Information reported to the executive directors, being the chief operating decision maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. 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 – sales of the Group's ophthalmic pharmaceutical products to the customers under the co-promotion and channel management arrangement ("Products sold via the provision of co-promotion and channel management services"); and

(b) Sales of all of the Group's pharmaceutical products and medical devices except for ophthalmic pharmaceutical products to the customers under the comprehensive marketing, promotion and channel management arrangement ("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 CODM for review.

5. 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 2017

	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	944,519	1,209,416	2,153,935
Cost of sales	(346,632)	(1,085,882)	(1,432,514)
Gross profit & segment result	597,887	123,534	721,421
Other income			44,665
Other gains and losses			(4,998)
Distribution and selling expenses			(370,272)
Administrative expenses			(66,557)
Finance costs			(2,301)
Share of loss of an associate			(12,641)
Profit before tax			309,317

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2016

	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	771,780	1,018,495	1,790,275
Cost of sales	(286,818)	(910,040)	(1,196,858)
Gross profit & segment result	484,962	108,455	593,417
Other income			50,753
Other gains and losses			33,745
Distribution and selling expenses			(277,488)
Administrative expenses			(73,370)
Finance costs			(5,523)
Share of loss of associates			(39,184)
Profit before tax			282,350

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

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

	2017 RMB'000	2016 RMB'000
Alcon	**1,209,416**	1,018,495
Difene	**144,234**	135,027
Fluxum	**222,046**	159,509
Polimod	**250,102**	160,136
Macmiror complex and Macmiror	**55,582**	35,459
Vinpocetine API	**28,985**	48,197
Neoton	**98,562**	69,767
Budesonide Easyhaler and Salbutamol Easyhaler	**5,168**	5,027
FLEET Phospho-Soda	**13,607**	18,952
Medical equipments and supplies	**126,041**	138,196
Others	**192**	1,510
	2,153,935	1,790,275

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 49% (2016: 43%) of non-current assets excluding other investment, finance lease receivables, deferred tax assets and amount due from a related party of the Group are located in the PRC, and the remaining 51% (2016: 57%) is located in the United States in relation to the interest in an associate. Over 99% (2016: 98%) 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.

For the year ended 31 December 2017

6. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Government grants *(Note)*	**20,804**	28,379
Interest on bank deposits	**3,565**	6,815
Interest on loans and promissory note to associates	**–**	563
Interest on amount due from a related party	**6,608**	165
Interest income on finance leases	**8,405**	10,879
Service income	**5,283**	3,763
Others	**–**	189
	44,665	50,753

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.

7. OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Net foreign exchange (losses) gains	**(12,362)**	6,425
Reversal of impairment loss (impairment loss) on trade and other receivables	**5,197**	(13,013)
Reversal of impairment loss (impairment loss) on finance lease receivables	**1,521**	(661)
Gain on dilution on interest in an associate *(Note 17)*	**646**	5,899
Gain on disposal of subsidiaries *(Note 30)*	**–**	2,794
Loss on disposal of an associate	**–**	(1,683)
Gain on disposal of property, plant and equipment	**–**	640
Loss on fair value changes of derivative financial instruments	**–**	(9,107)
Gain on initial recognition of warrants	**–**	8,856
Written off of interest receivable from the loans to an associate	**–**	(1,290)
Impairment loss on investment in an associate	**–**	(6,378)
Reversal of impairment loss on investment in an associate	**–**	41,263
	(4,998)	33,745

For the year ended 31 December 2017

8. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on:		
Bank borrowings	**2,301**	5,523

9. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**25,654**	32,609
Hong Kong Profits Tax	**1,730**	–
PRC withholding tax on dividends distributed by subsidiaries	**4,500**	7,500
	31,884	40,109
Under provision in prior year		
EIT	**3,502**	3,675
Deferred tax *(Note 20)*		
Current year	**(6,676)**	(58)
	28,710	43,726

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

Pioneer Pharma (Hong Kong) Co., Limited ("Pioneer HK") is incorporated in Hong Kong and subject to Hong Kong Profits Tax at a rate of 16.5% on assessable profits in Hong Kong.

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 period from 1 January 2017 to the date of cessation of operation on 11 July 2017 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.

For the year ended 31 December 2017

9. INCOME TAX EXPENSE (Continued)

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.

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

	2017 RMB'000	2016 RMB'000
Profit before tax	**309,317**	282,350
Tax at the applicable income tax rate of 25%	**77,329**	70,588
Tax effect of expenses not deductible for tax purpose	**5,399**	14,889
Tax effect of income not taxable for tax purpose	**(1,892)**	(13,303)
Tax effect of tax losses not recognised	**317**	2,003
Utilisation of tax losses previously not recognised	**(1,565)**	–
Tax effect of concessionary tax rate	**(51,630)**	(46,376)
Under provision in prior year	**3,502**	3,675
PRC withholding tax on dividends distributed by subsidiaries	**4,500**	7,500
(Realisation of deferred tax liabilities) deferred tax liabilities arising on undistributed profit of the PRC subsidiaries	**(7,250)**	4,750
	28,710	43,726

For the year ended 31 December 2017

10. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 12)*	**5,744**	4,079
Other staff's retirement benefits scheme contributions	**8,703**	10,236
Other staff costs	**40,282**	38,911
Total staff costs	**54,729**	53,226
Auditors' remuneration	**2,508**	3,454
(Reversal of allowance) allowance for inventories, net	**(2,461)**	2,334
Release of prepaid lease payments	**52**	52
Depreciation for property, plant and equipment	**6,763**	6,879
Amortisation of intangible assets	**1,556**	6,301
Cost of inventories recognised as an expense	**1,432,514**	1,196,858
Minimum lease payment under operating lease in respect of premises	**277**	250

11. EARNINGS PER SHARE

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

	2017	2016
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**RMB278,925,000**	RMB237,445,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,289,808,605**	1,295,326,836

For the years ended 31 December 2017 and 2016, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the Share Award Scheme.

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

For the year ended 31 December 2017

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executives officer's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	For the year ended 31 December 2017							
	Executive director *(Notes a & b)*	Executive director and chief executive officer *(Notes a & b)*	Non-executive directors *(Note c)*		Independent non-executive directors *(Note d)*			
	Li Xinzhou RMB'000	Zhu Mengjun RMB'000	Wu Mijia RMB'000	Wang Yinping RMB'000 *(Notes a)*	Xu Zhonghai RMB'000	Lai Chanshu RMB'000	Wong Chihung RMB'000	Total 2017 RMB'000
Fees	–	–	204	–	255	255	298	1,012
Other emoluments								
Salaries and other allowance	1,720	1,416	–	1,392	–	–	–	4,528
Retirement benefits scheme contributions	–	90	–	114	–	–	–	204
	1,720	1,506	204	1,506	255	255	298	5,744

	For the year ended 31 December 2016								
	Executive director *(Notes a & b)*	Executive director and chief executive officer *(Notes a & b)*	Non-executive directors		Executive director and chief executive officer *(Notes a & b)*	Independent non-executive directors *(Note d)*			
	Li Xinzhou RMB'000	Zhu Mengjun RMB'000	Wu Mijia RMB'000 *(Note c)*	Wang Yinping RMB'000 *(Notes a & b)*	Wang Yinping RMB'000	Xu Zhonghai RMB'000	Lai Chanshu RMB'000	Wong Chihung RMB'000	Total 2017 RMB'000
Fees	–	–	206	–	–	257	257	300	1,020
Other emoluments									
Salaries and other allowance	1,029	781	–	–	947	–	–	–	2,757
Retirement benefits scheme contributions	–	83	–	–	108	–	–	–	191
Share Award expense under the Scheme	–	51	–	–	60	–	–	–	111
	1,029	915	206	–	1,115	257	257	300	4,079

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Notes:

(a) Mr. Li Xinzhou has resigned as chief executive officer of the Company on 1 January 2015 and retained as executive director for both years. Mr. Wang Yinping has been appointed as an executive director and the chief executive officer with effect from 1 January 2015 to 28 December 2016. Mr. Wang Yingping has been redesignated from the executive director to non-executive director, and has resigned as the chief executive officer on 28 December 2016. Mr. Zhu Mengjun has been redesignated from chief financial officer to chief executive officer with effect from 29 December 2016.

(b) 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.

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

(d) 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 (2016: 3) directors for the year ended 31 December 2017. The emoluments of the remaining 2 (2016: 2) highest paid individuals who are neither a director nor chief executive officer of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salary and other allowances	**1,062**	1,266
Retirement benefits scheme contributions	**179**	167
	1,241	1,433

For the year ended 31 December 2017

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The number of the highest paid individual who are not the directors of the Company whose remuneration fell within the following band is as follows:

	2017 No. of individuals	2016 No. of individuals
Nil to Hong Kong Dollars ("HKD") 1,000,000	**2**	2

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.

13. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2017 Interim – RMB6.4 cents per share (2016: RMB7.1 cents per share)	**81,899**	95,000
2016 Final – RMB10.3 cents per share (2015: RMB3.6 cents per share)	**133,395**	47,500
	215,294	142,500

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2017 (2016: RMB10.3 cents per share, amounting to RMB133,395,000 in aggregate) has been proposed by the directors of the Company.

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2016	57,718	6,490	24,231	1,769	90,208
Additions	1,125	213	3,629	226	5,193
Disposals	–	–	(2,476)	–	(2,476)
Derecognised on disposal of subsidiaries *(Note 30)*	(17,431)	(2,272)	(9,917)	(110)	(29,730)
Effect of foreign currency exchange differences	886	111	456	–	1,453
At 31 December 2016	42,298	4,542	15,923	1,885	64,648
Additions	–	–	9,726	–	9,726
Disposals	–	–	(899)	(2)	(901)
At 31 December 2017	42,298	4,542	24,750	1,883	73,473
ACCUMULATED DEPRECIATION					
At 1 January 2016	3,471	1,492	7,942	806	13,711
Provided for the year	2,030	1,166	3,223	460	6,879
Disposal of subsidiaries *(Note 30)*	(90)	(802)	(4,316)	(3)	(5,211)
Elimination on disposals	–	–	(712)	–	(712)
Effect of foreign currency exchange differences	3	14	111	–	128
At 31 December 2016	5,414	1,870	6,248	1,263	14,795
Provided for the year	1,799	881	3,843	240	6,763
Elimination on disposals	–	–	(419)	(2)	(421)
At 31 December 2017	7,213	2,751	9,672	1,501	21,137
CARRYING VALUES					
At 31 December 2017	**35,085**	**1,791**	**15,078**	**382**	**52,336**
At 31 December 2016	36,884	2,672	9,675	622	49,853

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Buildings	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 with land use rights.

15. PREPAID LEASE PAYMENTS

Analysed for reporting purposes as:

	2017 RMB'000	2016 RMB'000
Current asset	**52**	52
Non-current asset	**2,115**	2,167
	2,167	2,219

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

16. INTANGIBLE ASSETS

	Licenses and patents RMB'000	Customer base RMB'000	Total RMB'000
COST			
At 1 January 2016	56,681	19,031	75,712
Additions	2,775	–	2,775
Disposal of subsidiaries *(Note 30)*	(34,938)	(19,677)	(54,615)
Effect of foreign currency exchange differences	1,061	646	1,707
At 31 December 2016	25,579	–	25,579
Additions	860	–	860
At 31 December 2017	26,439	–	26,439
ACCUMULATED AMORTISATION			
At 1 January 2016	11,651	2,854	14,505
Provided for the year	4,325	1,976	6,301
Disposal of subsidiaries *(Note 30)*	(6,368)	(4,919)	(11,287)
Effect of foreign currency exchange differences	88	89	177
At 31 December 2016	9,696	–	9,696
Provided for the year	1,556	–	1,556
At 31 December 2017	11,252	–	11,252
CARRYING VALUES			
At 31 December 2017	**15,187**	**–**	**15,187**
At 31 December 2016	15,883	–	15,883

For the year ended 31 December 2017

16. 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%

17. INTEREST IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Cost of investment in an associate	**114,081**	114,081
Share of post-acquisition losses and other comprehensive expense	**(44,174)**	(26,358)
Accumulated gain on dilution	**2,146**	1,500
	72,053	89,223
Fair value of NovaBay *(Note)*	**130,646**	119,506

Note: As at 31 December 2017, the fair value of the Group's interest in NovaBay, of which its shares are listed on the New York Stock Exchange, was United States Dollars ("US$") 20,069,000 (equivalent to RMB130,646,000) (2016: US$17,202,000 (equivalent to RMB119,506,000)) based on the quoted market price available on the New York Stock Exchange.

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

Name of associate	Form of entity	Class of shares held	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting rights held by the Group	
					2017	2016
NovaBay *(Note a)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	Untied States	**33.88%**	34.14%

Note:

(a) During the year ended 31 December 2017, NovaBay issued an aggregate of 115,630 shares to various investors. A gain on dilution of approximately RMB646,000 was recognised in profit or loss. As of 31 December 2017, the Group held a total of 5,212,747 ordinary shares representing approximately 33.88% (31 December 2016: 5,212,747 ordinary shares representing approximately 34.14%) of issued shares of NovaBay.

17. INTEREST IN AN ASSOCIATE (Continued)

Indicated by the financial performance of NovaBay for the year ended 31 December 2017, the Group takes into consideration to perform annual impairment assessment for their carrying amounts in accordance with IAS 36 *Impairment of 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 the shares of NovaBay are listed on 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 is insignificant.

The recoverable amount of the investment in NovaBay as at 31 December 2017 has been determined based on the quoted market price less cost of disposal. As the recoverable amount of the investment is greater than the corresponding carrying value, nil impairment loss is recognised (31 December 2016: a reversal of impairment loss of approximately RMB41,263,000) for the year ended 31 December 2017 in relation to the interest in an associate.

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

The associate is accounted for using the equity method in these consolidated financial statements.

NovaBay

	2017 **RMB'000**	2016 RMB'000
Non-current assets	**103,417**	118,905
Current assets	**60,059**	100,533
Non-current liabilities	**54,858**	72,637
Current liabilities	**32,197**	29,748

	2017 **RMB'000**	2016 RMB'000
Revenue	**122,520**	77,172
Loss for the year	**37,157**	93,118
Total comprehensive expense for the year	**37,157**	93,118

17. INTEREST IN AN ASSOCIATE (Continued)

NovaBay (Continued)

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

	2017 RMB'000	2016 RMB'000
Net assets of the associate	**76,421**	117,053
Proportion of the Group's ownership interest in NovaBay	**25,891**	39,962
Goodwill	**46,162**	49,261
Carrying amount of the Group's interest in NovaBay	**72,053**	89,223

18. OTHER INVESTMENT

The balance as of 31 December 2017 and 2016 represent the investment in 上海譽瀚股權投資基金合夥企業(有限合夥) Shanghai Yuhan fund ("the Fund"), which is incorporated in the PRC. The Fund specialises in making equity investment in various targets within the pharmaceutical industry. As at 31 December 2017 and 31 December 2016, the Fund received contributions from shareholders of RMB250 million, among which the Company injected RMB20 million and accounted for 8% of the equity interest of the Fund. The Fund represents an investment in an unlisted private entity and accounted for as AFS investment. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the management of the Company is of the opinion that its fair value cannot be measured reliably.

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19. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Finance lease receivables comprise:				
Within one year	**62,799**	50,431	**46,197**	29,299
In more than one year but not more than two years	**22,761**	31,301	**19,386**	23,326
In more than two years but not more than five years	**10,928**	29,606	**8,214**	23,111
	96,488	111,338	**73,797**	75,736
Less: unearned finance income	**(22,691)**	(35,602)	**N/A**	N/A
Present value of minimum lease payment receivables	**73,797**	75,736	**73,797**	75,736
Impairment on finance lease receivables	**(6,011)**	(7,532)	**(6,011)**	(7,532)
	67,786	68,204	**67,786**	68,204
Analysed for reporting purposes as:				
Current assets			**46,197**	29,299
Non-current assets			**21,589**	38,905
			67,786	68,204

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*.

19. FINANCE LEASE RECEIVABLES (Continued)

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.

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

	2017	2016
Effective interest rate per annum	**1% to 22%**	1% to 22%

Movement in provision for finance lease receivables

	2017 **RMB'000**	2016 RMB'000
1 January	**7,532**	6,871
(Reversal of impairment loss) impairment loss recognised on receivables	**(1,521)**	661
31 December	**6,011**	7,532

As at 31 December 2017, a reversal of impairment loss on finance lease receivables of approximately RMB1,521,000 (2016: impairment loss of approximately RMB661,000) has been made in respective of debtors, as in the opinion of the directors of the Company, these amounts can be recovered due to improvement in payments during the year (2016: the amounts cannot be recovered due to default in payments).

Except mentioned above, 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 RMB306,000 (2016: RMB515,000) 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 2017 and 31 December 2016. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

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19. FINANCE LEASE RECEIVABLES (Continued)

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 RMB306,000 (2016: RMB515,000) based on the final lease instalment due date stipulated in the finance lease agreements.

20. DEFERRED TAX

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**5,373**	5,947
Deferred tax liability	**–**	(7,250)
	5,373	(1,303)

The following are the major deferred tax assets (liability) recognised and movements thereon during the year ended 31 December 2017:

	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 2016	1,063	213	168	688	(2,500)	(10,906)	(11,274)
Credit (charge) to profit or loss for the year	1,299	880	1	1,635	(4,750)	993	58
Disposal of subsidiaries *(Note 30)*	–	–	–	–	–	10,287	10,287
Effect of foreign currency exchange differences	–	–	–	–	–	(374)	(374)
At 31 December 2016	2,362	1,093	169	2,323	(7,250)	–	(1,303)
(Charge) credit to profit or loss for the year	(524)	833	–	(883)	7,250	–	6,676
At 31 December 2017	**1,838**	**1,926**	**169**	**1,440**	**–**	**–**	**5,373**

20. DEFERRED TAX (Continued)

The Group has unused tax losses of approximately RMB43,132,000 (2016: RMB48,125,000) as at 31 December 2017 respectively which is 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:

	2017 **RMB'000**	2016 RMB'000
2017	**–**	1,556
2018	**452**	5,156
2019	**25,280**	25,280
2020	**11,424**	11,424
2021	**4,709**	4,709
2022	**1,267**	–
	43,132	48,125

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The 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 2017, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries amounted to RMB434,870,000 (2016: RMB362,953,000). 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 RMB434,870,000 (2016: RMB217,953,000) 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 liability of nil (2016: RMB7,250,000) was recognised as at 31 December 2017.

21. INVENTORIES

All inventories represented finished goods of pharmaceutical products and medical devices. As at 31 December 2017, inventories included goods in transit of approximately RMB164,223,000 (2016: RMB183,140,000).

During the year ended 31 December 2017, a reversal of allowance for inventories of approximately RMB2,461,000 (2016: allowance of approximately RMB2,334,000) has been recognised by the Group and included in cost of sales.

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**416,206**	370,025
Less: Allowance for doubtful debts	**(11,877)**	(19,409)
	404,329	350,616
Bill receivables	**76,040**	70,693
	480,369	421,309
Other receivables, prepayments and deposits	**16,796**	10,065
Less: Allowance for doubtful debts	**(129)**	(129)
	497,036	431,245
Interest receivables	**440**	2,135
Advance payment to suppliers	**1,572**	2,633
Other tax recoverable	**10,117**	824
Total trade and other receivables	**509,165**	436,837

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 19, 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 ageing 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 date:

	2017 RMB'000	2016 RMB'000
0 to 60 days	**276,955**	250,654
61 days to 180 days	**73,442**	70,750
181 days to 1 year	**36,982**	21,085
1 year to 2 years	**10,750**	8,127
Over 2 years	**6,200**	–
	404,329	350,616

22. TRADE AND OTHER RECEIVABLES (Continued)

The ageing analysis of bills receivables presented based on the issue date at respective reporting dates:

	2017 RMB'000	2016 RMB'000
0 to 60 days	23,827	30,670
61 days to 180 days	45,188	31,642
181 days to 1 year	7,025	8,381
	76,040	70,693

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 RMB61,127,000 (2016: RMB79,482,000), which are past due as at 31 December 2017. 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. In determining the allowance for trade receivables, the management considers the credit history including default in payments, settlement records and subsequent settlements and any changes in the creditability of its customers. The Group does not hold any collateral over these balances.

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

	2017 RMB'000	2016 RMB'000
61 days to 180 days	35,835	54,730
181 days to 1 year	8,896	19,236
1 year to 2 years	10,382	5,516
2 years to 3 years	6,014	–
	61,127	79,482

22. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**19,538**	6,769
Impairment loss recognised on receivables	**–**	13,013
Amounts written off during the year as uncollectible	**(2,335)**	(244)
Reversal of impairment loss	**(5,197)**	–
Balance at end of the year	**12,006**	19,538

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB12,006,000 (31 December 2016: RMB19,538,000) which have delayed payments with poor settlement record.

23. PLEDGED BANK DEPOSITS, CERTIFICATE OF DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

The Group's pledged bank deposits represent deposits pledged to banks to secure issue of letter of credit (2016: 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 2016, the Group entered into several contracts of structured deposits with a bank for a term of one year. The principal of RMB50,000,000 was guaranteed by the relevant bank and with a guaranteed minimal interest yield ranging between 2.70% to 3.40% per annum as at 31 December 2016. These deposits contain non-closely related embedded derivatives and are subject to fixed return determined by reference to the performance foreign exchange rate of US$ against HKD. The directors of the Company considered the fair values of non-closely related embedded derivatives were insignificant as at 31 December 2016. As at 31 December 2016, the structured deposits were pledged to a bank as security for short term bank borrowings denominated in HKD granted to a group entity.

During the year ended 31 December 2017, the structured deposits of RMB50,000,000 have been fully redeemed and the Group has not entered into any other contracts of structured deposits.

Pledged bank deposits of RMB74,867,000 carry fixed interest rate from 0.35% to 0.50% (2016: RMB23,120,000 carry fixed interest rate from 0.35% to 0.50%) per annum as at 31 December 2017.

Certificate of deposits

The Group's balance includes a 6-month fixed rate certificate of deposit of RMB10,000,000 that carried an interest rate of 1.65% per annum with maturity date on 14 January 2018 and two 1-year fixed rate certificate of deposit of RMB20,000,000, that carried an interest rate of 1.95% per annum with maturity date on 14 July 2018 respectively.

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23. PLEDGED BANK DEPOSITS, CERTIFICATE OF DEPOSITS AND BANK BALANCES AND CASH (Continued)

Bank balances and cash

The Group's bank balances carry interest at market rates that range from 0.35% to 0.50% (2016: from 0.35% to 0.50%) per annum as at 31 December 2017.

24. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

	2017 RMB'000	2016 RMB'000
Trade payables	568,944	416,914
Payroll and welfare payables	6,790	6,718
Advance from customers	8,637	12,798
Other tax payables	1,564	2,154
Marketing service fee payables	15,998	25,812
Interest payables	466	711
Deposits received from distributors	19,527	13,865
Accrued purchase	9,060	23,302
Other payables and accrued charges	4,513	2,953
	635,499	505,227
Less: Amounts due after one year shown under long-term liabilities *(Note)*	(9,060)	(23,302)
	626,439	481,925

Note: 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.

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24. TRADE AND OTHER PAYABLES AND LONG TERM LIABILITIES (Continued)

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

	2017 RMB'000	2016 RMB'000
0 to 90 days	559,340	415,591
91 to 180 days	6,157	13
181 to 365 days	2,872	1,235
Over 365 days	575	75
	568,944	416,914

25. RELATED PARTIES DISCLOSURES

(a) The Group had the following material transactions with its related parties during the reporting period:

	2017 RMB'000	2016 RMB'000
Interest on loans to Q3 Medical Devices Limited *(Note a)*	–	362
Interest on promissory note to NovaBay	–	201
Purchase of finished goods from Covex, S.A. *(Note b)*	2,943	–
Interest on amount due from a related party	6,608	165
Purchase of finished goods from Pioneer Singapore *(Note c)*	–	8,781

Notes:

(a) Q3 Medical Devices Limited ("Q3") was an associate of the Group and disposed to Mr. Li at 23 December 2016. It became an associate of a company controlled and beneficially owned by Mr. Li from 23 December 2016.

(b) Covex, S.A. was controlled and beneficially owned by Mr. Li from 23 December 2016.

(c) Pioneer Pharma (Singapore) Pte. Ltd., ("Pioneer Singapore") was controlled and beneficially owned by Mr. Li from 23 December 2016.

25. RELATED PARTIES DISCLOSURES (Continued)

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

	2017 RMB'000	2016 RMB'000
Name of the related parties		
Amount due from related parties		
Mr. Li – current *(Note a) (Note 30)*	–	39,755
Pioneer Medident (SE Asia) Pte. Ltd. – current *(Note b)*	–	50
Mr. Li – non-current *(Note a) (Note 30)*	115,554	117,419
	115,554	157,224
Amount due to related parties – current		
Mr. Li *(Note c)*	–	62
Covex, S.A. *(Note d)*	–	2,765
	–	2,827

Notes:

(a) The amounts carry a fixed interest of 4.75% per annum which is due according to the payment schedule. The amounts are secured by the share charge of Pioneer Singapore for the payment obligation of Mr. Li. Mr. Li has undertaken to Pioneer HK, a wholly-owned subsidiary of the Company, and the Company that he will settle the amount due to Pioneer HK not less than 20% of any dividend payments in respect of the shares that he and Pioneer BVI may receive from the Company during the 5-year payment schedule.

(b) Pioneer Medident (SE Asia) Pte. Ltd. "Pioneer Medident" was controlled and beneficially owned by Mr. Li from 23 December 2016. Amounts are trade nature, unsecured, interest-free and repayable on demand.

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

(d) Amounts are trade nature, unsecured, interest-free and repayable within the credit term of 150 days.

25. RELATED PARTIES DISCLOSURES (Continued)

(c) Compensation of key management personnel

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

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**9,554**	6,589
Retirement benefits scheme contributions	**864**	530
	10,418	7,119

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

26. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Carrying amount of bank borrowings repayable within one year and shown under current portion	**29,000**	76,251
Analysed as:		
Secured	**–**	36,167
Unsecured	**29,000**	40,084
	29,000	76,251

The borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	2017 RMB'000	2016 RMB'000
Pledge of assets		
Trade receivables *(Note)*	**409,133**	342,232
Pledged bank deposits for bank borrowings	**–**	50,000
Pledged bank deposits for letter of credits	**74,867**	23,120
	484,000	415,352

Note: In addition, inter-company trade receivables balances amounting to approximately RMB23,958,000 (2016: RMB20,819,000) has been pledged for the banking facility.

The effective interest rate on the Group's fixed-rate borrowings is 4.79% (2016: ranging from 1.81% to 4.79%).

27. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2017, the Group leases 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 obligations 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	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Amount payable under finance lease:				
Within one year	**6,359**	4,329	**5,336**	3,186
In more than one year but not more than two years	**5,191**	5,910	**4,794**	4,991
In more than two years but not more than five years	**–**	6,637	**–**	6,241
	11,550	16,876	**10,130**	14,418
Less: future finance charges	**(1,420)**	(2,458)	**N/A**	N/A
Present value of lease obligations	**10,130**	14,418	**10,130**	14,418
Analysed for reporting purposes as:				
Current liabilities			**5,336**	3,186
Non-current liabilities			**4,794**	11,232

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

28. PROVISION

	Provision for sales return RMB'000
COST	
At 1 January 2016	1,870
Additions	491
Utilisations	(475)
At 31 December 2016 and 1 January 2017	1,886
Additions	402
Utilisations	(402)
At 31 December 2017	**1,886**

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

29. SHARE CAPITAL OF THE COMPANY

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised			
At 1 January 2016, 31 December 2016 and 31 December 2017	**3,000,000,000**	**30,000,000**	**82,096**
Issued and fully paid			
At 1 January 2016 and 31 December 2016	**1,333,334,000**	**13,333,340**	**82,096**
Shares repurchased and cancelled *(Note)*	**(11,400,000)**	**(114,000)**	**(705)**
At 31 December 2017	**1,321,934,000**	**13,219,340**	**81,391**

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29. SHARE CAPITAL OF THE COMPANY (Continued)

Note:

During the year ended 31 December 2017, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest HKD	Price per share Lowest HKD	Aggregate consideration paid HKD'000
September 2017	**11,400,000**	**2.72**	**2.47**	**29,947**

The above ordinary shares were cancelled upon repurchase.

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

30. DISPOSAL OF SUBSIDIARIES

On 17 October 2016 and 2 December 2016, the Group entered into a share purchase agreement and a supplemental agreement thereto, respectively, with Mr. Li to dispose of its entire interest in Pioneer Singapore at a cash consideration of RMB158,358,539. As at the date of disposal, Pioneer Singapore held the entire issued share capital of Covex, S.A., approximately 33.1% of the issued share capital of Q3 and 60% of the issued share capital in Pioneer Medident (collectively as "Disposal Group"). The disposal was completed on 23 December 2016, upon which the Group ceased to have control over Pioneer Singapore, Covex, S.A. and Pioneer Medident and the significant influence on Q3.

30. DISPOSAL OF SUBSIDIARIES (Continued)

The results of the Disposal Group for the period ended on date of disposal were as follows:

	From 1 January 2016 to 23 December 2016 RMB'000
Revenue	37,143
Cost of sales	(32,493)
Gross profit	4,650
Other income	8,544
Other gains and losses	574
Distribution and selling expenses	(1,838)
Administrative expenses	(13,980)
Finance costs	(1,981)
Share of loss of associates	(39,154)
Loss before tax	(43,185)
Income tax expense	993
Loss for the period	(42,192)

30. DISPOSAL OF SUBSIDIARIES (Continued)

	At 23 December 2016 RMB'000
The net assets at the date of disposal were as follows:	
Property, plant and equipment	24,519
Intangible assets	43,328
Interest in an associate	25,357
Inventories	38,785
Trade and other receivables	9,919
Amounts due from related parties	2,765
Bank balances and cash	2,969
Trade and other payables	(5,946)
Amount due to a related party	(50)
Bank borrowings	(6,335)
Deferred tax liability	(10,287)
Net assets disposed of	125,024
Gain on disposal of subsidiaries:	
Consideration	158,359
Net assets disposed of	(125,024)
Non-controlling interests	(278)
Release of translation reserve upon disposal of subsidiaries	(30,263)
Gain on disposal	2,794
Consideration satisfied by:	
Cash	1,350
Amount due from a related party	157,009
	158,359
Net cash outflow arising on disposal:	
Total cash consideration received	1,350
Bank balances and cash disposed of	(2,969)
	(1,619)

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31. 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		Principal activities
				2017 %	2016 %	
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						
Xiantao Pioneer Medical Services Co. Ltd.*[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 City Pioneer Pharma Co. Ltd.*[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 Medical Facilities Company Limited*[2] 上海先鋒瑞瓷醫療器械有限公司	PRC	2 September 2011	RMB6,000,000	86.67	70	Sales of dental 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 Limited[1] 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
Pioneer Dynamic Co., Ltd[3] 先鋒泰醫藥股份有限公司	Taiwan	10 October 2013	TWD10,000,000	–	52	Sales of medical devices

* The English 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 non-principal subsidiary ceased its operation and deregistered during the year ended 31 December 2017.

None of the subsidiaries had issued any debt securities at the end of the year.

32. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	31	87

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.

The Group as lessor

Equipment rental income earned for the year ended 31 December 2017 was RMB407,000 (2016: RMB1,126,000). The lease has fixed terms of 3 years.

At the end of the reporting period, the Group had contracted with a tenant for the following future minimum lease payments:

	2017 RMB'000	2016 RMB'000
Within one year	–	456

33. RETIREMENT BENEFITS SCHEME

The Group's PRC 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.

The total cost charged to profit or loss of approximately RMB8,907,000 (2016: RMB10,427,000) for the year ended 31 December 2017, represents contributions paid to the retirement benefits scheme by the Group.

As at 31 December 2016 and 2017, there were no outstanding contributions to the schemes.

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34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists net debt, which includes bank borrowings as disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets:		
AFS assets	**20,000**	20,000
Finance lease receivables	**67,786**	68,204
Loans and receivables (including cash and cash equivalents)	**948,334**	963,769
Financial liabilities:		
Obligations under finance leases	**10,130**	14,418
Amortised cost	**638,182**	564,017

(b) Financial risk management objectives and policies

The Group's major financial instruments include other investment, trade and other receivables, finance lease receivables, derivative financial instruments, pledged bank deposits, certificate of deposits, bank balances and cash, trade and other payables, bank borrowings, obligations 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.

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35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(1) 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 follows:

	Assets		Liabilities	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
US$	**2,351**	6,378	**58,975**	68,837
Euro ("EUR")	**735**	291	**38,090**	21,561
HKD	**26,250**	14,485	**14,291**	75,536
	29,336	21,154	**111,356**	165,934

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35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

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 end 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.

The group is mainly exposed to US$, HKD and EUR. The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in US$, HKD and EUR against RMB. 5% (2016: 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 changes 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% (2016: 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 than RMB. A positive number below indicates an increase in post-tax profit where US$, HKD and EUR weakening 5% (2016: 5%) against the functional currency. For a 5% (2016: 5%) strengthen of US$, HKD and EUR against the functional currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	US$ impact		HKD impact		EUR impact	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Profit (loss) for the year	**2,123**	2,342	**(448)**	2,289	**1,401**	798

Additionally, as at 31 December 2017, intercompany receivables denominated in RMB which is not the functional currency of the respective group entities are approximately RMB23,196,000 (2016: RMB21,628,000). 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 RMB968,000 (2016: RMB903,000) for the year ended 31 December 2017.

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings, pledged bank deposits, certificate of deposits and amount due from a related party (see note 26 for details of the borrowings, note 23 for the deposits and note 25 for the amount due from a related party). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

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

No variable bank borrowings were outstanding as at 31 December 2017 and 31 December 2016.

Credit risk

As at 31 December 2017, 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, certificate of deposits and bank balances cash is limited because the counterparties are banks with good reputation and good credit rating.

In 2017, the Group has concentration of credit risk on amount due from a related party, Mr. Li. As at 31 December 2017, the carrying amounts of the Group's amount due from Mr. Li is RMB115,554,000. The Group has compared the actual payment with the 5-year payment schedule to monitor the settlement from the related party. The amount due from Mr. Li is secured by the share charge of Pioneer Singapore for the payment obligation to minimise the credit risk.

The Group has concentration of credit risk by individual customer as 6% (2016: 9%) of the total trade receivables as at 31 December 2017 were due from the Group's largest customer whereas 21% (2016: 22%) of the total trade receivables as at 31 December 2017 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 the PRC as at 31 December 2017.

35. FINANCIAL INSTRUMENTS (Continued)

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

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.

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 existed at the end of each reporting period.

Liquidity tables

	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 2017						
Non-derivative financial liabilities						
Trade and other payables	–	600,122	–	9,060	609,182	609,182
Obligations under finance leases	6.00	1,590	4,769	5,191	11,550	10,130
Bank borrowings – fixed rate	4.79	29,319	–	–	29,319	29,000
		631,031	4,769	14,251	650,051	648,312

35. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity tables (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 2016						
Non-derivative financial liabilities						
Trade and other payables	–	461,637	–	23,302	484,939	484,939
Amounts due to related parties	–	2,827	–	–	2,827	2,827
Obligations under finance leases	6.00	1,082	3,247	12,547	16,876	14,418
Bank borrowings – fixed rate	2.23	40,309	36,471	–	76,780	76,251
		505,855	39,718	35,849	581,422	578,435

(c) Fair value measurements

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

As at 31 December 2017, 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.

36. 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.

36. SHARE AWARD SCHEME (Continued)

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.

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 ended 31 December 2017 and 2016, the Company repurchased its own ordinary shares through the Trust as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Lowest	Aggregate consideration paid
		HKD	HKD	HKD'000
September 2017	3,037,000	2.62	2.42	7,677
November 2017	1,259,000	2.58	2.54	3,216
December 2017	3,261,000	2.40	2.20	7,537
March 2016	1,239,000	1.95	1.95	2,421
May 2016	423,000	1.75	1.74	738
June 2016	1,633,000	1.75	1.70	2,830

36. SHARE AWARD SCHEME (Continued)

On 9 October 2015, the Group has granted 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.

As at 31 December 2017, the Awarded Shares represent approximately 19.0% (31 December 2016: 18.8%) of the scheme limit under the Scheme.

As at 31 December 2017 and 2016, all the Awarded Shares are remained at the Trust.

As at 31 December 2017, the Group has recorded liabilities of RMB20,000 (equivalent to HKD24,000) (31 December 2016: RMB1,464,000 (equivalent to HKD1,637,000)). 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 a reversal of expenses of RMB1,444,000 (equivalent to HKD1,613,000) (2016: expenses of RMB907,000 (equivalent to HKD972,000)) during the year in respect of the cash-settled share based payment.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends *(Note 13)* RMB'000	**Bank Borrowings** *(Note 26)* RMB'000
At 1 January 2017	–	76,251
Financing cash flows	(215,924)	(47,251)
Dividends declared	215,924	–
At 31 December 2017	–	29,000

For the year ended 31 December 2017

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current Assets		
Investment in a subsidiary	720,901	765,146
Other investment	319	319
	721,220	765,465
Current Assets		
Amount due from a subsidiary	–	8,278
Bank balances and cash	25,483	12,040
	25,483	20,318
Current Liabilities		
Other payables	223	137
Amount due to a related party	–	62
	223	199
Net Current Assets	25,260	20,119
Total Assets less Current liabilities	746,480	785,584
Capital and Reserves		
Share capital	81,391	82,096
Reserves	665,089	703,488
Total Equity	746,480	785,584

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38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in Company's reserves

	Share premium RMB'000	Accumulated profits (loss) RMB'000	Investment valuation reserve RMB'000	Treasury share reserve RMB'000	Total RMB'000
At 1 January 2016	956,993	7,521	(3,437)	(149,476)	811,601
Total comprehensive income for the year	–	35,309	–	–	35,309
Payments of dividends	–	(142,500)	–	–	(142,500)
Repurchase of ordinary shares under the Scheme	–	–	–	(922)	(922)
At 31 December 2016 and 1 January 2017	956,993	(99,670)	(3,437)	(150,398)	703,488
Total comprehensive income for the year	–	216,950	–	–	216,950
Shares repurchased and cancelled	(24,650)	–	–	–	(24,650)
Payments of dividends	–	(215,294)	–	–	(215,294)
Repurchase of ordinary shares under the Scheme	–	–	–	(15,405)	(15,405)
At 31 December 2017	**932,343**	**(98,014)**	**(3,437)**	**(165,803)**	**665,089**