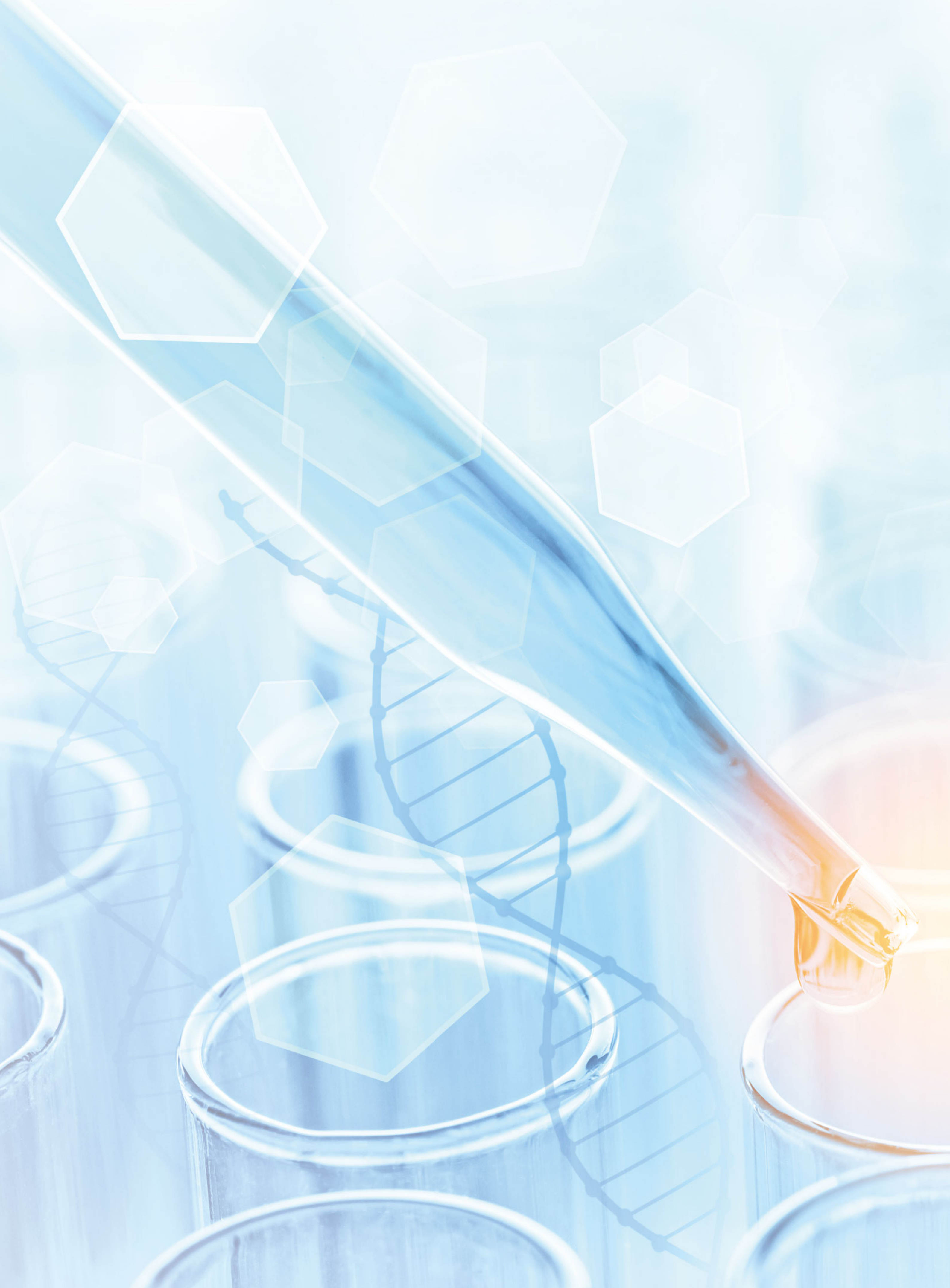
中国先锋医药控股有限公司
China Pioneer Pharma Holdings Limited

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

先機為重 Pioneering Success
鋒行天下

2018
ANNUAL REPORT



CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Xinzhou *(Chairman)*
Mr. Luo Chunyi *(Chief Executive Officer)*

Non-executive Directors

Mr. Wang Yinping
Mr. Wu Mijia

Independent Non-executive Directors

Mr. Zhang Hong
Mr. Yan Guoxiang
Mr. Wong Chi Hung, Stanley

AUDIT COMMITTEE

Mr. Wong Chi Hung, Stanley *(Chairman)*
Mr. Zhang Hong
Mr. Wu Mijia

REMUNERATION COMMITTEE

Mr. Zhang Hong *(Chairman)*
Mr. Yan Guoxiang
Mr. Wu Mijia

NOMINATION COMMITTEE

Mr. Li Xinzhou *(Chairman)*
Mr. Yan Guoxiang
Mr. Zhang Hong

AUTHORISED REPRESENTATIVES

Mr. Luo Chunyi
Mr. Fu Yu

JOINT COMPANY SECRETARIES

Mr. Fu Yu
Ms. Ng Ka Man

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

31/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 decreased by 24.6% to RMB1,624.3 million in 2018 from RMB2,153.9 million in 2017.
- Gross profit of the Group decreased by 12.3% to RMB632.4 million in 2018 from RMB721.4 million in 2017.
- Net profit of the Group decreased by 69.8% to RMB84.8 million in 2018 from RMB280.6 million in 2017.
- Basic earnings per share of the Company was RMB0.07 in 2018, which represents a 68.2% decrease compared to RMB0.22 in 2017.

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Operating results					
Revenue	1,540,398	1,460,899	1,790,275	2,153,935	**1,624,305**
Gross profit	491,949	462,577	593,417	721,421	**632,424**
Profit before income tax	304,688	206,795	282,350	309,317	**107,114**
Profit for the year	260,951	172,501	238,624	280,607	**84,771**
Profit for the year, all attributable to the owners of the Company	261,718	174,302	237,445	278,925	**84,597**
Profitability					
Gross margin (%)	31.9%	31.7%	33.1%	33.5%	**38.9%**
Net profit margin (%)	16.9%	11.8%	13.3%	13.0%	**5.2%**
Total assets	2,554,851	1,822,024	1,748,472	1,834,046	**1,437,844**
Total equity	1,225,975	996,441	1,110,551	1,141,065	**1,105,892**
Total liabilities	1,328,876	825,583	637,921	692,981	**331,952**
Gearing ratio (%)	23.9%	15.7%	4.4%	1.6%	**6.7%**
Equity attributable to equity owners of the Company	1,127,360	998,090	1,110,859	1,140,123	**1,104,576**
Cash and cash equivalents	260,834	317,113	309,640	226,154	**150,854**

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 2018 (the "Reporting Period").

2018 was the fortieth anniversary of China's reform and opening up, and China's economic development has achieved world-renowned achievements. However, it was an extremely extraordinary year. The external environment has undergone significant changes. As to the domestic economic environment, the problems of imbalance and insufficient development and the factors of various cycle, structure and institution have been intertwined. The overall economic development has shown downward pressure, facing more uncertainties, complex risks and challenges. Under this background, China's new round of medical reform that increasing intensified continued to develop and expand in depth and breadth. Review of 2018, the pharmaceutical industry policies have been intensively introduced, such as the state-institutional reform, "Consistent Evaluation of Generic Drugs" gradually promoted, the new edition of the natural essential drugs catalogue announced and the pilot of quantity procurement. The development and competition pattern of the entire pharmaceutical industry is undergoing 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 leverages its competitive strengths to further develop its business amidst a changing and challenging market environment. During the Reporting Period, through the Group's active efforts on organizing the market potential and promotion strategies of products, as well as increasing the frequency and depth of academic promotion activities, most of the products sold via the provision of comprehensive marketing, promotion and channel management services still achieved pleasing results. Transitional arrangements relating to the sale of Alcon's pharmaceutical products, which were sold by the Group via the provision of co-promotion and channel management services, have been under implementation for the year ended 31 December 2018, which has had a great impact on the overall performance of the Group. The revenue of the Group decreased by 24.6% to RMB1,624.3 million from RMB2,153.9 million in 2017; profit for the year decreased by 69.8% to RMB84.8 million from RMB280.6 million in 2017. Excluding the amount of impairment loss on investment of an associate during the Reporting Period of RMB48.1 million, net profit of the Group decreased by 52.6% to RMB132.9 million in 2018 from RMB280.6 million in 2017.

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, drugs that conform to the value orientation of medical insurance and can improve the utilization efficiency of medical insurance funds are more competitive in the market, 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, Neoton, Macmiror Complex, odontology equipment and consumables, etc. have achieved pleasing results. 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's business cooperation with Alcon Pharmaceuticals Ltd. ("Alcon") has attracted extensive attention. The Group entered into a transitional agreement with Alcon and Beijing Novartis Pharmaceutical Co., Ltd. ("Beijing Novartis") in December 2017. In 2018, the Group and Beijing Novartis have basically completed the market handover of Alcon's ophthalmic pharmaceutical products ("Alcon's Products") in accordance with the relevant arrangements of the transitional agreement. The Group and Alcon have been in cooperation 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.

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. Going 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

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

NovaBay
纽储非®
(0.01%次氯酸、0.9%氯化钠水溶液)
伤口清洁液体敷料
40 mL
Made in the USA
TRAVATAN®
(travoprost 0.004%)
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
低分子肝素钠注射液 0.3 ml: 3200 I.U. aXa 2支/盒
希弗全® FLUXUM®
0.3 ml
磷酸钠盐灌肠液
匹多莫德口服液
普利莫®
POLIMOD®
ORAL SOLUTION
规格：每7毫升含匹多莫德400mg
进口注册证号：H20090934

Management Discussion and Analysis

OPERATIONAL REVIEW

In 2018, China's medical reform entered into a new stage, and the pharmaceutical industry underwent profound changes driven by the policy. Looking back on the overall situation of the industry, although medical insurance cost controls still put pressure on drug prices, the demand for the industry remains huge and is growing steadily with the acceleration in the aging of the population. A number of reform measures related to the pharmaceutical sector have been steadily pushed forward, including the acceleration of the review and approval of high quality products, the successive issue of the new national essential drugs catalogue, the progress of the "Consistent Evaluation of Generic Drugs", the pilot of the quantity purchase, which continuously promote the structural adjustments of the industry. Meanwhile, as a result of the institutional reform carried out by the State, three new institutions namely the National Medical Security Administration, the National Health Commission and China Drug Administration were established, which have a great impact on the direction of medical reform, the future development of the pharmaceutical industry and the competitive environment of the pharmaceutical market. The new institutions will enhance the overall and executive ability of medical insurance management, and also play a greater role in guiding the underlying value of medical consumption behavior.

Specifically for the Group, the government's support and preferential policies on innovative drugs and medical devices, such as optimization of the approval process and accreditation of international clinical trial data, will help to expand the range of products for the Group's selection. Along with the more refined and structured measures of medical insurance cost control, drugs and medical devices conforming to the values of medical insurance and increasing the efficiency of medical insurance funds application, will compete favourably in the market. The Group will leverage on its advantages in product quality and brand image, and strengthen its academic promotion, so as to seize opportunities to further develop its business amidst a changing and challenging market environment.

For the Reporting Period, through the Group's active efforts on organizing the market potential and promotion strategies of products, as well as increasing the frequency and depth of academic promotion activities, most of the products sold via the provision of comprehensive marketing, promotion and channel management services still achieved pleasing results. As disclosed in the Company's announcement dated 28 December 2017, transitional arrangements relating to the sale of Alcon's Products, which were sold by the Group via the provision of co-promotion and channel management services, were implemented during the Reporting Period, which had a significant impact on the overall performance of the Group.

For the Reporting Period, the Group's revenue decreased by 24.6% year-on-year to RMB1,624.3 million (2017: RMB2,153.9 million), gross profit decreased by 12.3% year-on-year to RMB632.4 million (2017: RMB721.4 million) and net profit for the year decreased by 69.8% year-on-year to RMB84.8 million (2017: RMB280.6 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 decreased by 1.6% compared to last year to RMB805.7 million, representing 49.6% of the Group's revenue for the Reporting Period. Gross profit increased by 0.9% compared to last year to RMB529.4 million, representing 83.7% of the Group's gross profit for the Reporting Period.

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 21.1% compared to last year to RMB99.4 million, representing 6.1% of the Group's revenue for the Reporting Period. Gross profit decreased by 22.8% compared to last year to RMB56.5 million, representing 8.9% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from Alcon's Products sold via the provision of co-promotion and channel management services decreased by 40.5% compared to last year to RMB719.2 million, representing 44.3% of the Group's revenue for the Reporting Period. Gross profit decreased by 62.3% compared to last year to RMB46.6 million, representing 7.4% of the Group's gross profit for the Reporting Period.

1. Product Development

As of 31 December 2018, the Group had a product portfolio of pharmaceutical products (mostly being 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 products.

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

Category	2018 RMB'000	Percentage of the Group's total revenue/ gross profit (%)	2017 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Pharmaceutical Products	805,707	49.6	818,478	38.0
Medical Devices	99,431	6.1	126,041	5.9
Gross Profit:				
Pharmaceutical Products	529,359	83.7	524,667	72.7
Medical Devices	56,493	8.9	73,220	10.1

During the Reporting Period, as a result of many factors such as the trend towards refined medical insurance cost control, the increasingly stringent management of drug's clinical pathway and the control of the percentage of drug sales in total revenue of public medical institutions, although drug prices reduction in tender processes and drug consumption limitations in medical institutions have continued, the trend towards structural differentiation for clinical use of drugs became more obvious. The Group adopted a sensible promotion strategy, highlighting the products' superior quality and clear clinical effectiveness, resulting in the Group securing a stable market position for its products. During the Reporting Period, revenue generated from this segment slightly decreased by 1.6% compared to last year to RMB805.7 million, representing 49.6% of the Group's revenue for the Reporting Period. Gross profit increased by 0.9% compared to last year to RMB529.4 million, representing 83.7% 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 RMB163.0 million, representing an increase of 13.0% compared to last year. Through proactively organizing and participating in various academic conferences, the Group seized the opportunities for increasing brand publicity, and refined its strategy of academic promotion, so as to expand market coverage through accelerating its penetration into more hospitals and small-sized medical institutions, as well as increasing the sales of Difene at each target hospital. With the constant expansion of the coverage of medical institutions, the superior quality of Difene has gained recognition from more doctors and patients, and the brand recognition of the products has also been further strengthened. Difene is the sole dosage product of its type in the market and comes in 10-pack and 20-pack packaging specifications. In the past, revenue from Difene mainly originated from sales of the 10-pack specification. Benefiting from the Group's overall layout in the past year, as well as the official execution of new tender results in more provinces, 20-pack specification has become a significant supplement to the market, achieving an increasing contribution to the Group's revenue. Through increased marketing activities, such as education programmes for doctors and patients on the product, the Group will strategically further expand the market coverage of 20-pack specification, so as to increase its sales volume. Furthermore, in 2018, the two specifications of Difene successively won favourably priced bids in more provinces, laying a solid foundation for the future development of the product.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB298.2 million, representing an increase of 34.3% compared to last year. As one of the Group's best-selling products, leveraging the advantages in the product's quality, sound market layout and sensible promotion strategy, Fluxum has maintained rapid growth over the past few years. During the Reporting Period, the Group constantly expanded Fluxum's brand recognition through in-depth exploration on the characteristics of product differentiation, strict implementation of the strategy of professional academic promotion, as well as actively expanding and deepening the network of clinical experts. Fluxum was listed as an imported low molecular weight heparin product in the new national drug reimbursement catalogue. Accordingly, to fully capture this opportunity for market expansion, the Group has entered into a number of new markets through sensible bidding strategies, and continuously increased its market share by closely following and effectively participating in clinical promotions. Furthermore, with more doctors from the relevant departments paying attention to the prevention of venous thrombosis, Fluxum not only continued to maintain its brand advantage in the field of traditional surgery, but also extended the scope of its application to other hospital departments, such as internal medicine. Due to its leading market position among similar products and more improved market layout, as well as the increasing awareness of anticoagulation in more hospitals and departments, the Group believes that Fluxum has a solid foundation for long-term growth.

For the Reporting Period, the Group's revenue generated from sales of Polimod was RMB122.9 million, representing a decrease of 50.9% compared to last year. Polimod is the originator of pidotimod. It is a synthetic oral immune stimulant that works by stimulating and regulating cell-mediated immune response, and is applied to patients with immune dysfunction, such as respiratory tract infections, otolaryngology infections, urinary tract infections and gynaecological infections. The Group's rights to market, promote and sell Polimod were extended from eight provinces to the whole territory of China in March 2016, thereby improving the market potential of the product significantly. At the beginning of 2018, as the trial data on their safety and effectiveness were out-dated, all the pidotimod products sold in China were challenged by certain we-media, causing confusion to the physicians and patients. Later on, the China Food and Drug Administration ("CFDA") required the revision of drug instructions of all the pidotimod products, to identify that it could be used for chronic or recurrent respiratory tract infections and urinary tract infections of children over three years old. CFDA also required that the clinical trial of effectiveness for the Pidotimod products should be completed within three years. The sales of Polimod in certain areas, especially in markets where physicians and patients are not very familiar with the product, decreased significantly due to the impact of this event. In response, the Group has taken a number of measures, such as inviting medical experts from the product's supplier to explain to them, in detail, the mechanism and proof of evidence-based medicine of Polimod in China, as well as cooperating with marketing partners in delivering product information to physicians in a professional manner. Through a series of measures, the sales of Polimod appears to have stabilized and its performance is now trending upwards. Moreover, the supplier of the product has reported the plan of clinical trial of its effectiveness to CFDA, and related work on the trial is progressing in an orderly manner. Based on thousands of clinical research data of Polimod before and after it was launched in the market, the Group firmly believes that with the advancement of clinical effectiveness trial, Polimod will eliminate the concerns of physicians and patients with scientific data and return to the track of rapid development.

The business segment of other drugs of the Group has continued last year's healthy trend and achieved further development. For the Reporting Period, the Group's revenue generated from sales of these products was RMB221.6 million, representing an increase of 9.7% compared to last year. Specifically, the Group's cardiovascular product Neoton, as the sole imported originator of creatine phosphate sodium for injection, seizing the opportunity of the new round of tender processes in various provinces and sensible bidding strategies, successfully entered a number of important new markets and made significant contribution to the Group's business development. Meanwhile, through the international academic conference platform, the Group endeavors to promote physicians' awareness of its therapeutic status in the field of myocardial protection, particularly in the field of myocardial damage. Leveraging the international academic status of Neoton, the Group organizes promotional activities, strengthening the recognition of the product among doctors and patients and increasing its market share. 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, with the inclusion of the product in the new national drug reimbursement catalogue, the Group strengthened its marketing and promotion activities targeted at hospitals and departments covered by its network, and endeavoured to grow its market share in the gynecology therapeutic field. Given the competitive pharmaceutical market and constant changes of policies, the Group will take full advantage of the competitive edge and development opportunities of these products, so as to continuously increase their contribution to the Group's revenue.

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 21.1% compared to last year to RMB99.4 million, representing 6.1% of the Group's revenue for the Reporting Period. Gross profit decreased by 22.8% compared to last year to RMB56.5 million, representing 8.9% of the Group's gross profit for the Reporting Period. The Group's overall performance of the business segment of medical devices was still affected by the factors such as the decrease in bidding prices of some medical device consumables and market competition. However, based on the features of its products, the Group organized its promotion strategy carefully, and accelerated the marketing campaigns of products launched for a shorter time, so as to lay the foundation for the future business development of medical device sector. Specifically, during the Reporting Period, the sales of ophthalmic surgical equipment and consumables and dental equipment and consumables still achieved solid growth. Moreover, the sales of NeutroPhase (a wound cleanser) has also appeared a rapid growth trend following the adjustment of promotion direction and strategies. The Group will gradually enhance the market position of medical devices products, strengthen its promotion activities, 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	2018 RMB'000	Percentage of the Group's total revenue/ gross profit (%)	2017 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**719,167**	**44.3**	1,209,416	56.1
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**46,572**	**7.4**	123,534	17.1

The Group has been providing co-promotion and channel management services for all of Alcon's Products in China for over 20 years. 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 Alcon's Products to the Group in 2018, and the total value (i.e. the total cost) of the Alcon's Products which the Group may sell in 2018 would be no less than RMB617 million (net of tax).

During 2018, in accordance with the relevant arrangement of the transitional agreement, the Group and Beijing Novartis have gradually carried out the market transition in respect of Alcon's Products. For the Reporting Period, the Group's revenue generated from this segment decreased by 40.5% compared to last year to RMB719.2 million, representing 44.3% of the Group's revenue for the Reporting Period. Gross profit decreased by 62.3% compared to last year to RMB46.6 million, representing 7.4% of the Group's gross profit for the Reporting Period.

On 1 January 2019, the Group entered into an agreement with Alcon, pursuant to which Alcon granted the Group the exclusive rights to import, store, distribute and sell nine products (eleven specifications) in China. The agreement was effective for a term of five years from 1 January 2019. 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. The continuation of this cooperation will help strengthen the Group's long-term partnership with Alcon as well as the Group's profitability.

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 existing products referred to above, product pipeline development is also at the core of the Group's strategy of expanding and optimizing its product portfolio. The Group's aim is to build up a product pipeline that will sustain the Group's long-term growth. When selecting prospective product candidates, the Group takes into consideration factors such as clinical effectiveness, competitive environment, product registration and regulatory regime and reputation of suppliers.

In 2018, in accordance with the requirement of "Reform Opinions on Deepening the Review and Approval System and Encouraging the Innovation of Medical Products" issued by General Office of the State Council, several reform measures in respect of Chinese pharmaceuticals and medical devices approval policies were pushed forward. In particular, the optimization of clinical trial review and approval procedures, as well as the acceptance of overseas clinical trial data, will result in accelerating the launched process in China for overseas high-quality pharmaceuticals and medical devices. 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 2018, the "Two-Invoice System" policy has been fully implemented in all provinces of the country. As the sole importer of an overseas medical product in China, the Group is considered as the manufacturer of such imported medical product under the "Two-Invoice System". Since last year, the Group's business model has also been optimized and improved. During the Reporting Period, the Group has continually refined the network of distributors, and consolidated product distribution channels to meet the requirements of "Two-Invoice System". Meanwhile, it also helps to enhance the Group's operational efficiency and prevent 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 programmes, 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 continued to implement the operational mechanism of product business unit divided by products or product series, and conduct products' promotion and sales work. The Group has established a sales and product manager team for each product business unit, to manage and support their third-party promotion partners. In the environment of ever-changing policies and violent market competition of pharmaceutical industry, the Group constantly adjusted and optimized all components within the marketing network, with the aim of strengthening rapid market responsiveness, as well as effective and professional product promotion activities. During the Reporting Period, with the more attention paid by the Group to the academic training of the in-house marketing team, the Group strengthened the frequency and depth of the marketing activities for product academic promotion involved by the internal marketing team, so as to raise the internal core driving force for the product promotion. According to the market situation, the Group has also increased its efforts in optimizing the network structure of the third-party promotion partners, and improved the understanding and knowledge for the products of the third-party promotion partners, including providing further large-scale and normalized training, and assisting them in providing doctors with clinical solutions related to the products. Through the close collaboration between in-house teams and third-party promotion partners, the Group shared the pharmaceutical policies and market information all over the country, and improved the communication mechanism and platform with third-party promotion partners so as to improve the operation efficiency and continuously drive the Group's products development. During the Reporting Period, the development of the Group's marketing network led to significant improvement to its market coverage. For instance, number of hospitals and medical institutions using Difene has increased by 4,518, the number of hospitals using Fluxum has increased by 545. In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group's operation.

3. Significant Investment

3.1 Investment in NovaBay

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 2018, the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 30.5% of its equity interest, and did not hold any NovaBay warrants.

NovaBay is now focusing primarily on commercializing the prescription of Avenova® in the United States. The investment allows the Group to enhance its business relationship with NovaBay.

For the year ended 31 December 2018, the Company recognised an impairment loss of RMB48,103,000 in relation to the Group's investment in NovaBay, due to the overall drop in share price and the going concern issue of NovaBay identified by its management. For further information of the business and financial performance and prospects of NovaBay, please refer to the 2018 annual and quarterly reports of NovaBay published on its website.

3.2 Investment in Paragon

Paragon Care Limited ("Paragon") is a company incorporated in Victoria, Australia with limited liability whose shares are listed on the Australian Securities Exchange (stock code: PGC). Paragon, through its subsidiaries, is principally engaged in the supply of durable medical equipment, medical devices and consumable medical products providing end to end solutions for the acute, aged and primary care markets throughout Australia and New Zealand.

On 26 August 2018, Pioneer Pharma (Australia) Pty Ltd ("Pioneer Australia"), a wholly-owned subsidiary of the Company, and the Company entered into a subscription agreement with Paragon pursuant to which Pioneer Australia conditionally agreed to subscribe for, and Paragon conditionally agreed to issue, in two tranches, a total of 50,418,386 subscription shares, representing approximately 15% of the total issued shares of Paragon upon completion of the subscription. Further details of the subscription agreement are set out in the Company's announcement dated 26 August 2018.

On 14 September 2018, Pioneer Australia completed the subscription of the first tranche of 16,483,517 shares of Paragon at the total consideration of AU$15,000,000. On 20 November 2018, Pioneer Australia completed the subscription of the second tranche of 33,934,869 shares of Paragon at the total consideration of AU$30,202,033. The payment for the consideration for the subscription was funded by internal resources of the Group and by a bank loan. As of 31 December 2018, the Group held a total of 50,418,386 ordinary shares of Paragon, representing 15.0% of the total issued shares of Paragon.

The Company considers that the investment in Paragon is in line with the principal business of the Group, enabling the Group to step up its presence in Australia and New Zealand, and forms the basis for further cooperation between the Group and Paragon. In particular, the Group intends to explore opportunities in the sales of certain of the Group's products in Australia and New Zealand and the distribution of the certain products of Paragon or other suppliers (through the business network of Paragon) in the PRC.

For the year ended 31 December 2018, as a result of the drop in share price of Paragon, the Company recognised a fair value loss in other comprehensive income in respect of its investment in Paragon. For further information of the business and financial performance and prospects of Paragon, please refer to the 2018 annual report of Paragon published on its website.

3.3 Investment in Pioneer Huimei

In June 2018, the Group, through a wholly-owned subsidiary, Naqu Pioneer Pharmaceutical Co., Ltd. ("Naqu Pioneer") established Sichuan Pioneer Huimei Biotechnology Co., Ltd. ("Pioneer Huimei") with Chengdu Huimei Biotechnology Co., Ltd.. Naqu Pioneer contributed RMB10.5 million to the registered capital of Pioneer Huimei, representing 70% of its entire equity interest.

Pioneer Huimei is committed to the development of biotechnology products and technologies, including hair growth products, facial care products, probiotic solid beverages and testing equipment. With the Internet big data and artificial intelligence technology, it has been able to connect online and offline channels in order to provide consumers with integrated services. The Group believes that the investment in Pioneer Huimei is a good attempt to make full use of modern technology and Internet platforms, and is conducive to further enriching the Group's products and innovation of sales channels.

4. Future and Outlook

With the deepening of China's medical reform, the pharmaceutical industry is gradually forming a new ecosystem. As a result of profound changes occurred in different areas such as traditional research and development, review and approval, as well as pricing systems, the pharmaceutical market is facing a significant structural adjustment. In general, the PRC pharmaceutical industry is trending towards diversification in the long run. There will be increasing development opportunities for products satisfying therapeutic needs and with clear clinical value. The Group will continuously focus on the introducing and developing new products, enhancing marketing and promotion capabilities, expanding market coverage through win-win cooperation, enriching the industrial chain through mergers and acquisitions, responding proactively amidst the environment full of challenges and changes in the PRC, and forging vigorously ahead, so as to achieve the new blueprint of the Group's future development.

FINANCIAL REVIEW

Revenue

Revenue decreased by 24.6% from RMB2,153.9 million in 2017 to RMB1,624.3 million in 2018. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 1.6% from RMB818.5 million in 2017 to RMB805.7 million in 2018, primarily due to the decrease in sales of Polimod products as a result of the negative publicity generated by the media on the products. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 21.1% from RMB126.0 million in 2017 to RMB99.4 million in 2018, primarily due to a decrease of both sales quantity and price on certain consumable items of medical devices as a result of the influence of a sustained market competition. Revenue generated from products sold via the provision of co-promotion and channel management services decreased by 40.5% from RMB1,209.4 million in 2017 to RMB719.2 million in 2018, primarily due to the gradual implementation of the transitional arrangements entered into among the Group, Alcon and Beijing Novartis in respect of the Alcon's Products during the Reporting Period.

Cost of sales

Cost of sales decreased by 30.8% from RMB1,432.5 million in 2017 to RMB991.9 million in 2018, primarily due to a decrease in sales of the Alcon Products. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 5.9% from RMB293.8 million in 2017 to RMB276.3 million in 2018. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 18.7% from RMB52.8 million in 2017 to RMB42.9 million in 2018. Cost of sales for products sold via the provision of co-promotion and channel management service decreased by 38.1% from RMB1,085.9 million in 2017 to RMB672.6 million in 2018.

Gross profit and gross profit margin

Gross profit decreased by 12.3% from RMB721.4 million in 2017 to RMB632.4 million in 2018. The Group's average gross profit margin increased from 33.5% in 2017 to 38.9% in 2018. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased from 64.1% in 2017 to 65.7% in 2018 primarily because a higher proportion of the Group's revenue during the Reporting Period was derived from the sales of certain products which generally generated higher gross profit margins. The Group's gross profit margin for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased from 58.1% in 2017 to 56.8% in 2018, primarily due to a decrease of price on certain products as a result of the market competition. The Group's gross profit margin for products sold via the provision of co-promotion and channel management services decreased from 10.2% in 2017 to 6.5% in 2018, primarily due to a decrease in the bid price of certain Alcon's ophthalmic pharmaceutical products.

Other income

Other income decreased by 35.0% from RMB44.7 million in 2017 to RMB29.0 million in 2018, 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 7.9% from RMB370.3 million in 2017 to RMB399.7 million in 2018, 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 expenses 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 17.2% in 2017 to 24.6% in 2018.

Administrative expenses

Administrative expenses increased by 11.7% from RMB66.6 million in 2017 to RMB74.4 million in 2018, primarily due to an increase of amortization of fixed assets and expenses on staff training, as well as an increase of consulting fees for engaging intermediaries in relation to certain acquisitions by the Group. Administrative expenses as a percentage of revenue increased from 3.1% in 2017 to 4.6% in 2018.

Finance costs

Finance costs decreased by 40.4% from RMB2.3 million in 2017 to RMB1.4 million in 2018 primarily due to a decrease in the average 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 RMB49.9 million in 2018 primarily due to the impairment loss on investment in NovaBay. A net loss of RMB11.7 million in 2017 primarily due to net foreign exchange loss.

Income tax expense

Income tax expense decreased by 22.2% from RMB28.7 million in 2017 to RMB22.3 million in 2018. The Group's effective income tax rate in 2018 and 2017 was 20.9% and 9.3%, 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 decreased by 69.8% from RMB280.6 million in 2017 to RMB84.8 million in 2018. The Group's net profit margin decreased from 13.0% in 2017 to 5.2% in 2018.

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 decreased from RMB226.2 million as of 31 December 2017 to RMB150.9 million as of 31 December 2018.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2018:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash from operating activities	**128,667**	233,628
Net cash used in investing activities	**(198,627)**	(12,088)
Net cash used in financing activities	**(4,845)**	(303,305)
Net decrease in cash and cash equivalents	**(74,805)**	(81,765)
Cash and cash equivalents at beginning of the year	**226,154**	309,640
Effect of foreign exchange rate changes	**(495)**	(1,721)
Cash and cash equivalents at end of the year	**150,854**	226,154

Net cash from operating activities

In 2018, the Group's net cash from operating activities was RMB128.7 million compared to net cash from operating activities of RMB233.6 million in 2017. This was mainly due to an increase in certain products' inventories whose supplier changed name and an increase of due payment on trading.

Net cash used in investing activities

In 2018, the Group's net cash used in investing activities was RMB198.6 million compared to net cash used in investing activities of RMB12.1 million in 2017. This was mainly due to the acquisition of an equity investment in Paragon during the Reporting Period.

Net cash used in financing activities

In 2018, the Group's net cash used in financing activities was RMB4.8 million compared to net cash used in financing activities of RMB303.3 million in 2017. This was mainly because the bank loans increased and the Company did not declare any dividend during the Reporting Period.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB96.5 million as at 31 December 2018 compared to RMB29.0 million as at 31 December 2017. On 31 December 2018, the effective interest rate of the Group's bank borrowings was 2.92%. All bank borrowings were denominated in Australian dollars. The bank borrowings of AUD20.0 million were secured by the Group's equity instrument at FVTOCI. On 31 December 2017, bank borrowings of RMB29.0 million were secured by the pledge of the Group's trade receivables. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 6.7% as at 31 December 2018 compared to 1.6% as at 31 December 2017.

Net Current Assets

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Current Assets		
Inventories	417,387	623,388
Finance lease receivables	40,268	46,197
Trade and other receivables	319,874	509,165
Amounts due from related parties	58,881	–
Financial asset at fair value through profit or loss	47,000	–
Tax recoverable	231	16
Prepaid lease payments	52	52
Pledged bank deposits	48,684	74,867
Certificate of deposit	–	50,000
Bank balances and cash	150,854	226,154
	1,083,231	1,529,839
Current Liabilities		
Trade and other payables	200,097	626,439
Tax liabilities	14,489	16,446
Bank borrowings	96,500	29,000
Provision	1,886	1,886
Contract liabilities	12,364	–
Obligations under finance leases	4,637	5,336
	329,973	679,107
Net Current Assets	753,258	850,732

As of 31 December 2018, the Group has sufficient working capital and financial resources for daily operations.

Inventories

The Group's inventory balances decreased by 33.0% from RMB623.4 million as at 31 December 2017 to RMB417.4 million as at 31 December 2018, primarily due to a decrease in the inventory level of Alcon's Products resulted from the decrease of sales.

Trade and other receivables

The Group's trade and other receivables decreased by 37.2% from RMB509.2 million as at 31 December 2017 to RMB319.9 million as at 31 December 2018. Trade receivables turnover days increased from 73.1 days as at 31 December 2017 to 88.0 days as at 31 December 2018, primarily due to a decrease of revenue of the Group.

Trade and other payables

The Group's trade and other payables decreased by 68.1% from RMB626.4 million as at 31 December 2017 to RMB200.1 million as at 31 December 2018. The Group's trade payables turnover days increased from 125.6 days as at 31 December 2017 to 131.0 days as at 31 December 2018, primarily due to an increase in the proportion of products purchased with a longer 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	
	2018 RMB'000	2017 RMB'000
Purchases of property, plant and equipment	385	9,726
Purchases of intangible assets	475	860
Total	860	10,586

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 2018			
Bank borrowings	96,500	–	96,500
Trade payables	143,129	130	143,259
As of 31 December 2017			
Bank borrowings	29,000	–	29,000
Trade payables	568,369	575	568,944

Contingent Liabilities
The Group had no material contingent liabilities as of 31 December 2018.

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.

Dividend
For the year ended 31 December 2018, the Group did not recommend any interim dividend. The Board does not propose a final dividend for the year ended 31 December 2018.

EMPLOYEE AND REMUNERATION POLICY
As of 31 December 2018, the Group had a total of 307 employees. For the year ended 31 December 2018, the staff costs of the Group was RMB55.5 million as compared to RMB54.7 million for the year ended 31 December 2017.

The Group's employee remuneration policy is determined by taking into account factors such as remuneration in 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 recognize the contribution by certain employees including the 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 56, 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 22 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 30.5% equity interest as of 31 December 2018. 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 25 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.

LUO Chunyi (羅春憶), aged 50, is our executive Director and chief executive officer. Mr. Luo joined our Group in January 2019. Mr. Luo has extensive experience in corporate management and banking. Prior to joining the Group, he had served in Ping An Bank (formerly known as Shenzhen Development Bank) for 23 years since 1995. He held various senior positions in Ping An Bank, including the general manager of Haikou Haidian sub-branch and the assistant general manager of Haikou branch. He also worked as a manager in China Construction Bank from 1989 to 1995 before joining Ping An Bank. Mr. Luo graduated from the school of law of Hainan University (海南大學) in 2001. Mr. Luo obtained the qualification of economist (economic professional) in 1999 awarded by the Human Resource Office of Hainan province.

NON-EXECUTIVE DIRECTORS

WANG Yinping (王引平), aged 57, 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 was appointed as the independent director of China Risun GP, a company listed on the Stock Exchange with the stock code of 01907 on 15 March 2019. 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 45, is a non-executive Director. Mr. Wu joined the Company in October 2013. Mr. Wu has over 15 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

ZHANG Hong (張虹), aged 60, is our independent non-executive Director. Mr. Zhang joined our Company in January 2019. Mr. Zhang is an expert in public security governance. Prior to joining the Group, he served in a shipping organisation in the PRC for 38 years since 1980. He held various senior positions at such organisation, and was mainly responsible for handling political and legal matters and administration management. From 1982 to 1999, Mr. Zhang pursued his studies at Hubei Radio & TV University and Hubei University, in the areas of law, administrative management, corporate management, as well as economics and management.

YAN Guoxiang (嚴國祥), aged 45, is our independent non-executive Director. Mr. Yan joined our Company in January 2019. Mr. Yan is experienced in corporate management. Mr. Yan has been also the president of Shanghai Xiangren New Material Co., Ltd.* (上海祥仁新材料有限公司) since 2009 and Shanghai Qianjin New Material Co., Ltd.* (上海乾瑾新材料科技有限公司) since 2015. From 1996 to 2007, he served Kennametal Shanghai Co., Ltd.* (美國肯納飛碩金屬上海有限公司) ("Kennametal Shanghai") and held various senior positions in Kennametal Shanghai including the regional manager of Northern China and its national operation director. Mr. Yan graduated from Shanghai Dianji University* (上海電機學院) with a diploma in mechanical manufacturing in 1993. He also obtained an executive master's degree in business administration from Madonna University, the United States in 2005.

WONG Chi Hung, Stanley (黃志雄), aged 56, is our 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 (余悅), aged 37, 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 43, 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 14 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 56, 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 20 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 40, is our general manager of the 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 17 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.

QU Lei (瞿蕾), aged 39, is our general manager of Pain Management and Digestive Products Business Unit. Ms. Qu joined our Group in March 2010, and worked as a senior product manager from 2010 to September 2014. She was appointed as a manager of the marketing department of the Pain Management and Digestive Products business unit of the Group in September 2014, was appointed as a manager of the Managerial department and Human Resources department in September 2015, and was appointed as a director of the Administration Affairs and Human Resources of the Group in December 2016, responsible for work related to administrative affairs and human resources. In September 2018, she was appointed as general manager of Pain Management and Digestive Products Business Unit and is responsible for the promotion and sales of Difene and digestive products of our Group. Ms. Qu has over 16 years of experience in the pharmaceutical industry. Prior to joining the Group, Ms. Qu worked at the Shanghai Municipal Hospital of Traditional Chinese Medicine, Shanghai Medical Emergency Center, MSD (Hangzhou) Pharmaceutical Company Limited and Shanghai Boehringer Ingelheim Pharmaceutical Company Limited.

WANG Rongrong (王榮榮), aged 40, 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 19 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 49, 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 24 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 44, 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 21 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.

XUE Yi (薛毅), aged 43, 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 21 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.

JOINT COMPANY SECRETARY

FU Yu (傅裕), aged 28, is our joint company secretary. Mr. Fu joined the Group in September 2018 as its legal manager and has been responsible for the company secretarial work of the Group since then. Mr. Fu is qualified as a lawyer and a securities practitioner in the People's Republic of China and has extensive experience in the corporate practice. Mr. Fu served as a trainee and lawyer in Jiangsu Fadeyongheng Law Firm (江蘇法德永衡律師事務所) from June 2014 to November 2015, and worked at the legal department of Juneyao Air (吉祥航空) from January 2016 to November 2016. From December 2016 to June 2018, Mr. Fu served as a supervisor of the vetting department and the secretary of the registration approval commission of the Shanghai Equity Exchange (上海股權託管交易中心), where he was mainly responsible for vetting applications for listing, non-public offering and significant equity restructuring. Mr. Fu graduated from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) with a bachelor's degree in law in June 2014.

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 2018.

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 2018 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 68 of this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW AND BUSINESS OUTLOOK

The business review of the Group for the year ended 31 December 2018 and the business outlook of the Group are set out in the section headed "Management Discussion and Analysis" on pages 8 to 21 of this annual report.

KEY FINANCIAL PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the year ended 31 December 2018 are set out in the section headed "Financial Highlights" on page 3 of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2019 to 22 May 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting of the Company ("AGM") to be held on 22 May 2019. 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 10 May 2019.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out on page 3 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.

For details of the adjustments to use of IPO Proceeds, please refer to the announcement of the Company dated 9 May 2016. As of 31 December 2018, the IPO Proceeds have been fully utilised in accordance with the purposes set out in the aforementioned announcement of the Company dated 9 May 2016.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's products purchased from the largest supplier, accounted for 52.9% (2017: 72.5%) of total products purchased, and products purchased from the five largest suppliers accounted for 94.2% (2017: 97.0%) of the Group's total products purchased.

For the year ended 31 December 2018, the Group's sales to its largest customer accounted for 3.4% (2017: 3.6%) of the Group's revenue, and sales to the five largest customers accounted for 14.1% (2017: 15.3%) 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 2018 are set out in note 14 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2018 are set out in note 32 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out on pages 71 to 72 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, 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 RMB420.7 million (as at 31 December 2017: RMB348.8 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2018 are set out in note 27 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 2018.

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 2018
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 the Group's 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 56 to 62 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 2018. 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 2018 and up to the date of this annual report were:

Executive Directors:

Mr. Li Xinzhou *(Chairman)*
Mr. Zhu Mengjun *(Chief Executive Officer) (Note 1)*
Mr. Luo Chunyi *(Chief Executive Officer) (Note 2)*

Non-executive Directors:

Mr. Wang Yinping
Mr. Wu Mijia

Independent Non-executive Directors:

Mr. Zhang Hong *(Note 3)*
Mr. Yan Guoxiang *(Note 4)*
Mr. Xu Zhonghai *(Note 5)*
Mr. Lai Chanshu *(Note 6)*
Mr. Wong Chi Hung, Stanley

Notes:

1. Mr. Zhu Mengjun has resigned as an executive Director and the chief executive officer of the Company with effect from 1 January 2019 due to his other personal engagements.

2. Mr. Luo Chunyi has been appointed as an executive Director and the chief executive officer of the Company with effect from 22 January 2019.

3. Mr. Zhang Hong has been appointed as an independent non-executive Director with effect from 1 January 2019.

4. Mr. Yan Guoxiang has been appointed as an independent non-executive Director with effect from 1 January 2019.

5. Mr. Xu Zhonghai has resigned as an independent non-executive Director with effect from 1 January 2019 due to his other personal engagements.

6. Mr. Lai Chanshu has resigned as an independent non-executive Director with effect from 1 January 2019 due to his other personal engagements.

In accordance with article 104(1) of the Articles of Association, Mr. Wong Chi Hung, Stanley and Mr. Wu Mijia will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

In accordance with article 99(3) of the Articles of Association, Mr. Luo Chunyi, Mr. Zhang Hong and Mr. Yan Guoxiang will retire from office as Directors, 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 17 April 2019.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 22 to 27 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 2018 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 2018, which may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Luo Chunyi, an executive Director, entered into a service contract with the Company for a term of three years commencing from 22 January 2019, 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 Mr. Wong Chi Hung, Stanley, the independent non-executive Director, have automatically renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2018. 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. Each of Mr. Zhang Hong and Mr. Yan Guoxiang, independent non-executive Directors, entered into an appointment letter with the Company for a term of three years commencing from 1 January 2019, 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 26 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 2018.

EMPLOYEES AND EMOLUMENT POLICY

As of 31 December 2018, the Group had an aggregate of 307 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 34 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 2018 and up to the date of this annual report, changes in Directors' information are set out below:

Mr. Zhu Mengjun has resigned as an executive Director and the chief executive officer of the Company with effect from 1 January 2019.

Mr. Xu Zhonghai and Mr. Lai Chanshu have resigned as an independent non-executive Directors with effect from 1 January 2019. Mr. Xu Zhonghai ceased to be the chairman of the Remuneration Committee, as well as a member of each of the Audit Committee and the Nomination Committee upon his resignation. Mr. Lai Chanshu ceased to be a member of each of the Remuneration Committee and the Nomination Committee upon his resignation.

Mr. Luo Chunyi has been appointed as an executive Director and the chief executive officer of the Company with effect from 22 January 2019.

Mr. Zhang Hong has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee, as well as a member of each of the Audit Committee and the Nomination Committee with effect from 1 January 2019.

Mr. Yan Guoxiang has been appointed as an independent non-executive Director, a member of each of the Remuneration Committee and the Nomination Committee with effect from 1 January 2019.

Save as disclosed above, during the year ended 31 December 2018 and up to the date of this annual report, 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 2018, 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)	66.83%
	Interest of spouse[2]	1,403,000 (L)	0.11%
	Beneficial owner	34,714,000 (L)	2.70%
Zhu Mengjun[5]	Beneficial owner	1,100,000 (L)[3]	0.09%
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.

5. Mr. Zhu Mengjun has resigned as an executive Director and the chief executive officer of the Company with effect from 1 January 2019.

Save as disclosed above, as at 31 December 2018, 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 2018 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 2018, 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)	66.83%
	Interest of spouse[2]	34,714,000 (L)	2.70%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited[5]	Interest of controlled corporation[3]	858,392,000 (L)	66.83%
UBS Trustees (BVI) Limited	Trustee[4]	858,392,000 (L)	66.83%
Pioneer Pharma (BVI) Co., Ltd.[5]	Beneficial owner	858,392,000 (L)	66.83%

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 2018, 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 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 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 2018.

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 2018.

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 2018 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$
January 2018	6,400,000	2.66	2.34	16,270,870
February 2018	1,500,000	2.58	2.48	3,828,570
March 2018	11,000,000	2.62	2.37	27,655,180
April 2018	6,335,000	2.85	2.49	17,173,410
June 2018	607,000	2.24	2.10	1,324,150
July 2018	1,000,000	2.36	2.14	2,267,520
August 2018	4,998,000	2.01	1.84	9,874,660
September 2018	3,413,000	1.90	1.73	6,270,810
October 2018	2,204,000	1.58	1.41	3,368,620
Total	37,457,000	–	–	88,033,790

All of the shares bought back were subsequently cancelled. The Board considers that the value of the shares of the Company 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 2018.

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 2018. 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 2018.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2018, 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 2018 are disclosed in note 26 to the consolidated financial statements. 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 2018, the Group made no charitable or other donations.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2018, 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 2018, the Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 40 to the consolidated financial statements.

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 Board has established an audit committee (the "Audit Committee"), which comprises two independent non-executive Directors, namely Mr. Wong Chi Hung, Stanley (Chairman) and Mr. Zhang Hong; and one non-executive Director, namely Mr. Wu Mijia. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting, risk management and internal control systems, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

The annual results for the year ended 31 December 2018 of the Group has been reviewed by the Audit Committee and this annual results announcement is based on the Group's audited consolidated financial statements for the year ended 31 December 2018.

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 2018.

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 41 to 55 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

The Company appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2018. The Company will submit a resolution in the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Mr. Li Xinzhou
Chairman

Hong Kong, 28 March 2019

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions as set out in the CG Code for the year ended 31 December 2018. The Company will continue to review and enhance 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. Luo Chunyi, two non-executive Directors, namely Mr. Wang Yinping and Mr. Wu Mijia and three independent non-executive Directors, namely Mr. Zhang Hong, Mr. Yan Guoxiang 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 2018, 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.

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 2018, 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. Luo Chunyi, 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 2018, which may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Luo Chunyi, an executive Director, entered into a service agreement with the Company for a term of three years commencing from 22 January 2019, 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 Mr. Wong Chi Hung, Stanley, the independent non-executive Director, have automatically renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2018. Mr. Wang Yinping, a non-executive Director, entered into an appointment letter 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. Each of Mr. Zhang Hong and Mr. Yan Guoxiang, independent non-executive Directors, entered into an appointment letter with the Company for a term of three years commencing from 1 January 2019, 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 open for inspection by Directors.

For the year ended 31 December 2018, 5 board meetings and 1 general meeting (i.e. the 2018 annual general meeting) were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend Board Meeting	General Meeting
Mr. Li Xinzhou	5/5	0/1
Mr. Zhu Mengjun[(1)]	5/5	1/1
Mr. Wang Yinping	5/5	0/1
Mr. Wu Mijia	5/5	0/1
Mr. Xu Zhonghai[(2)]	5/5	0/1
Mr. Lai Chanshu[(2)]	5/5	0/1
Mr. Wong Chi Hung, Stanley	5/5	0/1

Notes:

1. Mr. Zhu Mengjun has resigned as an executive Director and the chief executive officer of the Company with effect from 1 January 2019.

2. Mr. Xu Zhonghai and Mr. Lai Chanshu have resigned as an independent non-executive Director of the Company with effect from 1 January 2019.

During the year, the chairman of the Board held one meeting with the independent non-executive Directors without the presence of the other executive Directors and non-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 2018.

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 2018, 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

For the year ended 31 December 2018, 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. Mr. Zhang Hong has been appointed as a member of Nomination Committee on 1 January 2019, in place of Mr. Xu Zhonghai who has ceased to be a member of Nomination Committee with effect from 1 January 2019. Mr. Yan Guoxiang has been appointed as a member of Nomination Committee on 1 January 2019, in place of Mr. Lai Chanshu who has ceased to be a member of Nomination Committee with effect from 1 January 2019.

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 2018, 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)]	1/1
Mr. Lai Chanshu[(1)]	1/1

Note:

1. Mr. Xu Zhonghai and Mr. Lai Chanshu have resigned as an independent non-executive Director of the Company with effect from 1 January 2019, and ceased to be a member of Nomination Committee upon their resignation.

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

Pursuant to Rule 13.92 of the Listing Rules, the Board has adopted a board diversity policy (the "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 Board.

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.

With a view to meeting the above objectives under the Board Diversity Policy, Mr. Zhang Hong (who is an expert in public security governance), Mr. Yan Guoxiang (who is experienced in corporate management and has an educational background in mechanical engineering) and Mr. Luo Chunyi (who has extensive experience in banking and corporate management) have been appointed as Directors, which have enhanced the diversity of the Board in terms of professional experience, educational background, skills and knowledge.

The Nominating Committee's Policy on Nominating Directors

Nomination Criteria

When considering a candidate nominated for directorship or a director's proposed re-appointment, the Nomination Committee will have regard to the following factors:

(1) Age, skills, experience, professional and educational qualifications, background and other personal qualities of the candidate;

(2) Effect on the board's composition and diversity;

(3) Potential/actual conflicts of interest that may arise if the candidate is selected and independence of the candidate;

(4) Commitment of the candidate to devote sufficient time to effectively carry out his/her duties;

(5) In the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served; and

(6) Other factors considered to be relevant by the Nomination Committee on a case by case basis.

Nomination Procedures

(1) The Nomination Committee shall consider suitability of an individual pursuant to the Listing Rules, the Board Nomination Policy and Board Diversity Policy, and the independence of an individual for the position of independent non-executive director;

(2) The Nomination Committee shall make recommendations to the Board's for consideration;

(3) The Board shall consider the individual recommended by the Nomination Committee pursuant to the Listing Rules (including the corporate governance code as Appendix 14 to the Listing Rules), the Board Nomination Policy and Board Diversity Policy;

(4) For casual vacancy and addition of new directors, the Board shall confirm the appointment of the individual and the new director shall be subjected to re-election by shareholders of the Company at the annual general meeting in accordance with the Articles of Association;

(5) For re-appointment of retiring directors, the Board shall, based on the recommendation of Nomination Committee, recommend the retiring directors to stand for re-election at the annual general meeting. The appointment of retiring directors shall be subjected to the approval of shareholders at the annual general meeting; and

(6) The Board reserves the right to final decision on the matters in relation to the selection and appointment of directors.

Remuneration Committee

For the year ended 31 December 2018, 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's members are independent non-executive Directors. Mr. Xu Zhonghai serves as the chairman of the Remuneration Committee. Mr. Zhang Hong has been appointed as a member and chairman of Remuneration Committee on 1 January 2019, in place of Mr. Xu Zhonghai who has ceased to be a member and chairman of Remuneration Committee with effect from 1 January 2019. Mr. Yan Guoxiang has been appointed as a member of Remuneration Committee on 1 January 2019, in place of Mr. Lai Chanshu who has ceased to be a member of Remuneration Committee with effect from 1 January 2019.

The primary duties of the Remuneration Committee include making recommendations to the Board on the Company's policies 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 2018, 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)	1/1
Mr. Wu Mijia	1/1
Mr. Lai Chanshu(1)	1/1

Note:

1. Mr. Xu Zhonghai and Mr. Lai Chanshu have resigned as an independent non-executive Director of the Company with the effect from 1 January 2019, and ceased to be a member of Remuneration Committee upon their resignation.

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 10 members of the senior management of the Company, whose biographies are set out on pages 24 to 27 of this annual report, for the year ended 31 December 2018, are set out below:

Remuneration band (RMB'000)	Number of individual
Less than 600	7
600 to 1,000	3

Audit Committee

For the year ended 31 December 2018, the Audit Committee 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. Mr. Zhang Hong has been appointed as a member of Audit Committee on 1 January 2019, in place of Mr. Xu Zhonghai who has ceased to be a member of Audit Committee with effect from 1 January 2019. 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 2018, 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[1]	2/2

Note:

1. Mr. Xu Zhonghai has resigned as an independent non-executive Director of the Company with the effect from 1 January 2019, and ceased to be a member of Audit Committee upon his resignation.

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 2018 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 63 to 67 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 personnel ensuring the maintenance of an effective risk management and internal control systems; and

(iii) external auditors pointing out 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 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$2.18 million for audit services and HK$1.07 million for non-audit services. The audit services provided were the annual audit of the Group for the year ended 31 December 2018. The non-audit services provided were tax compliance services and interim financial report review in 2018.

JOINT COMPANY SECRETARIES

During the Reporting Period, Mr. Min Le, 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 2018, Mr. Min has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Mr. Min Le resigned as the company secretary of the Company on 15 March 2019. The Board appointed Mr. Fu Yu as the joint company secretary and also engaged Ms. Ng Ka Man (a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate service provider)) as another joint company secretary of the Company on 15 March 2019. The primary corporate contact person at the Company is Mr. Fu Yu, one of the joint company secretaries of the Company.

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 2019 AGM will be held on Wednesday, 22 May 2019. The AGM notice has been sent to the Shareholders on 17 April 2019.

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.

Dividend Policy

The Board has approved and adopted a dividend policy (the "Dividend Policy"). Under such Dividend Policy, it is anticipated that, subject to compliance with the applicable laws and regulations, the Company will declare dividends semi-annually following the announcement of the half-year results and following the announcement of the annual results respectively. Dividends will be declared and paid in Hong Kong dollars.

According to the Dividend Policy, the Board shall consider the following factors before declaring or recommending dividends:

(1) the Company's actual and expected financial performance;

(2) retained earnings and distributable reserves of the Company and each of the members of the Group;

(3) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(4) the Group's liquidity position;

(5) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

(6) other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Cayman Islands and the Articles of Association. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

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 31/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 2018.

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 2018.

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 2.45 tonnes (approximately 0.82 tonnes per office), while approximately 1.38 tonnes of paper wastes (approximately 0.46 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	297.14
Diesel	9.74
Petrol	40.96
Liquefied petroleum gas ("LPG")	2.40
GHG emissions in total	350.24

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	450,963.00	150,321.00
Diesel	Liter	3,725.00	1,241.67
Petrol	Liter	17,348.00	5,782.67
LPG	Kg	885.00	295.00

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 4,025.00 m^3 (1,341.67 m^3 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	0.21
Cardboard boxes	tonnes	70.45
Plastic wrap	tonnes	3.85
Total packaging material used for finished products	tonnes	74.51

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 2018, there were no cases of non-compliance with 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 2018, 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 2018, 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 2018, 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 2018, 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 2018, 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
中国先锋医药控股有限公司
(incorporate 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 68 to 148, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("IASB") 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
Impairment assessment of trade receivables and finance lease receivables	
We identified impairment assessment of trade receivables and finance lease receivables as a key audit matter due to the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables and finance lease receivables at the end of the reporting period. As disclosed in note 36 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables and finance lease receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering the shared credit risk characteristics. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables and finance lease receivables that are credit impaired are assessed for ECL individually. As disclosed in note 36 to the consolidated financial statements, the Group recognised additional amounts of RMB9 million and RMB6 million of impairment of trade receivables and finance lease receivables respectively for the year and the Group's lifetime ECL on trade receivables and finance lease receivables as at 31 December 2018 amounted to RMB21 million and RMB12 million respectively.	Our procedures in relation to impairment assessment of trade receivables and finance lease receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables and finance lease receivables; • Testing the integrity of information used by management to develop the provision matrix; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and finance lease receivables as at 1 January 2018 and 31 December 2018, including their identification of credit impaired trade receivables and finance lease receivables, the reasonableness of management's grouping of the remaining debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables and finance lease receivables in notes 19, 22 and 36 to the consolidated financial statements; and • Testing subsequent settlements of credit impaired trade receivables and finance lease receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from debtors subsequent to the end of the current reporting period.

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 issued by the IASB 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
28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**1,624,305**	2,153,935
Cost of sales		**(991,881)**	(1,432,514)
Gross profit		**632,424**	721,421
Other income	6	**29,047**	44,665
Impairment losses, net of reversal		**(14,696)**	6,718
Other gains and losses	7	**(49,911)**	(11,716)
Distribution and selling expenses		**(399,655)**	(370,272)
Administrative expenses		**(74,353)**	(66,557)
Finance costs	8	**(1,372)**	(2,301)
Share of loss of an associate	17	**(14,370)**	(12,641)
Profit before tax		**107,114**	309,317
Income tax expense	9	**(22,343)**	(28,710)
Profit for the year	10	**84,771**	280,607
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
– Fair value loss on investments in equity instruments at fair value through other comprehensive income	18(a)	**(60,384)**	–
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**3,376**	13,210
– Share of exchange difference of an associate		**4,431**	(5,175)
Other comprehensive (expense) income for the year		**(52,577)**	8,035
Total comprehensive income for the year		**32,194**	288,642
Profit for the year attributable to:			
Owners of the Company		**84,597**	278,925
Non-controlling interests		**174**	1,682
		84,771	280,607
Total comprehensive income for the year attributable to:			
Owners of the Company		**32,020**	286,964
Non-controlling interests		**174**	1,678
		32,194	288,642
		RMB yuan	RMB yuan
Earnings per share			
Basic	11	**0.07**	0.22

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current Assets			
Property, plant and equipment	14	46,144	52,336
Prepaid lease payments	15	2,063	2,115
Intangible assets	16	14,106	15,187
Interest in an associate	17	27,599	72,053
Other investment	18	–	20,000
Equity instruments at fair value through other comprehensive income	18	180,892	–
Finance lease receivables	19	4,072	21,589
Deposits paid for interest in an associate		7,981	–
Deferred tax assets	20	8,578	5,373
Amount due from a related party	26	63,178	115,554
		354,613	304,207
Current Assets			
Inventories	21	417,387	623,388
Finance lease receivables	19	40,268	46,197
Trade and other receivables	22	319,874	509,165
Amounts due from related parties	26	58,881	–
Financial asset at fair value through profit or loss	24	47,000	–
Tax recoverable		231	16
Prepaid lease payments	15	52	52
Pledged bank deposits	23	48,684	74,867
Certificate of deposits	23	–	50,000
Bank balances and cash	23	150,854	226,154
		1,083,231	1,529,839
Current Liabilities			
Trade and other payables	25	200,097	626,439
Tax liabilities		14,489	16,446
Bank borrowings	27	96,500	29,000
Provision	29	1,886	1,886
Contract liabilities	30	12,364	–
Obligations under finance leases	28	4,637	5,336
		329,973	679,107
Net Current Assets		753,258	850,732
Total Assets less Current Liabilities		1,107,871	1,154,939

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Capital and Reserves			
Share capital	31	79,071	81,391
Reserves		1,025,505	1,058,732
Equity attributable to owners of the Company		1,104,576	1,140,123
Non-controlling interests		1,316	942
Total Equity		1,105,892	1,141,065
Non-current liabilities			
Long-term liabilities	25	1,979	9,060
Liabilities for Share Award Scheme	37	–	20
Obligations under finance leases	28	–	4,794
		1,979	13,874
		1,107,871	1,154,939

The consolidated financial statements on pages 68 to 148 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 2017	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 31)*	(705)	(24,650)	–	–	–	–	–	–	(25,355)	–	(25,355)
Repurchase of ordinary shares under Share Award Scheme *(Note 37)*	–	–	–	–	–	(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 32)*	–	–	–	–	–	–	–	–	–	(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
Adjustments *(see Note 2)*	–	–	–	–	–	–	20,030	(12,692)	7,338	–	7,338
At 1 January 2018 (restated)	81,391	932,343	(52,292)	1,513	12,643	(165,803)	1,520	336,146	1,147,461	942	1,148,403
Profit for the year	–	–	–	–	–	–	–	84,597	84,597	174	84,771
Other comprehensive income (expense)	–	–	–	7,807	–	–	(60,384)	–	(52,577)	–	(52,577)
Total comprehensive income (expense) for the year	–	–	–	7,807	–	–	(60,384)	84,597	32,020	174	32,194
Shares repurchased and cancelled *(Note 31)*	(2,320)	(70,714)	–	–	–	–	–	–	(73,034)	–	(73,034)
Repurchase of ordinary shares under Share Award Scheme *(Note 37)*	–	–	–	–	–	(1,871)	–	–	(1,871)	–	(1,871)
Incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	200	200
At 31 December 2018	79,071	861,629	(52,292)	9,320	12,643	(167,674)	(58,864)	420,743	1,104,576	1,316	1,105,892

For the year ended 31 December 2018

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 2018 and 2017, the Company paid an amount of RMB1,871,000 and RMB15,405,000, respectively, to Bank of Communications Trustee Limited ("Trustee") to purchase the Company's existing shares of 1,008,000 and 7,557,000, 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 2018 and 2017, all the shares were held by the Trustee. For details please refer to note 37.

(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 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**107,114**	309,317
Adjustments for:		
Finance costs	**1,372**	2,301
Interest income on bank deposits	**(1,727)**	(3,565)
Dividends received from an equity instrument at fair value through other comprehensive income	**(1,633)**	–
Interest income on amount due from a related party	**(5,457)**	(6,608)
Depreciation of property, plant and equipment	**6,530**	6,763
Amortisation of intangible assets	**1,556**	1,556
Release of prepaid lease payments	**52**	52
Share of loss of an associate	**14,370**	12,641
Gain on dilution of interest in an associate	**(7,770)**	(646)
Allowance (reversal of allowance) for inventories	**1,264**	(2,461)
Impairment loss on trade receivables, net of reversal	**8,760**	(5,197)
Impairment loss on investment in an associate	**48,103**	–
Impairment loss on finance lease receivables, net of reversal	**5,936**	(1,521)
Reversal of provision for the Scheme	**(20)**	(1,444)
Operating cash flows before movements in working capital	**178,450**	311,188
Decrease (increase) in inventories	**204,737**	(114,925)
Decrease (increase) in trade and other receivables	**180,531**	(78,213)
(Decrease) increase in trade and other payables	**(418,880)**	170,481
Increase in contract liabilities	**3,727**	–
(Increase) decrease in amount due from related parties	**(2,357)**	50
Decrease in amounts due to related parties	**–**	(2,827)
Decrease (increase) in finance lease receivables	**12,017**	(2,349)
Cash generated from operations	**158,225**	283,405
Income taxes paid	**(27,720)**	(47,476)
Interest paid	**(1,838)**	(2,301)
NET CASH FROM OPERATING ACTIVITIES	**128,667**	233,628

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Interest received on bank deposits		**1,727**	3,565
Dividends received from an equity instrument at fair value through other comprehensive income		**1,633**	–
Acquisition of an equity instrument at fair value through other comprehensive income		**(223,885)**	–
Purchases of property, plant and equipment		**(385)**	(9,726)
Purchases of intangible assets		**(475)**	(860)
Proceeds on disposal of property, plant and equipment		**47**	480
Placement of pledged bank deposits		**(285,601)**	(92,348)
Withdrawal of pledged bank deposits		**311,784**	90,601
Placement of certificate of deposits		**–**	(50,000)
Withdrawal of certificate of deposits		**50,000**	–
Deposits paid for acquisition of interest in an associate		**(7,981)**	–
Placement of structured bank deposits		**(47,000)**	–
Repayment from a related party		**1,309**	48,228
Acquisition of additional interest in a subsidiary		**–**	(2,028)
Capital injection from a non-controlling interests of a subsidiary		**200**	–
NET CASH USED IN INVESTING ACTIVITIES		**(198,627)**	(12,088)
FINANCING ACTIVITIES			
New bank borrowings raised		**131,060**	80,000
Repayments of bank borrowings		**(61,000)**	(127,251)
Dividends paid		**–**	(215,294)
Payment for repurchase of ordinary shares under the Scheme	37	**(1,871)**	(15,405)
Shares repurchased and cancelled	31	**(73,034)**	(25,355)
NET CASH USED IN FINANCING ACTIVITIES		**(4,845)**	(303,305)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(74,805)**	(81,765)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**226,154**	309,640
Effect of foreign exchange rate changes		**(495)**	(1,721)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**150,854**	226,154

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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) Co., Ltd. ("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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

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

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

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

2.1 IFRS 15 *Revenue from Contracts with Customers*

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

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

For the year ended 31 December 2018

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

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

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

- Sales of pharmaceutical products and medical devices

Revenue from sales of pharmaceutical products and medical devices is recognised at a point in time when the customer obtains control of the distinct goods (customer's acceptance has been obtained).

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

The following table summarises the impact of transition to IFRS 15 on accumulated profits at 1 January 2018.

	Note	**Impact of adopting IFRS 15 at 1 January 2018** RMB'000
Accumulated profits		
Decrease in share of post – acquisition loss of an associate	*(a)*	5,818
Impact at 1 January 2018		5,818

Note:

(a) The impact is arising from the share of the results of NovaBay Pharmaceuticals, Inc. ("NovaBay"), an associate of the Group listed on the New York Stock Exchange ("NYSE") upon initial application of IFRS 15 by the associate under equity method. Upon application of IFRS 15, NovaBay recognised revenue earlier upon transfer of control of the goods to its distributors. Multiple distinct performance obligations have been identified under IFRS 15. Deferred revenue was allocated to different performance obligations and recognised when the relevant performance obligation is satisfied. These changes in accounting policies resulted in a decrease in share of post-acquisition losses in the associate of RMB5,818,000 with corresponding adjustment to accumulated profits of the Group.

For the year ended 31 December 2018

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

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

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

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**Carrying amounts under IFRS 15 at 1 January 2018 RMB'000**
Non-current Asset					
Interest in an associate	*(a)*	72,053	–	5,818	**77,871**
Current Liabilities					
Trade and other payables	*(b)*	626,439	(8,637)	–	**617,802**
Contract liabilities	*(b)*	–	8,637	–	**8,637**
Capital and Reserves					
Accumulated profits		348,838	–	5,818	**354,656**

Notes:

(a) The impact is arising from the share of the results of NovaBay, an associate of the Group listed on the NYSE upon initial application of IFRS 15 by the associate under equity method. Upon application of IFRS 15, NovaBay recognised revenue earlier upon transfer of control of the goods to its distributors. Multiple distinct performance obligations have been identified under IFRS 15. Deferred revenue was allocated to different performance obligations and recognised when the relevant performance obligation is satisfied. These changes in accounting policies resulted in a decrease in share of post-acquisition losses in the associate of RMB5,818,000 with corresponding adjustment to accumulated profits of the Group.

(b) As at 1 January 2018, advance from customers of RMB8,637,000 in respect of the contracts signed previously included in trade and other payables was reclassified to contract liabilities.

For the year ended 31 December 2018

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

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Non-current Asset				
Interest in an associate	*(a)*	27,599	(5,432)	22,167
Current Liabilities				
Trade and other payables	*(b)*	200,097	12,364	212,461
Contract liabilities	*(b)*	12,364	(12,364)	–
Capital and Reserves				
Accumulated profits		420,743	(5,432)	415,311

Impact on the consolidated statement of profit and loss and other comprehensive income

	Note	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Share of loss of an associate	*(a)*	14,370	(386)	13,984

For the year ended 31 December 2018

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

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	Notes	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
OPERATING ACTIVITIES				
Decrease in trade and other payables	*(b)*	(418,880)	3,727	(415,153)
Increase in contract liabilities	*(b)*	3,727	(3,727)	–

Notes:

(a) Upon application of IFRS 15, NovaBay recognised revenue earlier upon transfer of control of the goods to its distributors. Multiple distinct performance obligations are identified. Deferred revenue was allocated to different performance obligations and recognised when the relevant performance obligation is satisfied. Under IAS 18, NovaBay recognised revenue after transfer of goods to its final customers. Deferred revenue was recognised on a combined basis. Without application of IFRS 15, there would have been a reduction of share of post-acquisition loss of an associate by RMB386,000 for the year ended 31 December 2018 and a reduction of interest in an associate of RMB5,432,000 as at 31 December 2018.

(b) Under IAS 18, advance from customers of RMB12,364,000 would have been classified as trade and other payables.

2.2 IFRS 9 *Financial Instruments and the related amendments*

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

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

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

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

2.2 IFRS 9 *Financial Instruments and the related amendments* (Continued)

Summary of effects arising from initial application of IFRS 9

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

	Available-for-sale ("AFS") RMB'000	Equity instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Investment revaluation reserve RMB'000	Accumulated profits RMB'000
Closing balance at 31 December 2017 – IAS 39	20,000	–	(18,510)	348,838
Effect arising from initial application of IFRS 9:				
Reclassification				
From AFS *(Note a)*	(20,000)	20,000	–	–
From revaluation reserve *(Note b)*	–	–	18,510	(18,510)
Remeasurement				
From cost less impairment to fair value *(Note a)*	–	1,520	1,520	–
Opening balance at 1 January 2018	–	21,520	1,520	330,328

Notes:

(a) The Group elected to present in other comprehensive income ("OCI") for the fair value change of its equity investment previously classified as AFS investment, which represents unquoted equity investment previously measured at cost less impairment under IAS 39. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB20,000,000 was reclassified from AFS investment to equity instrument at FVTOCI. The fair value gain of RMB1,520,000 relating to this unquoted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and investment valuation reserve as at 1 January 2018.

(b) Investment revaluation reserve amounting to RMB18,510,000 was arising from a listed equity security previously classified as AFS investment carried at fair value, which became an associate of the Group. The fair value gains or losses accumulated in the investment revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9. At the date of initial application of IFRS 9, investment revaluation reserve of RMB18,510,000 was reclassified to accumulated profits.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No additional impairment allowance was recognised at 1 January 2018.

For the year ended 31 December 2018

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

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

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

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current Assets				
Interest in an associate	72,053	5,818	–	77,871
Other investment	20,000	–	(20,000)	–
Equity instrument at FVTOCI	–	–	21,520	21,520
Current Liabilities				
Trade and other payables	626,439	(8,637)	–	617,802
Contract liabilities	–	8,637	–	8,637
Capital and Reserves				
Investment revaluation reserve	(18,510)	–	20,030	1,520
Accumulated profits	348,838	5,818	(18,510)	336,146

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

For the year ended 31 December 2018

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

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

New and amendments to IFRSs in issue but not yet effective

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

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

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

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

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will not recognise a right-of-use asset and a corresponding liability in respect of all these leases because they qualify for low value.

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

For the year ended 31 December 2018

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 except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

The principal accounting policies are set out below.

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.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in 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.

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 IFRS 9/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate

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 an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. 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 interest 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.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 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 IFRS 9/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.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate (Continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Revenue recognition (prior to 1 January 2018)

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.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

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.

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.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share based payments.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

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 these 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).

The recoverable amount of tangible and intangible assets are estimated individually, 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.

For the year ended 31 December 2018

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. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL") FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment valuation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment valuation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, finance lease receivables, amount due from related parties, pledged bank deposits, certificate of deposits and bank balances and cash.) The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and credit impaired and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with IAS 17 Leases.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and finance lease receivables are each assessed as a separate group.);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and finance lease receivables where the corresponding adjustment is recognised through a loss allowance account.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into 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.

AFS financial assets

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

Equity securities held by the Group that are classified as AFS financial assets 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 investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment 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 (before application of IFRS 9 on 1 January 2018)

Financial assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

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;

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 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 investment revaluation reserve.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition of financial assets

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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

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.

Financial liabilities at amortised cost

All financial liabilities (including trade and other payables, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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 the reporting period, that may have 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 was classified as AFS financial assets measured at cost less impairment. The amount of the impairment loss was 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 RMB20,000,000.

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, 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 2018, the carrying amount of interest in an associate was RMB27,599,000 (2017: RMB72,053,000), with accumulated impairment loss of RMB48,103,000 (2017: nil). Details of the recoverable amount are disclosed in note 17.

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Provision of ECL for trade receivables and finance lease receivables (after application of IFRS 9 on 1 January 2018)

The Group uses provision matrix to calculate ECL for the trade receivables and finance lease receivables. The provision rates are based on types of debtors as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and finance lease receivables with significant balances and credit impaired are assessed for ECL individually or based on provision matrix.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and finance lease receivables are disclosed in notes 36, 22 and 19 respectively.

Estimated impairment of trade receivables and finance lease receivables (before application of IFRS 9 on 1 January 2018)

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 RMB480,369,000, net of allowance for doubtful debts of RMB11,877,000.

As at 31 December 2017, the carrying amount of the Group's finance lease receivables was RMB67,786,000, net of accumulated impairment loss of RMB6,011,000.

Fair value measurement of financial instruments

Unquoted equity instruments amounting to RMB25,200,000 as at 31 December 2018 is measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 36 for further disclosures.

Write-down 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 2018, the carrying amount of Group's inventories was RMB417,387,000 (2017: RMB623,388,000), net of allowance for inventories of RMB1,268,000 (2017: RMB4,000).

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from sales of pharmaceutical products and medical devices in the PRC. An analysis of the Group's revenue by category is as follows:

	2018 RMB'000	2017 RMB'000
Sales of pharmaceutical products	1,524,874	2,027,894
Sales of medical devices	99,431	126,041
	1,624,305	2,153,935

Revenue from sales of pharmaceutical products and medical devices is recognised at a point of time when the customer obtains control of the distinct goods upon acceptance by customers.

The advance from customer received by the Group is recognised as a contract liability until the customer obtains control of the distinct goods.

All contracts from sales of pharmaceutical products and medical devices are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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 delivered. 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").

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

For the year ended 31 December 2018

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 2018

	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	905,138	719,167	1,624,305
Cost of sales	(319,286)	(672,595)	(991,881)
Gross profit & segment result	585,852	46,572	632,424
Other income			29,047
Impairment losses, net of reversal			(14,696)
Other gains and losses			(49,911)
Distribution and selling expenses			(399,655)
Administrative expenses			(74,353)
Finance costs			(1,372)
Share of loss of an associate			(14,370)
Profit before tax			107,114

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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
Impairment losses, net of reversal			6,718
Other gains and losses			(11,716)
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

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Disaggregation of revenue from contracts with customers by major products

	2018 RMB'000	2017 RMB'000
Products sold via the provision of co-promotion and channel management services:		
Alcon	719,167	1,209,416
Products sold via the provision of comprehensive marketing, promotion and channel management services:		
Difene	162,984	144,234
Fluxum	298,188	222,046
Polimod	122,896	250,102
Macmiror complex and Macmiror	63,460	55,582
Vinpocetine API	28,619	28,985
Neoton	115,501	98,562
Budesonide Easyhaler and Salbutamol Easyhaler	–	5,168
FLEET Phospho-Soda	13,091	13,607
Medical equipments and supplies	99,431	126,041
Others	968	192
	1,624,305	2,153,935

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 72% (2017: 49%) of non-current assets excluding equity instruments at FVTOCI, 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 28% (2017: 51%) is located in the United States in relation to the interest in an associate. Over 99% (2017: 99%) 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 2018

6. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Government grants *(Note)*	2,630	20,804
Interest on bank deposits	1,727	3,565
Interest income on amount due from a related party	5,457	6,608
Interest income on finance leases	8,853	8,405
Service income	8,747	5,283
Dividends received from an equity instrument at FVTOCI	1,633	–
	29,047	44,665

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

	2018 RMB'000	2017 RMB'000
Net foreign exchange losses	(9,578)	(12,362)
Gain on dilution on interest in an associate *(Note 17)*	7,770	646
Impairment loss on interest in an associate *(Note 17)*	(48,103)	–
	(49,911)	(11,716)

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	1,372	2,301

For the year ended 31 December 2018

9. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	19,963	25,654
Hong Kong Profits Tax	1,929	1,730
PRC withholding tax on dividends distributed by subsidiaries	5,000	4,500
	26,892	31,884
(Overprovision) underprovision in prior year		
EIT	(1,344)	3,502
Deferred tax *(Note 20)*		
Current year	(3,205)	(6,676)
	22,343	28,710

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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

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

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

According to Circular Zangzhengfa 2011 No. 14, enterprises located in Tibet are subject to a reduced EIT rate of 15% for the period from 2011 to 2020. Moreover, according to Circular Zangzhengfa 2008 No. 62 and Zangzhengbanfa 2011 No. 52, enterprises that are located in Naqu Logistics Center Tibet 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.

For the year ended 31 December 2018

9. INCOME TAX EXPENSE (Continued)

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:

	2018 RMB'000	2017 RMB'000
Profit before tax	107,114	309,317
Tax at the applicable income tax rate of 25%	26,778	77,329
Tax effect of expenses not deductible for tax purpose	18,993	5,399
Tax effect of income not taxable for tax purpose	(2,433)	(1,892)
Tax effect of tax losses not recognised	701	317
Utilisation of tax losses previously not recognised	–	(1,565)
Tax effect of concessionary tax rate	(25,352)	(51,630)
(Overprovision) underprovision in prior year	(1,344)	3,502
PRC withholding tax on dividends distributed by subsidiaries	5,000	4,500
Realisation of deferred tax liabilities arising on undistributed profit of the PRC subsidiaries	–	(7,250)
	22,343	28,710

10. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 12)*	5,773	5,744
Other staff's retirement benefits scheme contributions	8,879	8,703
Other staff costs	40,876	40,282
Total staff costs	55,528	54,729
Auditors' remuneration	2,789	2,508
Write-down (reversal of write-down) for inventories	1,264	(2,461)
Release of prepaid lease payments	52	52
Depreciation for property, plant and equipment	6,530	6,763
Amortisation of intangible assets	1,556	1,556
Cost of inventories recognised as an expense	991,881	1,432,514
Minimum lease payment under operating lease in respect of premises	297	277

For the year ended 31 December 2018

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2018	2017
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**RMB84,597,000**	RMB278,925,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,249,702,677**	1,289,808,605

For the years ended 31 December 2018 and 2017, 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 Scheme and the ordinary shares repurchased and cancelled by the Company.

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 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 2018							
	Executive director *(Note a)*	Executive director and chief executive officer *(Note a)*	Non-executive directors *(Note b)*		Independent non-executive directors *(Note c)*			
	Li Xinzhou RMB'000	Zhu Mengjun RMB'000 *(Note d)*	Wu Mijia RMB'000	Wang Yinping RMB'000	Xu Zhonghai RMB'000 *(Note e)*	Lai Chanshu RMB'000 *(Note f)*	Wong Chihung RMB'000	Total 2018 RMB'000
Fees	–	–	204	–	255	255	298	1,012
Other emoluments								
Salaries and other allowance	1,740	1,416	–	1,392	–	–	–	4,548
Retirement benefits scheme contributions	–	94	–	119	–	–	–	213
	1,740	1,510	204	1,511	255	255	298	5,773

For the year ended 31 December 2018

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

	For the year ended 31 December 2017							
	Executive director *(Note a)*	Executive director and chief executive officer *(Note a)*	Non-executive directors *(Note b)*		Independent non-executive directors *(Note c)*			
	Li Xinzhou RMB'000	Zhu Mengjun RMB'000	Wu Mijia RMB'000	Wang Yinping RMB'000	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

Notes:

(a) 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.

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

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

(d) Mr. Zhu Mengjun has resigned as chief executive officer and executive director of the Company on 1 January 2019. Mr. Li Xinzhou has performed the functions of the chief executive officer of the Company on a temporarily basis until the Company appoints its next chief executive officer. Mr. Luo Chunyi has been appointed as chief executive officer with effect from 22 January 2019.

(e) Mr. Xu Zhonghai has resigned as independent non-executive director of the Company on 1 January 2019. Mr. Zhang Hong has been appointed as independent non-executive director of the Company with effect from 1 January 2019.

(f) Mr. Lai Chanshu has resigned as independent non-executive director of the Company on 1 January 2019. Mr. Yan Guoxiang has been appointed as independent non-executive director of the Company with effect from 1 January 2019.

For the year ended 31 December 2018

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals include 3 (2017: 3) directors for the year ended 31 December 2018. The emoluments of the remaining 2 (2017: 2) highest paid individuals who are neither a director nor chief executive officer of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salary and other allowances	1,224	1,062
Retirement benefits scheme contributions	94	179
	1,318	1,241

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:

	2018 No. of individuals	2017 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

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year:		
2017 Interim – RMB6.4 cents per share	–	81,899
2016 Final – RMB10.3 cents per share	–	133,395
	–	215,294

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

For the year ended 31 December 2018

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 2017	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
Additions	–	6	378	1	385
Disposals	–	–	(740)	–	(740)
At 31 December 2018	42,298	4,548	24,388	1,884	73,118
ACCUMULATED DEPRECIATION					
At 1 January 2017	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
Provided for the year	2,058	884	3,370	218	6,530
Elimination on disposals	–	–	(693)	–	(693)
At 31 December 2018	9,271	3,635	12,349	1,719	26,974
CARRYING VALUES					
At 31 December 2018	33,027	913	12,039	165	46,144
At 31 December 2017	35,085	1,791	15,078	382	52,336

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.

For the year ended 31 December 2018

15. PREPAID LEASE PAYMENTS

Analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Current asset	52	52
Non-current asset	2,063	2,115
	2,115	2,167

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
COST	
At 1 January 2017	25,579
Additions	860
At 31 December 2017	26,439
Additions	475
At 31 December 2018	26,914
ACCUMULATED AMORTISATION	
At 1 January 2017	9,696
Provided for the year	1,556
At 31 December 2017	11,252
Provided for the year	1,556
At 31 December 2018	12,808
CARRYING VALUES	
At 31 December 2018	14,106
At 31 December 2017	15,187

For the year ended 31 December 2018

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

17. INTEREST IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Cost of investment in an associate	**114,081**	114,081
Share of post-acquisition losses and other comprehensive expense	**(48,295)**	(44,174)
Accumulated gain on dilution	**9,916**	2,146
Impairment loss on interest in an associate	**(48,103)**	–
	27,599	72,053
Fair value of NovaBay *(Note)*	**27,599**	130,646

Note: As at 31 December 2018, 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$") 4,014,000 (equivalent to RMB27,599,000) (2017: US$20,069,000 (equivalent to RMB130,646,000)) 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 (ordinary share) and voting power held by the Group	
					2018	2017
NovaBay *(Note)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	Untied States	**30.50%**	33.88%

Note: During the year ended 31 December 2018, NovaBay issued an aggregate of 1,704,000 shares (2017: 115,630 shares) to various investors. A gain on dilution of RMB7,770,000 (2017: RMB646,000) was recognised in profit or loss. As of 31 December 2018, the Group held a total of 5,212,747 ordinary shares representing approximately 30.50% (31 December 2017: 5,212,747 ordinary shares representing approximately 33.88%) of issued shares of NovaBay.

For the year ended 31 December 2018

17. INTEREST IN AN ASSOCIATE (Continued)

Indicated by the financial performance of NovaBay for the year ended 31 December 2018, the Group takes into consideration to perform annual impairment assessment for its carrying amount in accordance with IAS 36 *Impairment of Assets* as single assets.

The Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. As 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 2018 has been determined based on the quoted market price less cost of disposal. The directors of the Company consider the value in use of the associate is lower than fair value less cost of disposal due to the identified going concern issue by management of the associate. As the recoverable amount of the investment is less than the corresponding carrying amount, the Company recognised an impairment loss of RMB48,103,000 (2017: nil) for the year ended 31 December 2018 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

	2018 RMB'000	2017 RMB'000
Non-current assets	97,030	103,417
Current assets	59,189	60,059
Non-current liabilities	40,592	54,858
Current liabilities	27,284	32,197

	2018 RMB'000	2017 RMB'000
Revenue	82,491	122,520
Loss for the year	43,635	37,157
Total comprehensive expense for the year	43,635	37,157

For the year ended 31 December 2018

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:

	2018 RMB'000	2017 RMB'000
Net assets of the associate	88,343	76,421
Proportion of the Group's ownership interest in NovaBay	26,945	25,891
Goodwill	48,757	46,162
Impairment	(48,103)	–
Carrying amount of the Group's interest in NovaBay	27,599	72,053

18. OTHER INVESTMENT/EQUITY INSTRUMENTS AT FVTOCI

	31.12.2018 RMB'000	1.1.2018* RMB'000
Listed investment:		
– Equity securities listed in Australia *(Note a)*	155,692	–
Unlisted investment:		
– Equity securities *(Note b)*	25,200	21,520
	180,892	21,520

* The balance as at 1 January 2018 is after the adjustment from the application of IFRS 9.

Notes:

a) The listed equity investment represents 15% ordinary shares of an entity listed in Australian Securities Exchange, Paragon Care Limited ("Paragon"). This investment is not held for trading, instead, it is held for long-term strategic purpose. The Group waived the ability to nominate a director to the board of Paragon from 20 November 2018 to 31 December 2019. Thus, it is not considered as an associate of the Group as at 31 December 2018. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that recognising short-term fluctuations in this investment's fair value in profit or loss would be inconsistent with the Group's strategy of holding this investment for long-term purpose and realizing its performance potential in the long run.

For the year ended 31 December 2018

18. OTHER INVESTMENT/EQUITY INSTRUMENTS AT FVTOCI (Continued)

Notes: (Continued)

b) The balances as of 31 December 2018 and 31 December 2017 represent the investment in Shanghai Yuhan fund (上海譽瀚股權投資基金合夥企業（有限合夥）, 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 2018 and 31 December 2017, the Fund received contributions from shareholders of RMB250 million, among which the Company injected RMB20 million which accounted for 8% of the equity interest of the Fund. The Fund represents an investment in unlisted private entities and structured deposits. It was accounted for an AFS investment under IAS 39 as at 31 December 2017 and measured at cost less impairment. As at 31 December 2017, the carrying amount was RMB20,000,000 and measured at cost less impairment. At the date of initial application of IFRS 9, it was reclassified from AFS investment to equity instrument at FVTOCI. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that recognising short-term fluctuations in this investment's fair value in profit or loss would be inconsistent with the Group's strategy of holding this investment for long-term purpose and realising its performance potential in the long run.

As at 31 December 2018, the carrying amount of the listed equity investment at FVTOCI of RMB155,692,000 has been pledged as security for the bank borrowing of RMB96,500,000.

19. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**58,687**	62,799	**46,113**	46,197
In more than one year but not more than two years	**8,991**	22,761	**8,444**	19,386
In more than two years but not more than five years	**2,366**	10,928	**1,730**	8,214
	70,044	96,488	**56,287**	73,797
Less: unearned finance income	**(13,757)**	(22,691)	**N/A**	N/A
Present value of minimum lease payment receivables	**56,287**	73,797	**56,287**	73,797
Impairment on finance lease receivables	**(11,947)**	(6,011)	**(11,947)**	(6,011)
	44,340	67,786	**44,340**	67,786
Analysed for reporting purposes as:				
Current assets			**40,268**	46,197
Non-current assets			**4,072**	21,589
			44,340	67,786

19. FINANCE LEASE RECEIVABLES (Continued)

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 IFRS 15 *Revenue from Contracts with Customers*.

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 under IAS 18, 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.

Under IFRS 15, the customers obtain control of the medical devices which the customers have the ability to direct the use of and obtain substantially all of the remaining benefits from the medical devices also upon inception of the contract. The directors of the Company consider the application of IFRS 15 has no material impact on the timing and amounts recognised in the Group's consolidated statement of profit or loss for the current and prior years.

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

	2018	2017
Effective interest rate per annum	**1% to 22%**	1% to 22%

Movement in provision for finance lease receivables

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

As at 31 December 2017, a reversal of impairment loss of RMB1,521,000 had 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.

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.

For the year ended 31 December 2018

19. FINANCE LEASE RECEIVABLES (Continued)

Security deposits of RMB295,000 (2017: RMB306,000) 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 2018 and 31 December 2017. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

As at 31 December 2017, estimations on 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 were made at the inception of finance lease, and generally not updated except when the receivable was 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 RMB295,000 (2017: RMB306,000) based on the final lease instalment due date stipulated in the finance lease agreements.

Details of impairment assessment of finance lease receivables for the year ended 31 December 2018 are set out in note 36.

20. DEFERRED TAX

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**8,578**	5,373

The following are the major deferred tax assets recognised and movements thereon during the year ended 31 December 2018 and 31 December 2017:

	Allowances RMB'000	Unrealised profit on inventories RMB'000	Provision for replacement of goods sold RMB'000	Accrued expenses RMB'000	Undistributed profit of subsidiaries RMB'000	Total RMB'000
THE GROUP						
At 1 January 2017	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
Credit to profit or loss for the year	1,436	1,129	–	640	–	3,205
At 31 December 2018	3,274	3,055	169	2,080	–	8,578

For the year ended 31 December 2018

20. DEFERRED TAX (Continued)

The Group has unused tax losses of RMB45,483,000 (2017: RMB43,132,000) as at 31 December 2018 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:

	2018 RMB'000	2017 RMB'000
2018	–	452
2019	25,280	25,280
2020	11,424	11,424
2021	4,709	4,709
2022	1,267	1,267
2023	2,803	–
	45,483	43,132

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 2018, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries amounted to RMB492,118,000 (2017: RMB434,870,000). 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 RMB492,118,000 (2017: RMB434,870,000) 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.

21. INVENTORIES

All inventories represented finished goods of pharmaceutical products and medical devices. As at 31 December 2018, inventories included goods in transit of RMB20,094,000 (2017: RMB164,223,000).

During the year ended 31 December 2018, write-down for inventories of RMB1,264,000 (2017: a reversal of write-down of RMB2,461,000) has been recognised by the Group and included in cost of sales.

For the year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**290,638**	492,246
Less: Allowance for credit losses	**(20,637)**	(11,877)
	270,001	480,369
Other receivables, prepayments and deposits	**15,054**	17,236
Less: Allowance for credit losses	**–**	(129)
	285,055	497,476
Advance payment to suppliers	**22,792**	1,572
Other tax recoverable	**12,027**	10,117
Total trade and other receivables	**319,874**	509,165

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB290,638,000 and RMB492,246,000 respectively.

In relation to the sales of pharmaceutical products, the Group allows a credit period from 30 days 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 aging analysis of trade receivables net of allowance for credit losses, presented based on invoice date at respective reporting dates, which approximated the respective revenue recognition dates:

	2018 RMB'000	2017 RMB'000
0 to 60 days	**162,345**	276,955
61 days to 180 days	**72,104**	122,079
181 days to 1 year	**19,182**	64,385
1 year to 2 years	**12,783**	10,750
Over 2 years	**3,587**	6,200
	270,001	480,369

For the year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, total bills received amounting to RMB42,647,000 (31 December 2017: RMB76,040,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB86,464,000 which are past due as at the reporting date. Out of the past due balances, RMB27,483,000 has been past due 90 days or more and is not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. Other than bills received amounting to RMB42,647,000, the Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB61,127,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. 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
61 days to 180 days	35,835
181 days to 1 year	8,896
1 year to 2 years	10,382
2 years to 3 years	6,014
	61,127

Movement in the allowance for doubtful debts of trade receivables:

	2017 RMB'000
Balance at beginning of the year	19,409
Amounts written off during the year as uncollectible	(2,335)
Reversal of impairment loss	(5,197)
Balance at end of the year	11,877

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 36.

For the year ended 31 December 2018

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 (2017: deposits pledged to banks to secure 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.

Pledged bank deposits of RMB48,684,000 carry fixed interest rate from 0.35% to 1.1% (2017: RMB74,867,000 carry fixed interest rate from 0.35% to 0.50%) per annum as at 31 December 2018.

Certificate of deposits

As at 31 December 2017, the Group's balance included 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.

Bank balances and cash

The Group's bank balances carry interest at market rates that range from 0.35% to 3.45% (2017: from 0.35% to 0.50%) per annum as at 31 December 2018.

24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 December 2018, the Group entered into several contracts of structured deposits with a bank in the PRC. The structured bank deposits earn minimum return of 1.35% per annum, while the total expected return is up to 2.60% per annum. The contracts are with maturity of 30 December 2020 and can be redeemable on demand. The principal of RMB47,000,000 was guaranteed by the relevant bank as at 31 December 2018. These deposits contain non-closely related embedded derivatives and are subject to variable return determined by reference to the performance of foreign exchange rates and bond investments. The directors of the Company considered the fair values of non-closely related embedded derivatives were insignificant as at 31 December 2018.

For the year ended 31 December 2018

25. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

	2018 RMB'000	2017 RMB'000
Trade payables	143,259	568,944
Payroll and welfare payables	4,340	6,790
Advance from customers	–	8,637
Other tax payables	829	1,564
Marketing service fee payables	23,647	15,998
Interest payables	–	466
Deposits received from distributors	21,995	19,527
Accrued purchase	1,979	9,060
Other payables and accrued charges	6,027	4,513
	202,076	635,499
Less: Amounts due after one year shown under long-term liabilities *(Note)*	(1,979)	(9,060)
	200,097	626,439

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.

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

	2018 RMB'000	2017 RMB'000
0 to 90 days	139,040	559,340
91 to 180 days	4,089	6,157
181 to 365 days	–	2,872
Over 365 days	130	575
	143,259	568,944

For the year ended 31 December 2018

26. RELATED PARTIES DISCLOSURES

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

	2018 RMB'000	2017 RMB'000
Purchase of finished goods from Covex, S.A. *(Note)*	–	2,943
Interest income on amount due from a related party	5,457	6,608

Note: Covex, S.A. was controlled and beneficially owned by Mr. Li.

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

	2018 RMB'000	2017 RMB'000
Name of the related parties		
Amount due from related parties		
Mr. Li – current *(Note a)*	56,524	–
Covex, S.A. – current *(Note b)*	2,357	–
Mr. Li – non-current *(Note a)*	63,178	115,554
	122,059	115,554

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 Striker Pharma (Singapore) Ptd. Ltd ("Striker Singapore") (formerly known as Pioneer Pharma (Singapore) Ptd. Ltd) 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, in which RMB56,524,000 and RMB63,178,000 will be due at 22 December 2019 and 22 December 2021 respectively.

(b) Amount represents prepayment for purchase of finished goods.

(c) Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	9,477	9,554
Retirement benefits scheme contributions	793	864
	10,270	10,418

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

For the year ended 31 December 2018

27. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Carrying amount of bank borrowings repayable within one year and shown under current portion	96,500	29,000
Analysed as:		
Secured	96,500	–
Unsecured	–	29,000
	96,500	29,000

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

	2018 RMB'000	2017 RMB'000
Pledge of assets		
Trade receivables *(Note a)*	267,499	433,091
Equity instrument at FVTOCI for bank borrowing *(Note b)*	155,692	–
Pledged bank deposits for letter of credit	48,684	74,867
	471,875	507,958

Notes:

a) Included in the balances are inter-company trade receivables amounting to RMB32,058,000 (2017: RMB23,958,000) which are pledged for the banking facility.

b) Equity instrument at FVTOCI amounting to RMB155,692,000 (2017: nil) has been pledged for the bank borrowing of RMB96,500,000 that is denominated in Australian Dollar ("AUD").

The effective interest rate on the Group's fixed-rate borrowings is 2.92% (2017: 4.79%) per annum.

For the year ended 31 December 2018

28. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2018, 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	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Amount payable under finance lease:				
Within one year	**5,419**	6,359	**4,637**	5,336
In more than one year but not more than two years	**–**	5,191	**–**	4,794
	5,419	11,550	**4,637**	10,130
Less: future finance charges	**(782)**	(1,420)	**N/A**	N/A
Present value of lease obligations	**4,637**	10,130	**4,637**	10,130
Analysed for reporting purposes as:				
Current liabilities			**4,637**	5,336
Non-current liabilities			**–**	4,794

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

For the year ended 31 December 2018

29. PROVISION

	Provision for replacement of goods RMB'000
COST	
At 1 January 2017	1,886
Additions	402
Utilisations	(402)
At 31 December 2017 and 1 January 2018	1,886
Additions	645
Utilisations	(645)
At 31 December 2018	1,886

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

30. CONTRACT LIABILITIES

	31.12.2018 RMB'000	1.1.2018* RMB'000
Advance from customers *(Note)*	**12,364**	8,637

* The balance as at 1 January 2018 is after the adjustments from the application of IFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Advance from customers RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	8,637

Note: The Group receives advance from customers pursuant to the terms of sales. The advance results in contract liabilities being recognised until the customer obtains control of the goods.

For the year ended 31 December 2018

31. SHARE CAPITAL OF THE COMPANY

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised			
At 1 January 2017, 31 December 2017 and 31 December 2018	3,000,000,000	30,000,000	82,096
Issued and fully paid			
At 1 January 2017	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
Shares repurchased and cancelled *(Note)*	(37,457,000)	(374,570)	(2,320)
At 31 December 2018	1,284,477,000	12,844,770	79,071

Note:

During the year ended 31 December 2018, the Company repurchased its own shares with considerations RMB73,034,000 (equivalent to HKD88,034,000) (2017: RMB25,355,000 (equivalent to HKD29,947,000)) 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
January 2018	6,400,000	2.66	2.34	16,270
February 2018	1,500,000	2.58	2.48	3,829
March 2018	11,000,000	2.62	2.37	27,655
April 2018	6,335,000	2.85	2.49	17,173
June 2018	607,000	2.24	2.10	1,324
July 2018	1,000,000	2.36	2.14	2,268
August 2018	4,998,000	2.01	1.84	9,875
September 2018	3,413,000	1.90	1.73	6,271
October 2018	2,204,000	1.58	1.41	3,369
Total	37,457,000			88,034
September 2017	11,400,000	2.72	2.47	29,947
Total	11,400,000			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.

For the year ended 31 December 2018

32. 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 2018 %	Equity interest attributable to the Group 2017 %	Principal activities
Directly held						
Pioneer HK 先鋒醫藥(香港)有限公司	Hong Kong	19 February 2013	US$5,000,000	100	100	Investment holding
Indirectly held						
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	86.67	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] 海口聚美醫療器械租賃有限公司	PRC	18 December 2013	RMB150,000,000	100	100	Sales of medical devices and ancillary tools and accessories leasing
Shanghai Jingni Consulting Co. Ltd*[2] 上海勁霓企業管理諮詢有限公司	PRC	19 January 2018	RMB100,000	100	–	Inactive
Pioneer Beauty Gallery Biotech Co. Ltd*[2] 四川先鋒滙美生物科技有限公司	PRC	11 June 2018	RMB15,000,000	70	–	Sales of pharmaceutical products

For the year ended 31 December 2018

32. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group		Principal activities
				2018 %	2017 %	
Pioneer Pharma (Australia) Pty Ltd 先鋒澳大利亞有限公司	Australia	17 August 2018	AUD100	100	–	Investment holding
Chongqing Pioneer Pharma Co. Ltd *2 重慶乾鋒制藥有限公司	PRC	16 November 2018	RMB10,000,000	100	–	Inactive

* 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.

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

33. 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:

	2018 RMB'000	2017 RMB'000
Within one year	95	31

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.

For the year ended 31 December 2018

34. 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 Schemes Ordinance of Hong Kong.

The total cost charged to profit or loss of RMB9,092,000 (2017: RMB8,907,000) for the year ended 31 December 2018, represents contributions paid to the retirement benefits scheme by the Group.

As at 31 December 2017 and 2018, there were no outstanding contributions to the schemes.

35. 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 27, 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.

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets:		
FVTPL	47,000	–
Equity instruments at FVTOCI	180,892	–
Financial assets at amortised cost	636,697	–
Finance lease receivables	–	67,786
Loans and receivables (including cash and cash equivalents)	–	948,334
AFS investment	–	20,000
Financial liabilities:		
Obligations under finance leases	4,637	10,130
Amortised cost	294,236	638,182

(b) Financial risk management objectives and policies

The Group's major financial instruments include other investment, trade and other receivables, finance lease receivables, financial assets at FVTPL, equity instruments at FVTOCI, amounts due from related parties, pledged bank deposits, certificate of deposits, bank balances and cash, trade and other payables and bank borrowings. 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.

36. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

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

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

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

	Assets		Liabilities	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
US$	**103**	2,351	**34,701**	58,975
Euro ("EUR")	**193**	735	**16,634**	38,090
HKD	**1,758**	26,250	**–**	14,291
AUD	**170,081**	–	**96,500**	–
	172,135	29,336	**147,835**	111,356

For the year ended 31 December 2018

36. 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$, HKD, EUR and AUD. The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in US$, HKD, EUR and AUD against RMB. 5% (2017: 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% (2017: 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$, HKD, EUR and AUD weaken 5% (2017: 5%) against the functional currency. For a 5% (2017: 5%) strengthening of US$, HKD, EUR and AUD 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		AUD impact	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Profit for the year	**1,297**	2,123	**(66)**	(448)	**617**	1,401	**(2,759)**	–

Additionally, as at 31 December 2017, intercompany receivables denominated in RMB which is not the functional currency of the respective group entities are RMB23,196,000. If RMB weakens/strengthens by 5% against the functional currency of the respective group entity, profit for the year would decrease/increase by RMB968,000 for the year ended 31 December 2017 (2018: nil).

36. 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, obligations under finance leases, pledged bank deposits, certificate of deposits and amount due from a related party (see note 27 for details of the borrowings, note 28 for obligations under finance leases, note 23 for the deposits and note 26 for the amount due from related parties). 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 2018 and 31 December 2017.

Credit risk and impairment assessment

As at 31 December 2018, 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 performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade receivables and finance lease receivables individually for debtors with significant balances and credit-impaired or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The Group measures the loss allowance on liquid funds (including pledged bank deposits, certificate of deposits and bank balances) equal to 12m ECL. Credit risk on liquid funds is limited because the counterparties are banks with good reputation with external credit rating of at least A1 assigned by an international credit-rating agency.

The Group measures the loss allowance on amount due from related parties and other receivables equals to 12m ECL. The Group considers there is a low risk of default and does not have any past-due amounts and no loss allowance has been made on these balances as at 31 December 2018.

In 2018, the Group has concentration of credit risk on amount due from a related party, Mr. Li. The Group measures the loss allowance on amount due from a related party equals to 12m ECL. As at 31 December 2018, the carrying amounts of the Group's amount due from Mr. Li is RMB119,702,000. 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 Striker Singapore for the payment obligation to minimise the credit risk. The Group considers there is a low risk of default and does not have any past-due amounts and no loss allowance has been made as at 31 December 2018.

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The Group has concentration of credit risk by individual customer as 8% (2017: 6%) of the total trade receivables as at 31 December 2018 were due from the Group's largest customer whereas 19% (2017: 21%) of the total trade receivables as at 31 December 2018 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 2018.

As part of the Group's credit risk management, trade receivables have been grouped based on shared credit risk characteristics. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB17,068,000 as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	Trade receivables RMB'000
Share credit risk characteristics		
Class A	0%	176,299
Class B	0.5%	31,283
Class C	1.5%	17,670
Class D	3.0%	10,588
Class E	7.5%	37,730
		273,570

Note: The Group has classified the trade receivables balance into different groupings based on the share credit risk characteristics that considering the types, size of operations and loss patterns of the debtors.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under IAS 39 and as at 1 January 2018 upon application of IFRS 9	–	11,877	11,877
Impairment losses recognised	3,569	5,191	8,760
As at 31 December 2018	3,569	17,068	20,637

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier.

The Group rebuts the presumption of default under ECL for trade receivables over 90 days past due based on the strong financial position with good repayment records of those customers and continuous business relationship with the Group.

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The following table shows the movement in lifetime ECL that has been recognised for finance lease receivables under the simplified approach.

	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under IAS 39 and as at 1 January 2018 upon application of IFRS 9	–	6,011	6,011
As at 1 January 2018			
Impairment losses recognised	5,847	89	5,936
As at 31 December 2018	5,847	6,100	11,947

For finance lease receivables, the Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL, finance lease receivables have been grouped based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. The lifetime ECL of finance lease receivables is calculated based on the net exposure of the finance lease taking account into the value of collateral.

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.

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

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 2018						
Non-derivative financial liabilities						
Trade and other payables	–	195,757	–	1,979	197,736	197,736
Obligations under finance leases	6.00	1,355	4,064	–	5,419	4,637
Bank borrowings – fixed rate	2.92	96,732	2,262	–	98,994	96,500
		293,844	6,326	1,979	302,149	298,873

	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

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements

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

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31.12.2018	31.12.2017			
1) Equity instrument at FVTOCI	15% equity investment in Paragon – RMB155,692,000	N/A	Level 1	Quoted bid prices in active market	Not applicable
2) Financial asset at FVTPL	Structured bank deposits – RMB47,000,000	N/A	Level 3	Discounted cash flows	Expected yields of money market instruments and debt instruments invested by bank and a discount rate that reflects the credit risk of the bank
3) Equity instrument at FVTOCI	8% equity investment in the Fund – RMB25,200,000	N/A	Level 3	Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies and adjusted by discount on lack of marketability	The price to earnings ratio, price to book ratio, enterprise value to sales and enterprise value to earnings before interest, taxes, depreciation and amortisation are determined by the mean or median of comparable companies as at the valuation date Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 15% to 25% *(Note)*

Note: The higher the volatility of the comparable companies, the higher the fair value of the equity instrument, and vice versa. The higher of the discount for lack of marketability, the lower the fair value of the equity instrument, and vice versa.

There were no transfers between levels in the both years.

36. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements (Continued)

Unrealised fair value gain of RMB3,680,000 included in other comprehensive income related to equity instrument at FVTOCI of level 3 in the fair value hierarchy held at the end of the reporting period and is reported as changes of 'investment valuation reserve'.

Reconciliation of level 3 fair value measurements of a financial asset

	Unlisted equity instrument RMB'000	Structured bank deposits RMB'000
As at 31 December 2017 under IAS 39	–	–
Adjustment arising from reclassification of AFS investment to equity instrument at FVTOCI upon application of IFRS 9	21,520	–
At 1 January 2018 – As restated	21,520	–
Total gains to other comprehensive income	3,680	–
Purchase of structured bank deposits	–	47,000
At 31 December 2018	25,200	47,000

Except as detailed in above table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

For the year ended 31 December 2018

37. SHARE AWARD SCHEME

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

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

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

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.

37. SHARE AWARD SCHEME (Continued)

During the year ended 31 December 2018 and 2017, the Company repurchased its own ordinary shares through the Trust as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	HKD	HKD'000
January 2018	1,008,000	2.41	2.40	2,433
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

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 2018, the Awarded Shares represent approximately 19.5% (31 December 2017: 19.0%) of the scheme limit under the Scheme.

As at 31 December 2018 and 2017, all the Awarded Shares are remained at the Trust.

As at 31 December 2018, the Group has no liabilities (31 December 2017: RMB20,000 (equivalent to HKD24,000)). 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 RMB20,000 (equivalent to HKD23,000) (2017: reversal of expenses of RMB1,444,000 (equivalent to HKD1,613,000)) during the year in respect of the cash-settled share-based payment.

For the year ended 31 December 2018

38. 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 27) 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
Financing cash flows	–	70,060
Foreign exchange translation	–	(2,560)
At 31 December 2018	–	96,500

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current Assets		
Investment in a subsidiary	645,813	720,901
Other investment	319	319
	646,132	721,220
Current Asset		
Bank balances and cash	1,376	25,483
Current Liability		
Other payables	257	223
Net Current Assets	1,119	25,260
Total Assets less Current liabilities	647,251	746,480
Capital and Reserves		
Share capital	79,071	81,391
Reserves	568,180	665,089
Total Equity	647,251	746,480

For the year ended 31 December 2018

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

Movement in Company's reserves

	Share premium RMB'000	Accumulated (loss) profits RMB'000	Investment valuation reserve RMB'000	Treasury share reserve RMB'000	Total RMB'000
At 1 January 2017	956,993	(99,670)	(3,437)	(150,398)	703,488
Profit and 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
Adjustments	–	(3,437)	3,437	–	–
At 1 January 2018 (restated)	932,343	(101,451)	–	(165,803)	665,089
Loss and total comprehensive expense for the year	–	(24,324)	–	–	(24,324)
Shares repurchased and cancelled	(70,714)	–	–	–	(70,714)
Repurchase of ordinary shares under the Scheme	–	–	–	(1,871)	(1,871)
At 31 December 2018	861,629	(125,775)	–	(167,674)	568,180

40. EVENT AFTER THE REPORTING PERIOD

On 28 November 2018, a wholly-owned subsidiary of the Group entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with an independent third party. Pursuant to the Sale and Purchase Agreement, the Group will acquire 34% equity interest of a company, which principally engaged in research and development, manufacture, distribution and wholesale of biotechnological products in veterinary vaccinology, aesthetic medicine, intelligent cosmetics and high-tech nutraceuticals in Spain, at fixed consideration of EUR3,000,000 (equivalent to RMB23,080,000). During the year ended 31 December 2018, the Group has paid RMB7,981,000 as deposit for the transaction. The expected completion date will be May 2019 and the Group will recognise the investment as interest in an associate.