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

2019 ANNUAL REPORT

先機為重 Pioneering
鋒行天下 Success

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Wu Mijia
Mr. Hui Lap Keung

Independent Non-executive Directors

Mr. Zhang Hong
Mr. Xiao Guoguang
Mr. Wong Chi Hung, Stanley

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Zhang Hang *(Chairman)*
Mr. Xiao Guoguang
Mr. Wu Mijia

NOMINATION COMMITTEE

Mr. Li Xinzhou *(Chairman)*
Mr. Xiao Guoguang
Mr. Zhang Hang

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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

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 19.0%% to RMB1,316.0 million in 2019 from RMB1,624.3 million in 2018.
- Gross profit of the Group increased by 7.5% to RMB679.8 million in 2019 from RMB632.4 million in 2018.
- Net profit of the Group increased by 22.5% to RMB103.8 million in 2019 from RMB84.8 million in 2018.
- Basic earnings per share of the Company was RMB0.09 in 2019, which represents a 28.6% increase compared to RMB0.07 in 2018.

	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Operating results					
Revenue	1,460,899	1,790,275	2,153,935	1,624,305	**1,315,978**
Gross profit	462,577	593,417	721,421	632,424	**679,796**
Profit before tax	206,795	282,350	309,317	107,114	**148,469**
Profit for the year	172,501	238,624	280,607	84,771	**103,823**
Profit for the year, all attributable to the owners of the Company	174,302	237,445	278,925	84,597	**104,627**
Profitability					
Gross margin (%)	31.7%	33.1%	33.5%	38.9%	**51.7%**
Net profit margin (%)	11.8%	13.3%	13.0%	5.2%	**7.9%**
Total assets	1,822,024	1,748,472	1,834,046	1,437,844	**1,550,586**
Total equity	996,441	1,110,551	1,141,065	1,105,892	**1,143,987**
Total liabilities	825,583	637,921	692,981	331,952	**406,599**
Gearing ratio (%)	15.7%	4.4%	1.6%	6.7%	**3.1%**
Equity attributable to equity owners of the Company	998,090	1,110,859	1,140,123	1,104,576	**1,141,548**
Cash and cash equivalents	317,113	309,640	226,154	150,854	**270,284**

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 2019 (the "Reporting Period").

In 2019, 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 2019, on the external environment, the Sino-US trade friction was escalating, and on the internal environment, the pharmaceutical industry policies have been intensively introduced, such as "The Drug Administration Law of the PRC" (revised), "Consistent Evaluation of Generic Drugs" gradually promoted, National Rational Drug Use Monitoring 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 Period relating to the sale of pharmaceutical products of Alcon Pharmaceuticals Ltd. ("Alcon") expired on 31 December 2018, which has had a great impact on the overall performance of the Group. Starting from 2019, the Group provides channel management services to Alcon's ophthalmic products. The revenue of the Group decreased by 19.0% to RMB1,316.0 million in 2019 from RMB1624.3 million in 2018; profit for the year increased by 22.5% to RMB103.8 million in 2019 from RMB84.8 million in 2018. The Board recommended the payment of a final dividend of RMB0.032 per share for the year ended 31 December 2019.

The pressure 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 has attracted extensive attention. The Group entered into a service agreement with Alcon in December 2018. The Group and Alcon have been in cooperation for over 20 years and together 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 to adjust and upgrade the product portfolio 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 pressure 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 changing and challenging environment, as well as make innovation to realize the new blue print of its future development.

Li Xinzhou
Chairman of the Board

27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS


NovaBay
纽储非®
伤口清洁液体敷料
40 mL
Made in the USA
注射用磷酸肌酸钠 1g
里尔统® NEOTON® 1 g
匹多莫德口服液
普利莫®
POLIMOD®
ORAL SOLUTION
TRAVATAN®
(travoprost 0.004%)
苏为坦®
曲伏前列素滴眼液
Alcon
2.5mL
Sterile
磷酸钠盐灌肠液

Management Discussion and Analysis

OPERATIONAL REVIEW

In 2019, China's medical reform entered into a new stage, As new policies continued to be introduced, new regulations continue to be promulgated and new pilots continued to be implemented, and the pharmaceutical industry underwent profound changes driven by the policies. Looking back on the overall situation of the industry, although the incremental improvement of the National Medical Security Administration system and the policy of medical insurance cost control have still put pressure on drug prices in tender processes, the demand in the industry remains huge and is increasing at a steady pace against the backdrop of consumption upgrade and the acceleration of ageing population, and that the industry is still on a rise. The incremental implementation of the "Consistency Evaluation of Generic Drugs" and the dissemination of the "Adjuvant Drug List" are pushing forward structural adjustments of the industry, and at the same time, bringing an even more observable polarization of enterprises in the industry.

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. Up to present, there has been no product of the Group taken into the catalog of Volume-Based Purchasing, however, the policy of which may result in a pressure of reduction on product's price. 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 by each province, will compete favorably in the market. The Group will leverage 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 effort 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, the Alcon's Products were sold by the Group via the provision of co-promotion and channel management services, during the transition period. According to the distribution agreement signed by the Group and Alcon, since 2019, the Group has been exclusively entitled to the sale of 10 specifications in 8 types of Alcon's ophthalmic pharmaceutical products, which has had a great impact on the overall performance of the Group.

For the Reporting Period, the Group's revenue decreased by 19% year-on-year to RMB1,316.0 million (2018: RMB1624.3 million), gross profit increased by 7.5% year-on-year to RMB679.8 million (2018: RMB632.4 million) and net profit for the year increased by 22.5% year-on-year to RMB103.8 million (2018: RMB84.8 million).

For the Reporting Period, the Group's revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 6.5% compared to last year to RMB858.1 million, representing 65.2% of the Group's revenue for the Reporting Period. Gross profit increased by 9.3% compared to last year to RMB578.6 million, representing 85.1% 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 increased by 29.7% compared to last year to RMB129.0 million, representing 9.8% of the Group's revenue for the Reporting Period. Gross profit increased by 54.9% compared to last year to RMB87.5 million, representing 12.9% 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 channel management services was RMB328.9 million, representing 25.0% of the Group's revenue for the Reporting Period. Gross profit was RMB13.7 million, representing 2.0% of the Group's gross profit for the Reporting Period.

1. Product Development

As of 31 December 2019, the Group had a product portfolio of pharmaceutical products (mostly being prescription medicine) 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	2019 RMB'000	Percentage of the Group's total revenue/ gross profit (%)	2018 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Pharmaceutical Products	858,062	65.2	805,707	49.6
Medical Devices	128,968	9.8	99,431	6.1
Gross Profit:				
Pharmaceutical Products	578,587	85.1	529,359	83.7
Medical Devices	87,524	12.9	56,493	8.9

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. The provision of comprehensive marketing, promotion and channel management services of the Group maintained a steady development. During the Reporting Period, revenue generated from this segment slightly increased by 6.5% compared to last year to RMB858.1 million, representing 65.2% of the Group's revenue for the Reporting Period. Gross profit increased by 9.3% compared to last year to RMB578.6 million, representing 85.1% 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 RMB180.9 million, representing an increase of 11.0% compared to that of 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 product 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. Meanwhile, Difene is the sole dosage product of its type in the market and was admitted into the "Catalogue of Reference Preparations for Chemical Generic Drugs No. 22" published by the National Medical Products Administration in June 2019 and the new edition of "National Basic Medical Insurance, Industrial Injury Insurance and Maternity Medicine Catalogue". Through increased marketing activities, such as education programmes for doctors and patients on the product, the Group will further expand the market influence of the reference medicinal products, so as to manifest their market competitiveness and consistent good quality.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB364.5 million, representing an increase of 22.2% 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 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 RMB98.5 million, representing a decrease of 19.9% compared to that of 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 country 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 WeMedia, causing confusion to the clinicians 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 clinicians 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, in details, the mechanism and proof of evidence-based medicine of Polimod in China, as well as cooperating with marketing partners in delivering product information to clinicians in a professional manner. 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 clinicians and patients with scientific data and return to the track of rapid development.

The business segment of other drugs of the Group has achieved further development under market adjustment. For the Reporting Period, the Group's revenue generated from sales of these products was RMB214.2 million, representing an decrease of 3.4% compared to that of 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 in China and sensible bidding strategies, successfully entered a number of important new markets; however, influenced by policies, recorded a decrease of 2.9% of the income of Neoton compared to that at last year, which is observably lower than similar products. Meanwhile, through the international academic conference platform, the Group endeavors to promote clinicians awareness of Neoton's therapeutic status in the field of myocardial protection, particularly in the field of myocardial damage. Although Neoton was admitted into the first "National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products)" in July 2019, the Group believes that, through such measures as leveraging the international academic status of Neoton and constantly organizing academic and promotional activities in respect of the product, focusing on the field of cardiac therapy and promoting the popularization of reasonable dosage on clinical application, the Group may strengthen the recognition of the products among doctors and patients and increase its market share in the Neoton market. The Group's gynecological product, Macmiror Complex lays a solid ground for the academic promotion of the product. With the inclusion of the product in the new National Drug Rimbursement Catalogue, the Group strengthened its marketing and promotion activities targeted at hospitals and departments covered by its network, improved the coverage of its distribution network by spreading to more primary institutions and endeavored to grow its share in the gynecology therapeutic market. In addition, the group has stopped purchasing gynecological products Macmiror due to the closure of production announced by the manufacturer in 2019. 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 increased by 29.7% compared to that of last year to RMB129.0 million, representing 9.8% of the Group's revenue for the Reporting Period. Gross profit increased by 54.9% compared to that of last year to RMB87.5 million, representing 12.9% 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 (wound cleansing liquid application product) have also witnessed 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	**2019 RMB'000**	**Percentage of the Group's total revenue/ gross profit (%)**	2018 RMB'000	Percentage of the Group's total revenue/ gross profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**328,948**	**25.0**	719,167	44.3
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**13,685**	**2.0**	46,572	7.4

A new agreement was entered into between the Group and Alcon on 1 January 2019, pursuant to which the Group was exclusively entitled to the import, storage, distribution and sale of 10 specifications in 8 types of Alcon's pharmaceutical products. This agreement runs for a term of three years from 1 January 2019. Moreover, the Group has been entitled to the distribution and sale of 13 types of the ophthalmological products of Novartis group to private hospitals in China for a term of one year since 1 January 2019.

The Group and Alcon have been cooperating with each other for over twenty years and have together witnessed the development and changes of the ophthalmic pharmaceutical market in China. The continuation of this cooperation will help to strengthen the Group's long-term partnership with Alcon as well as the Group's profitability.

For the Reporting Period, the Group's revenue generated from this segment was RMB328.9 million, representing 25.0% of the Group's revenue for the Reporting Period. Gross profit was RMB13.7 million, representing 2.0% of the Group's gross profit for the Reporting Period.

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 the existing products referred to above, product pipeline development is also at the core of the Group's strategy of expanding and optimizing its product portfolio. The Group's aim is to build up a product pipeline that 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.

The Group has several products in respect of which it is applying or ready to apply for registration with CFDA. For instance, the bioequivalence experiment of Mirtazapine Orodispersible Tablets (produced by Ehypharm of France, mainly used for the treatment of depressive episodes) has been completed smoothly and its Imported Drug License filing has been under preparation. The Group is also preparing for the clinical trial for DRL Night Rigid Gas Permeable Contact Orthokeratology-Lens (produced by Precilens of France, used for temporary correction of myopia). Meanwhile, at the end of 2019, the Group achieved an authority of distribution for the Urofollitropinfor injection produced by IBSA Institut S.A., which is approved for re-registration now.

In 2019, 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 introduce their products with potentials or market foundations for marketing, promotion and sales in a timely manner.

2. Marketing Network Development

Since 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". 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" policy. 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 academic support 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 4,952, the number of hospitals using Fluxum has increased by 598. In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group's operation.

3. Equity Instruments and Financial Assets

Save for the equity investment in Paragon Care Limited as disclosed herein, the Group did not have any investment in an investee company with a value of 5% or more of the Group's total assets as at 31 December 2019.

3.1 Equity Investment

3.1.1 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 investment allows the Group to enhance its business relationship with NovaBay.

The Group has made several rounds of investments in NovaBay since 2013. As of 31 December 2019, the Group held a total of 5,188,421 ordinary shares of NovaBay, representing approximately 18.57% of its equity interest, and did not hold any NovaBay warrants.

For the year ended 31 December 2019, the Company recognised an impairment loss of RMB37.3 million 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 2019 annual and quarterly reports of NovaBay published on its website.

NovaBay announced on 29 June 2019 that it had issued and placed 1,371,427 shares for an amount of USD2,400,000. It had announced in 2018 that the management of the company had identified that the company had faced a going concern issue. The New York Stock Exchange has accepted the compliance plan of NovaBay after this placing.

In February 2019, the Group and NovaBay signed a loan agreement according to which the Group provided an amount of USD1 million loan to NovaBay.

3.1.2 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.

As of 31 December 2019, the Group held a total of 56,856,735 ordinary shares of Paragon, representing 16.5% of the total issued shares of Paragon. The Company first invested in Paragon in 2018 and the accumulated total investment cost as of 31 December 2019 was RMB234,820,000, of which the fair value of RMB119,796,000 was recognised, accounting for 7.72% of the Company's total assets as at 31 December 2019. During the Reporting Period, the Group recorded unrealised loss of RMB35.9 million of its investment in Paragon, and received a total dividend of AUD554,602.24. During the year ended 31 December 2019, Paragon recorded a drop of approximately 30.16% in its quoted share prices on the Australian Securities Exchange. For further details of the performance of the stock price and business operation of Paragon, please refer to the disclosures and financial reports of Paragon published on the Australian Securities Exchange and its company website.

In respect of investment strategy, 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. As such, this investment is not intended to be held for trading, and is, instead, held for long-term strategic purpose. 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.

3.1.3 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. (成都匯美生物科技有限公司). 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 biotech products and technologies, primarily focusing on medical aesthetics and healthcare industry. With the big data and artificial intelligence technology, it has been able to connect online and offline channels in order to provide consumers with integrated services. Pioneer Huimei has entered into an cooperation agreement of clinical observation with West China Hospital of Sichuan University, with a view to researching on the efficiency of Pioneer Huimei's hair growth products. The Group believes that the investment in Pioneer Huimei is a promising 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.

3.1.4 Investment in Shanghai Yuhan fund

As of 31 December 2019, the Group's 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") was recognised as equity instruments at fair value through other comprehensive income ("FVTOCI"), representing an amount of RMB30,300,000 or approximately 1.95% of the total assets of the Group as of 31 December 2019. The Fund, incorporated in the PRC, specialises in making equity investment in various targets within the pharmaceutical industry. As at 31 December 2019, the Group held 8% of the equity interest of the Fund. The Fund has mainly engaged in the investment in unlisted private entities and structured bank deposits. During the year ended 31 December 2019, the Group recorded an unrealised gain of RMB5.1 million of its investment in the Fund, and has not received entitlement distribution therefrom. The Group's strategy of this investment is for long-term holding. The Group has no intention of realizing its interests in the Fund or speculating on its market performance in any short run, and intends to lever on its role in the Fund for exploring and ascertaining targets of growth potential in the pharmaceutical industry for business partnering and/or investment opportunities, for development goals in the long run.

3.2 Financial Investment in Wuxing Huixin Wealth Management Trust

As of 31 December 2019, the Group's investment in Wuxing Huixin Wealth Management Trust (五行匯誠資產配置集合資金信託, the "Trust") was recognised as financial assets at fair value through profit or loss ("FVTPL"), representing an amount of RMB32,000,000, or approximately 2.06% of the total assets of the Group as of 31 December 2019. The Trust, incorporated in the PRC, specialises in investing in fixed income products. As at 31 December 2019, the Group was interested in RMB32 million or approximately 0.7% of the Trust's total principal of RMB4,570 million. The Trust is redeemable after 18 September 2020 and will mature on 19 December 2020. The principal of was not guaranteed by the Trust. The expected return of the Trust is 7.05% per annum. During the year ended 31 December 2019, the Group has made no realised or unrealised gain or loss of its investment in the Trust, and has not received entitlement distribution therefrom. The Group invested in the Trust for the purposes of management of funds not immediately in use.

3.3 Others

3.3.1 Structured Bank Deposits

During the year ended 31 December 2019, the Group has taken out several structured bank deposits (the "Deposits") with a number of banks in the PRC. The Deposits provided a minimum deposit income ranging from 0.30% to 2.85% per annum, and a maximum deposit income up to 3.46% to 4.00% per annum. The overwhelming majority of the Deposits were short-term deposits or are redeemable on demand.

As of 31 December 2019, the Group recorded a total of RMB166,546,000 for all of these Deposits, representing approximately 10.74% of the total assets of the Group as at the end of the Reporting Period. All of these Deposits were entered into with various leading, sizeable licensed banks of long-established banking businesses in the PRC, and were guaranteed as to all principals. During the year ended 31 December 2019, the total deposit income generated from the Deposits were RMB6,965,000, and the Group has managed to withdraw all principals upon maturity without difficulty.

As of 31 December 2019, none of these Deposits represented 5% of above of the total assets of the Group.

The risk profiles of the Deposits as exhibited by the relatively low income generated therefrom were far from any speculative activities, and the range of the variable interests on the Deposits was typically narrow. The intention of entering into the Deposits was not for investment but for managing funds not immediately in use on a principal-guaranteed basis and for a moderate return. Structured bank deposits without a definite fixed interest rate were not measured at amortised cost and classified as financial assets at FVTPL under IFRS 9, this has contributed to the increase in the Group's financial assets at FVTPL in relation to the Deposits from RMB47,000,000 as at 31 December 2018 to RMB166,546,000 as at 31 December 2019. In view of this classification and its impact on the balance sheet, the Group has in the middle of the year ended 31 December 2019 reviewed its management of unused funds, resulting in certain Deposits not renewed upon maturity, and a decrease of the amount of Deposits of approximately RMB202.69 million as of the end of the interim reporting period of 30 June 2019 to approximately RMB166.55 million as of the end of the reporting period of 31 December 2019.

3.3.2 Investment in Rongchang Production Base

In 2019, the Group, through a wholly-owned subsidiary, Chongqing Qianfeng Pharmaceutical Co., Ltd. (重慶乾鋒制葯有限公司) ("Chongqing Qianfeng"), obtained the state-owned construction land use right of land numbered as 2019-RC-1-03 transferred from Rongchang District Government of Chongqing Municipality. The land covers areas of 38,972 m^2 at the transfer price of RMB5,998,800. In March 2019, Chongqing Qianfeng and the local government entered into an agreement of land use right transfer and obtained the right to use the state-owned construction land.

In June 2019, the ground-breaking ceremony of the Rongchang's production base was held by Chongqing Qianfeng, and according to the Investment Agreement signed by the Group and Rongchang Government, the planned building area of this project will be over 40,000 m^2.

This Project is a significant strategic plan for the Group to move from a sales-oriented company to a comprehensive pharmaceutical company integrating research and development, production and sales. Through such series of measures, the Group hopes to ride on the policy of national industry development and make Rongchang production base an open technology platform, introduce new technologies and new products, realize the localization of high-quality imported products, and fully exercise the comprehensive advantage of manufacturing and sales integration of the Group, so as to constantly improve the market competitiveness and profitability of the Group.

3.4 Investment in DMAX Co

In January 2020, the Group has, via Pioneer Pharma (Hong Kong) Co., Limited, a subsidiary of the Company, made an investment of US$3,000,000 in DMAX Co., Ltd. ("DMAX Co"), a company established in the Republic of Korea ("Korea").

Pursuant to the subscription agreement entered into by the parties, DMAX Co shall issue and Pioneer Pharma (Hong Kong) Co., Limited shall subscribe for 8,906 shares in the capital of DMAX Co for a consideration of US$3,000,000. Upon the completion of the issuance, the Company, through its subsidiary, held 25% of the issued share capital of DMAX Co, and will have the right to appoint a person as a director of DMAX Co.

DMAX Co is a reputable manufacturer of zirconia products in Korea and is primarily engaged in producing zirconia-related dental products, including veneers, crowns and implants, etc. Since the Company's acting as the exclusive agent of the products of DMAX Co in China (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) from 2018, both parties have together dedicated themselves to the promotion of the products of DMAX Co in China. The zirconia-related dental products of DMAX Co have found popularity with its unique medical aesthetics techniques since the entry into the China market. The investment this time will further facilitate the both parties to deepen cooperation and consolidate partnership in exploration of the market share of the products of DMAX Co in China.

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.

In the meantime, the Group has been actively exploring opportunities to ascertain markets with growth potential for its future development and further expansion, and to create values for and enhance the returns to the Shareholders. In this relation, the Group has been in the process of ascertaining and exploring opportunities in business areas with promising prospect including the environmental protection industry in China, while insisting on carrying on the existing principal businesses in providing comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices as its core businesses. As at the date of this report, the Group is in the process of developing its business strategy in the potential new business and has not yet formulated any specific plans or located any specific targets for merger and acquisition, nor has it reached any agreement with any joint venture partners or business parties in relation to the potential new business. For details, please refer to the announcement of the Company dated 3 February 2020.

FINANCIAL REVIEW

Revenue

Revenue decreased by 19.0% from RMB1,624.3 million in 2018 to RMB1,316.0 million in 2019. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increase by 6.5% from RMB805.7 million in 2018 to RMB858.1 million in 2019, primarily due to the increase in sales as a result of enhancing the promotion of main products. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 29.7% from RMB99.4 million in 2018 to RMB129.0 million in 2019, primarily due to an increase of sales quantity on certain products as a result of the influence of the improved promotion efficiency. Revenue generated from products sold via the channel management services was RMB328.9 million in 2019.

Cost of sales

Cost of sales decreased by 35.9% from RMB991.9 million in 2018 to RMB636.2 million in 2019, 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 increased by 1.1% from RMB276.3 million in 2018 to RMB279.5 million in 2019. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 3.5% from RMB42.9 million in 2018 to RMB41.4 million in 2019. Cost of sales for products sold via the channel management service was RMB315.3 million in 2019.

Gross profit and gross profit margin

Gross profit increased by 7.5% from RMB632.4 million in 2018 to RMB679.8 million in 2019. The Group's average gross profit margin increased from 38.9% in 2018 to 51.7% in 2019. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased from 65.7% in 2018 to 67.4% in 2019 primarily because a higher proportion of the Group's sales 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 increased from 56.8% in 2018 to 67.9% in 2019, primarily due to an increase in sales proportion of products which generally generated higher gross profit margins. The Group's gross profit margin for products sold via the provision of channel management services was 4.2% in 2019.

Other income

Other income increased by 29.8% from RMB29.0 million in 2018 to RMB37.7 million in 2019, primarily due to an increase in the amount of government grants received by the Group.

Distribution and selling expenses

Distribution and selling expenses increased by 11.8% from RMB399.7 million in 2018 to RMB446.8 million in 2019, primarily due to an increase of marketing and promotion expenses as a result of an increase in marketing and promotion activities for expanding the market shares of certain products. Distribution and selling expenses as a percentage of revenue increased from 24.6% in 2018 to 34.0% in 2019.

Administrative expenses

Administrative expenses increased by 13.2% from RMB74.4 million in 2018 to RMB84.2 million in 2019, primarily due to an increase of labor cost and office expenses. Administrative expenses as a percentage of revenue increased from 4.6% in 2018 to 6.4% in 2019.

Finance costs

Finance costs increased by 190.7% from RMB1.4 million in 2018 to RMB4.0 million in 2019 primarily due to an increase in the amount of bank loans which resulted in higher interest expense.

Other gains and losses

The Group recorded other gains and losses at a net gain of RMB12.0 million in 2019 primarily due to the reversal of impairment loss on investment in NovaBay. A net loss of RMB49.9 million in 2018 was recorded primarily due to the impairment loss on investment in NovaBay.

Income tax expense

Income tax expense increased by 99.8% from RMB22.3 million in 2018 to RMB44.6 million in 2019. The Group's effective income tax rates in 2019 and 2018 were 30.1% and 20.9%, respectively. Since the beginning of 2019, the Group has been conducting business primarily through Naqu Pioneer, which was subject to a reduced enterprise income tax ("EIT") rate of 9.0%.

Profit for the year

As a result of the above factors, the Group's profit increased by 22.5% from RMB84.8 million in 2018 to RMB103.8 million in 2019. The Group's net profit margin increased from 5.2% in 2018 to 7.9% in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash status

The Group has historically met its working capital and other capital requirements principally from net cash flow supplemented by bank borrowings. The Group's cash and cash equivalents increased from RMB150.9 million as of 31 December 2018 to RMB270.3 million as of 31 December 2019.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2019:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net cash flow from operating activities	**280,642**	128,667
Net cash flow used in investing activities	**(82,643)**	(198,627)
Net cash flow used in financing activities	**(78,545)**	(4,845)
Net increase/(decrease) in cash and cash equivalents	**119,454**	(74,805)
Cash and cash equivalents at beginning of the year	**150,854**	226,154
Effect of foreign exchange rate changes	**(24)**	(495)
Cash and cash equivalents at end of the year	**270,284**	150,854

Net cash flow from operating activities

In 2019, the Group's net cash from operating activities was RMB280.6 million compared to net cash from operating activities of RMB128.7 million in 2018. This was mainly due to the enhancement of collection of receivables and an increase in operating profit during the Reporting Period.

Net cash flow used in investing activities

In 2019, the Group's net cash used in investing activities was RMB82.6 million compared to net cash used in investing activities of RMB198.6 million in 2018. This was mainly due to that the Group enhanced working capital management, and purchased bank's structured deposits with temporarily idle funds.

Net cash flow used in financing activities
In 2019, the Group's net cash used in financing activities was RMB78.6 million compared to net cash used in financing activities of RMB4.8 million in 2018. This was mainly because payment of bank borrowings and share repurchases.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB48.8 million as at 31 December 2019 compared to RMB96.5 million as at 31 December 2018. On 31 December 2019, the effective interest rate of the Group's bank borrowings was from 3.54% to 4.50%. All bank borrowings were denominated in Australian dollars ("AUD"). The bank borrowings of AUD10.0 million were secured by the Group's equity instrument at FVTOCI. On 31 December 2018, bank borrowings of RMB20.0 million were secured by the Group's equity instrument at FVTOCI. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 3.15% as at 31 December 2019 compared to 6.7% as at 31 December 2019.

Net Current Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current Assets		
Inventories	**393,359**	417,387
Finance lease receivables	**8,038**	40,268
Trade and other receivables	**327,354**	319,874
Amounts due from related parties	**8,763**	58,881
Financial asset at fair value through profit or loss	**198,546**	47,000
Tax recoverable	**7,103**	231
Loan to an associate	**8,147**	–
Prepaid lease payments	**–**	52
Pledged bank deposits	**12,491**	48,684
Bank balances and cash	**270,284**	150,854
	1,234,085	1,083,231
Current Liabilities		
Trade and other payables	**307,694**	200,097
Amount due to an associate	**1,700**	–
Tax liabilities	**29,959**	14,489
Bank borrowings	**48,843**	96,500
Provision	**–**	1,886
Contract liabilities	**10,816**	12,364
Obligations under finance leases	**–**	4,637
Lease liabilities	**118**	–
	399,130	329,973
Net Current Assets	**834,955**	753,258

As of 31 December 2019, the Group has sufficient working capital and financial resources for daily operations.

Inventories

The Group's inventory balances decreased by 5.8% from RMB417.4million as at 31 December 2018 to RMB 393.4 million as at 31 December 2019, 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 increased by 2.3% from RMB319.9 million as at 31 December 2018 to RMB327.4 million as at 31 December 2019. Trade receivables turnover days decreased from 88.0 days as at 31 December 2018 to 77.7 days as at 31 December 2019, primarily due to that the Group continued to strengthen the management of receivables,and to enhance the collection efforts during the Reporting Period.

Trade and other payables

The Group's trade and other payables increased by 53.8% from RMB200.1 million as at 31 December 2018 to RMB307.7 million as at 31 December 2019. The Group's trade payables turnover days decreased from 131.0 days as at 31 December 2018 to 109.2 days as at 31 December 2019 , primarily due to an increase in the proportion of products purchased with a shorter payment term during the Reporting Period.

Capital Expenditure

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

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Purchases of property, plant and equipment	**8,886**	385
Purchases of intangible assets	**–**	475
Total	**8,886**	860

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	Over 1 year RMB'000	Total RMB'000
As of 31 December 2019			
Bank borrowings	**48,843**	**–**	**48,843**
Trade payables	**263,402**	**130**	**263,532**
As of 31 December 2018			
Bank borrowings	96,500	–	96,500
Trade payables	143,129	130	143,259

Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2019.

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. The sales of the Group are denominated in RMB and the purchases, expenses and foreign investments of the Group are denominated in RMB, HKD, AUD, Euros and USD. At present, the Group has no foreign exchange hedging policy. Notwithstanding the above, the management continuously monitors the Group's foreign exchange risk and will consider hedging significant foreign exchange exposure should the need arise.

Dividend

For the year ended 31 December 2019, the Group has not recommended any interim dividend and has proposed a final dividend of RMB0.032 per ordinary share of the Company, amounting to RMB40,325,344 for the year ended 31 December 2019 (2018: Nil). On 3 February 2020, the Group has declared a special dividend of HK$0.096 per ordinary share of the Company, amounting to HK$120,976,032 at the date of declaration (2018: Nil). Please refer to the announcement of the Company of even date for details.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2019, the Group had a total of 239 employees. For the year ended 31 December 2019, the staff costs of the Group was RMB59.3 million as compared to RMB55.5 million for the year ended 31 December 2018.

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 57, 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 twenty eight 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 18.5% equity interest as of 31 December 2019. 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 controlling Shareholder of the Company.

Mr. Li has over twenty six 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 of the Company.

LUO Chunyi (羅春憶), aged 51, 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 (平安銀行) (formerly known as Shenzhen Development Bank (深圳發展銀行)) 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.

LUK Chi Shing (陸志成), aged 51, is our executive director. Mr. Luk joined our Group in December 2019. Mr. Luk has accumulated over twenty years of working experience in the fields of auditing, financial accounting and management, as well as corporate merger and acquisition. Mr. Luk has been appointed as an independent non-executive director of Chinese Energy Holdings Limited (a company listed on GEM of the Stock Exchange with stock code: 8009) since February 2018. Mr. Luk had also been appointed as: (i) an executive director of hmvod Limited (formerly known as Trillion Grand Corporate Company Limited, a company listed on GEM of the Stock Exchange with stock code: 8103) from April 2014 to March 2016; (ii) an independent non-executive director of Hang Tai Yue Group Holdings Limited (formerly known as Interactive Entertainment China Cultural Technology Investments Limited, a company listed on GEM of the Stock Exchange with stock code: 8081) from December 2011 to August 2015; (iii) an independent non-executive director of Dafeng Port Heshun Technology Company Limited (formerly known as Gamma Logistics Corporation, a company listed on GEM of the Stock Exchange with stock code: 8310) from February 2014 to March 2016; (iv) an independent non-executive director of CircuTech International Holdings Limited (formerly known as TeleEye Holdings Limited, a company listed on GEM of the Stock Exchange with stock code: 8051) from April 2015 to June 2016; (v) an independent non-executive director of China Saite Group Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 153) from January 2017 to July 2019; and (vi) the company secretary and financial controller of Silk Road Energy Services Group Limited (formerly known as China Natural Investment Company Limited, a company listed on GEM of the Stock Exchange with stock code: 8250) from January 2012 to November 2015. Mr. Luk graduated from City University of Hong Kong in 1993, with a Bachelor of Arts in Accountancy. Mr. Luk is a fellow member of Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.

NON-EXECUTIVE DIRECTORS

WU Mijia (吳米佳), aged 46, is our non-executive Director. Mr. Wu joined the Company in October 2013. Mr. Wu has over 16 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.

HUI Lap Keung (許立強), also known as Patrick Hui, aged 51, is a non-executive Director. Mr. Hui joined our Group in June 2019. Mr. Hui has extensive experience in investment management and securities brokerage. Prior to joining the Group and since July 2018, Mr. Hui has served as a responsible officer and fund manager of Golden Great China Fund Management Limited. From November 2008 to May 2018, Mr. Hui worked at Prudential Brokerage Limited,Prudential Futures Company Limited, Prudential Capital Asia Limited and PCA Wealth Management Limited, with his last position as Investment Director – China. Prior to that, Mr. Hui had worked at several wealth management, financial and banking institutions. From November 2016 to March 2017, Mr. Hui was an executive director of Kiu Hung International Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 00381). Mr. Hui obtained a Diploma of Business Studies from Hang Seng School of Commerce in 1991 and a Diploma of Management Studies from the Hong Kong Management Association in 1998. He obtained a Bachelor of Applied Finance from the University of South Australia in 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHANG Hong (張虹), aged 61, is our independent non-executive Director. Mr. Zhang joined our Company in January 2019. Mr. Zhang is an expert in security governance. Prior to joining the Group, he served in a shipping organisation for thirty eight years since 1980. He held various senior positions at such organisation, and was mainly responsible for handling legal and administration management matters. From 1982 to 1999, Mr. Zhang pursued his studies at Hubei University and other Institutions, in the areas of law, administrative management, corporate management, as well as economics and management.

XIAO Guoguang (肖國光), aged 56, is our independent non-executive Director. Mr. Xiao joined our Company in March 2020. Mr. Zhang is an expert in environmental protection scientific research. Prior to joining the Group, he served in Changsha Research Institute of Mining and Metallurgy Co., Ltd. (長沙礦冶研究院有限責任公司) from 1989 to 2006. He held various senior positions at such organisation, and was mainly responsible for handling environmental protection and chemistry engineering. He served in China Minmetals Changsha Research Institute of Mining and Metallurgy Co., Ltd. from 2007 to 2019 and served as Chief Engineer and Professor, Laboratory of Environmental Technology from 2015 to 2019.

WONG Chi Hung, Stanley (黃志雄), aged 57, 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. Mr. Wong serves as an executive director of HaiRegen Hong Kong Limited. He was appointed as the director of KBS Fashion Group Limited (formerly known as Aquasition Corp.), (a company listed on the NASDAQ exchange with stock code: KBSF) since August 2014 and resigned on 15 March 2015. He was an independent non-executive director and the chairman of the audit committee of Great Wall Motor Company Limited (長城汽車股份有限公司) (a company listed on the Stock Exchange with stock code: 2333 and the Shanghai Stock Exchange with stock code: 601633) from November 2010 to 11 May 2017. 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, and resigned at 15 March 2015. 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 Executive Master of Business Administration 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 38, 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 (東北財經大學) 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 44, 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 fourteen 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 general secretary 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) since 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 57, 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 Alfa Wassermann (AW) 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 over thirty 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.

YANG Yuewen (楊悦文), aged 32, is our general manager of the AW business unit. Mr. Yang joined the Group in September 2016 and worked as a product manager and marketing manager of the AW business unit from September 2016 to September 2019. In October 2019, he was appointed as the general manager of the AW business unit and is responsible for the promotion and sales of Alfa Sigma's products and NovaBay's products. Prior to joining the Group, Mr. Yang worked at Novartis Pharma Limited and AstraZeneca Pharma Limited. Mr. Yang graduated from Shanghai pharmaceutical industry research institute(now China general institute of pharmaceutical industry research) with a bachelor's degree in management in September 2004, and with a master's degree in pharmaceutical chemistry (joint training) in July 2013.

QU Lei (瞿蕾), aged 40, 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 seventeen 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 (上海勃林格殷格翰藥業有限公司).

WANG Rongrong (王榮榮), aged 41, 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 strategic management, bidding management, channel management,data management and other business related work of headquarter. 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 twenty 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 obtained a bachelor's degree in biological engineering in June 2000, and a licensed pharmacist qualification certificate in 2005.

HUANG Wenfei (黃文斐), aged 50, 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 twenty five 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 45, 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 responsible for the promotion and sales of odontology products of the Group. Ms. Jiang has over twenty two 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 Jiaotong University (上海交通大學), majoring in oral prosthodontics in 1996.

XUE Yi (薛毅), aged 45, is our chief financial officer. Mr. Xue joined the Group in January 2002 and served as the manager of the audit department, the manager of the finance department, deputy financial officer. He 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 twenty two years of experience in the accounting and auditing field. 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 29, 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 PRC and has extensive experience in the corporate practice. Mr. Fu 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 2019.

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 2019 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 69 of this annual report.

FINAL DIVIDENDS

The Board has proposed a final dividend of RMB0.032 per ordinary share amounting to RMB40,325,344 for the year ended 12 December 2019 (2018: Nil).

BUSINESS REVIEW AND BUSINESS OUTLOOK

The business review of the Group for the year ended 31 December 2019 and the business outlook of the Group are set out in the section headed "Management Discussion and Analysis" on pages 8 to 41 of this annual report.

KEY FINANCIAL PERFORMANCE INDICATORS

The financial key performance indicators of the Group for the year ended 31 December 2019 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 29 May 2020 to 8 June 2020, 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 8 June 2020. 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 28 May 2020 for registration.

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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the Group's products purchased from the largest supplier, accounted for 38.4% (2018: 52.9%) of total products purchased, and products purchased from the five largest suppliers accounted for 84.8% (2018: 94.2%) of the Group's total products purchased.

For the year ended 31 December 2019, the Group's sales to its largest customer accounted for 4.2% (2018: 4.2%) of the Group's revenue, and sales to the five largest customers accounted for 13.6% (2018: 14.1%) 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 2019 are set out in note 15 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2019 are set out in note 36 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 35 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out on pages 72 to 73 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2019, 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 RMB537.6 million (as at 31 December 2018: RMB420.7 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2019 are set out in note 30 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the Share Award Scheme as set out in the section headed "Share Award Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

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 2019
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 40 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 57 to 63 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 labor dispute during the year ended 31 December 2019. 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 2019 and up to the date of this annual report were:

Executive Directors:

Mr. Li Xinzhou *(Chairman)*
Mr. Luo Chunyi *(Chief Executive Director)*
Mr. Luk Chi Shing *(Note 1)*

Non-executive Directors:

Mr. Wang Yinping *(Note 2)*
Mr. Wu Mijia
Mr. Hui Lap Keung *(Note 3)*

Independent Non-executive Directors:

Mr. Zhang Hong
Mr. Yan Guoxiang *(Note 4)*
Mr. Xiao Guoguang *(Note 5)*
Mr. Wong Chi Hung, Stanley

Notes:

1. Mr. Luk Chi Shing has been appointed as an executive Director with effect from 20 December 2019.

2. Mr. Wang Yinping resigned as an non-executive Director with effect from 20 December 2019 so that he can devote move time to his other commitments.

3. Mr. Hui Lap Keung has been appointed as an non-executive Director with effect from 19 June 2019.

4. Mr. Yan Guoxiang resigned as an independent non-executive Director with effect from 20 March 2020.

5. Mr. Xiao Guoguang has been appointed as an independent non-executive Director with effect from 20 March 2020.

In accordance with article 104(1) of the Articles of Association, Mr. Li Xinzhou, Mr. Luo Chunyi and Mr. Zhang Hong 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. Luk Chi Shing, Mr. Hui Lap Keung and Mr. Xiao Guoguang 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 28 April 2020.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 24 to 28 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 2019 and as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Mr. Li Xinzhou, an executive Director, has renewed his service agreement with the Company for a term of one year commencing from 16 October 2019, 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 2020, and this may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Luk Chi Shing, an executive Director, entered into a service contract with the Company for a term of three years commencing from 20 December 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, an independent non-executive Director, have renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2019. Mr. Zhang Hong, an independent non-executive Director, 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. Mr. Hui Lap Keung, a non-executive Director, entered into a service contract with the Company for a term of three years commencing from 19 June 2019, and this may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Xiao Guoguang, an independent non-executive Director, entered into a service contract with the Company for a term of three years commencing from 20 March 2020, 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 29 to the consolidated financial statements and in the section headed "Connected transactions" below, no Director nor any entity connected with a Director is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is of significance to the business of the Group or to which the Company or any of its subsidiaries, its parent company and the subsidiaries of its parent company was a party during or at the end of the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2019, the Group had an aggregate of 239 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 38 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 13 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, during the year ended 31 December 2019 and up to the date of this annual report, changes in Directors’ information are set out below:

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. Hui Lap Keung has been appointed as an non-executive Director with effect from 19 June 2019.

Mr. Wang Yinping has resigned as an non-executive Director with effect from 20 December 2019.

Mr. Luk Chi Shing has been appointed as an executive Director with effect from 20 December 2019.

Mr. Yan Guoxiang has resigned as an independent non-executive Director and Mr. Xiao Guoguang been appointed as an independent non-executive Director, both with effect from 20 March 2020.

Save as disclosed above, during the year ended 31 December 2019 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 2019, 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 Director	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Li Xinzhou	Interest of controlled corporation[1]	858,392,000 (L)	68.12%
	Interest of spouse[2]	1,403,000 (L)	0.11%
	Beneficial owner	34,714,000 (L)	2.75%

Remark:

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

Notes:

1. Mr. Li Xinzhou holds 50% shares in Tian Tian Limited and Tian Tian Limited holds 100% shares in Pioneer Pharma (BVI) Co. Ltd., therefore Mr. Li Xinzhou is deemed to be interested in 858,392,000 Shares held by Pioneer Pharma (BVI) Co., Ltd..

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.

Save as disclosed above, as at 31 December 2019, 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 any time during the year ended 31 December 2019 there were no 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 2019, 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	Interest of controlled corporation[1]	858,392,000 (L)	68.12%
	Interest of spouse[2]	34,714,000 (L)	2.75%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited[4]	Interest of controlled corporation[3]	858,392,000 (L)	68.12%
Pioneer Pharma (BVI) Co., Ltd.[4]	Beneficial owner	858,392,000 (L)	68.12%

Remark:

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

Notes:

1. Ms. Wu holds 50% shares in Tian Tian Limited and Tian Tian Limited holds 100% shares in Pioneer Pharma (BVI) Co. Ltd., therefore Ms. Wu is deemed to be interested in 858,392,000 Shares held by Pioneer Pharma (BVI) Co., Ltd..

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. Mr. Li Xinzhou is a director of Pioneer Pharma (BVI) Co., Ltd. and Tian Tian Limited.

Save as disclosed above, as at 31 December 2019, 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 ten 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 2019.

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 2019.

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 2019 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 2019	4,000,000	0.98	0.95	3,917,330
February 2019	–	–	–	–
March 2019	6,048,000	1.00	0.93	6,017,590
April 2019	3,601,000	1.02	0.98	3,668,380
May 2019	9,689,000	0.85	0.63	7,705,130
June 2019	429,000	0.68	0.68	291,720
July 2019	–	–	–	–
August 2019	–	–	–	–
September 2019	543,000	0.75	0.60	363,990
October 2019	–	–	–	–
November 2019	–	–	–	–
December 2019	–	–	–	–
Total	24,310,000	–	–	21,964,140

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 2019.

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 from time to time) 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 2019. 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 2019.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2019, 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 2019 are disclosed in note 29 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 2019, the Group made no charitable or other donations.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2019, 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 2019, the Company has arranged appropriate liability insurance to cover 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 46 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 announcement for the year ended 31 December 2019 of the Group has been reviewed by the Audit Committee and this annual report is based on the Group's audited consolidated financial statements for the year ended 31 December 2019.

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 2019.

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 42 to 56 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 2019. 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, 23 April 2020

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "CG Code") 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 2019 except for the following code provision:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As disclosed in the announcements of the Company dated 1 January 2019 and 22 January 2019, due to the resignation of the chief executive officer of the Company, the chairman of the Board had on a temporary basis performed the functions of the chief executive officer during the transitory period from 1 January 2019 to 21 January 2019. On 22 January 2019, the new chief executive officer of the Company was appointed and the separation of the roles of chairman of the Board and chief executive of the Company has been restored and code provision A.2.1 of the CG Code has been re-complied with.

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 for the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

The Board currently comprises three executive Directors, namely Mr. Li Xinzhou (the Chairman of the Board), Mr. Luo Chunyi (Chief Executive Officer) and Mr. Luk Chi Sing, two non-executive Directors, namely Mr. Wu Mijia and Mr. Hui Lap Keung, three independent non-executive Directors, namely Mr. Zhang Hong, Mr. Xiao Guoguang 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 2019, 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 2019, each of Mr. Li Xinzhou, Mr. Luo Chunyi and Mr. Luk Chi Shing as executive Directors, Mr. Wu Mijia and Mr. Hui Lap Keung as non-executive Directors and Mr. Zhang Hong, Mr. Yan Guoxiang and Mr. Wong Chi Hung as independent non-executive Director 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 renewed his service agreement with the Company for a term of one year commencing from 16 October 2019, 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 2020, and this may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Luk Chi Shing, an executive Director, entered into a service contract with the Company for a term of three years commencing from 20 December 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, has each renewed their letters of appointment with the Company for a term of one year commencing from 16 October 2019. Mr. Zhang Hong, an 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. Mr. Hui Lap Keung, the non-executive Director, entered into a service contract with the Company for a term of three years commencing from 19 June 2019, and this may be terminated by not less than one month's notice in writing served by either party to the other. Mr. Xiao Guoguang, an independent non-executive Director, entered into a service contract with the Company for a term of three years commencing from 20 March 2020, 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 dispatched 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 2019, eight board meetings and one general meeting (i.e. the 2019 annual general meeting) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	Board Meeting	General Meeting
Mr. Li Xinzhou	8/8	0/1
Mr. Luo Chunyi	7/7	0/1
Mr. Luk Chi Shing(1)	0/0	0/0
Mr. Wang Yinping(2)	7/7	0/1
Mr. Wu Mijia	8/8	0/1
Mr. Hui Lap Keung	3/3	0/0
Mr. Zhang Hong	8/8	0/1
Mr. Yan Guoxiang	7/8	1/1
Mr. Wong Chi Hung, Stanley	8/8	0/1

Notes:

1. Mr. Luk Chi Shing has been appointed as an executive Director with effect form 20 December 2019.

2. Mr. Wang Yinping has resigned as a non-executive director with effect from 20 December 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 2019.

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 2019, 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 2019, the Nomination Committee comprises of three members, namely Mr. Li Xinzhou (executive Director), Mr. Yan Guoxiang (independent non-executive Director) and Mr. Zhang Hong (independent non-executive Director), and as such, the majority of Nomination Committee members are independent non-executive Directors. Mr. Li Xinzhou serves as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors; and
- To assess the independence of independent non-executive Directors.

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

For the year ended 31 December 2019, 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	3/3
Mr. Yan Guoxiang	3/3
Mr. Zhang Hong	3/3

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 has 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 2019, the Remuneration Committee comprises three members, namely Mr. Yan Guoxiang (independent non-executive Director), Mr. Zhang Hong (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. Zhang Hong serves as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include making recommendations to the Board on the Company's 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 2019, 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.Zhang Hong	3/3
Mr. Wu Mijia	3/3
Mr. Yang Guoxiang	3/3

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 9 members of the senior management of the Company, whose biographies are set out on pages 26 to 28 of this annual report, for the year ended 31 December 2019, are set out below:

Remuneration band (RMB'000)	Number of individual
Less than 600	9
600 to 1,000	0

Audit Committee

For the year ended 31 December 2019, the Audit Committee comprises three members, namely Mr. Wong Chi Hung, Stanley (independent non-executive Director), Mr. Wu Mijia (non-executive Director) and Mr. Zhang Hong (independent non-executive Director), and as such, the majority of Audit Committee members are independent non-executive Directors. Mr. Wong Chi Hung, Stanley serves as the chairman of the Audit Committee.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and

- To review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

For the year ended 31 December 2019, 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. Zhang Hong	2/2

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for the year ended 31 December 2019 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 64 to 148 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 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 for 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$2.10 million for audit services and HK$1.08 million for non-audit services. The audit services provided were the annual audit of the Group for the year ended 31 December 2019. The non-audit services provided were interim financial report review in 2019.

JOINT COMPANY SECRETARIES

During the Reporting Period and up to his resignation in March 2019, 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.

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 the other 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. For the year ended 31 December 2019, each of Mr. Fu and Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The 2019 AGM will be held on Monday, 8 June 2020. The AGM notice has been sent to the Shareholders on 28 April 2020.

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 2019.

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 2019.

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 "Thirteenth 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 program and enhance general awareness of the importance of waste reduction.

During the year, the major type of non-hazardous wastes generated from the Company's business operations was paper waste. It amounted to 2.73 tonnes (approximately 0.91 tonnes per office), while approximately 1.41 tonnes of paper wastes (approximately 0.47 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	306.05
Diesel	10.03
Petrol	42.19
Liquefied petroleum gas ("LPG")	2.47
GHG emissions in total	360.74

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, minimizing use of paper, reducing water consumption and driving behavioral 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	464,491.89	54,830.63
Diesel	Liter	3,836.75	1,278.92
Petrol	Liter	17,868.44	5,956.15
LPG	Kilogram	911.55	303.85

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°C 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 4,145.75 m^3 (1,381.92 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 minimized the amount of packaging materials by adopting environmentally friendly design.

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

Type of materials	Unit	Amount
Bubble wrap	tonnes	0.23
Cardboard boxes	tonnes	71.25
Plastic wrap	tonnes	3.95
Total packaging material used for finished products	tonnes	75.51

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 endeavors 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 2019, there were no cases of non-compliance with environmental laws and regulations involving the Company.

B) Social (Employment and Labor 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 endeavors 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 labor 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 2019, 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 recognize 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 2019, 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 2019, 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 2019, the Company was not involved in any 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 emphasizes 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 2019, the Company was not involved in any 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
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Pioneer Pharma Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 69 to 148, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

KEY AUDIT MATTER (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified impairment assessment of trade 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 at the end of the reporting period. As disclosed in note 40 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables using provision matrix through groupings of various debtors based on the types of sales, types of debtors and size of operations which are considered to have shared credit risk characteristics and similar loss patterns. 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 that are credit impaired are assessed for ECL individually. As disclosed in note 40 to the consolidated financial statements, the Group recognised impairment loss, net of reversal of RMB10 million on trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to RMB8 million.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade 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 as at 31 December 2019, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the debtors into different categories in the provision matrix, and the basis of estimated loss rates applied to 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 in notes 25 and 40 to the consolidated financial statements; and • Testing subsequent settlements of credit impaired trade 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 matter communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter 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 Yuen Wing Hang.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 April 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	1,315,978	1,624,305
Cost of sales		(636,182)	(991,881)
Gross profit		679,796	632,424
Other income	6	37,710	29,047
Other gains and losses	7	12,010	(49,911)
Impairment losses under expected credit loss model, net of reversal	9	(28,157)	(14,696)
Distribution and selling expenses		(446,803)	(399,655)
Administrative expenses		(84,184)	(74,353)
Finance costs	8	(3,988)	(1,372)
Share of loss of an associate	19	(17,915)	(14,370)
Profit before tax		148,469	107,114
Income tax expense	10	(44,646)	(22,343)
Profit for the year	11	103,823	84,771
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 ("FVTOCI")		(42,817)	(60,384)
Items that may be reclassified subsequently to profit or loss:			
– Exchange difference on translation of a foreign operation		(1,592)	3,376
– Share of exchange difference of an associate		1,018	4,431
Other comprehensive expense for the year		(43,391)	(52,577)
Total comprehensive income for the year		60,432	32,194
Profit (loss) for the year attributable to:			
Owners of the Company		104,627	84,597
Non-controlling interests		(804)	174
		103,823	84,771
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		61,236	32,020
Non-controlling interests		(804)	174
		60,432	32,194
		RMB yuan	RMB yuan
Earnings per share			
Basic	12	0.09	0.07

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current Assets			
Property, plant and equipment	15	47,459	46,144
Right-of-use assets	16	7,747	–
Prepaid lease payments	17	–	2,063
Intangible assets	18	11,980	14,106
Interests in associates	19	24,535	27,599
Equity instruments at FVTOCI	20	150,096	180,892
Finance lease receivables	21	1,353	4,072
Deposit paid for interest in an associate	22	–	7,981
Deposits paid for acquisition of property, plant and equipment		2,200	–
Deferred tax assets	23	7,788	8,578
Amount due from a related party	29	63,343	63,178
		316,501	354,613
Current Assets			
Inventories	24	393,359	417,387
Finance lease receivables	21	8,038	40,268
Trade and other receivables	25	327,354	319,874
Amounts due from related parties	29	8,763	58,881
Financial assets at fair value through profit or loss ("FVTPL")	27	198,546	47,000
Tax recoverable		7,103	231
Loan to an associate	29	8,147	–
Prepaid lease payments	17	–	52
Pledged bank deposits	26	12,491	48,684
Bank balances and cash	26	270,284	150,854
		1,234,085	1,083,231
Current Liabilities			
Trade and other payables	28	307,694	200,097
Amount due to an associate	29	1,700	–
Tax liabilities		29,959	14,489
Bank borrowings	30	48,843	96,500
Provision	33	–	1,886
Contract liabilities	34	10,816	12,364
Obligations under finance leases	32	–	4,637
Lease liabilities	31	118	–
		399,130	329,973
Net Current Assets		834,955	753,258
Total Assets less Current Liabilities		1,151,456	1,107,871

At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Capital and Reserves			
Share capital	35	77,566	79,071
Reserves		1,063,982	1,025,505
Equity attributable to owners of the Company		1,141,548	1,104,576
Non-controlling interests		2,439	1,316
Total Equity		1,143,987	1,105,892
Non-current liabilities			
Deferred tax liabilities	23	7,400	–
Long-term liabilities	28	–	1,979
Lease liabilities	31	69	–
		7,469	1,979
		1,151,456	1,107,871

The consolidated financial statements on pages 69 to 148 were approved and authorised for issue by the Board of Directors on 23 April 2020 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 2018	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 35)*	(2,320)	(70,714)	–	–	–	–	–	–	(73,034)	–	(73,034)
Repurchase of ordinary shares under Share Award Scheme *(Note 41)*	–	–	–	–	–	(1,871)	–	–	(1,871)	–	(1,871)
Incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	200	200
At 1 January 2019	79,071	861,629	(52,292)	9,320	12,643	(167,674)	(58,864)	420,743	1,104,576	1,316	1,105,892
Profit (loss) for the year	–	–	–	–	–	–	–	104,627	104,627	(804)	103,823
Other comprehensive expense	–	–	–	(574)	–	–	(42,817)	–	(43,391)	–	(43,391)
Total comprehensive (expense) income for the year	–	–	–	(574)	–	–	(42,817)	104,627	61,236	(804)	60,432
Appropriation of reserve	–	–	–	–	5,362	–	–	(5,362)	–	–	–
Shares repurchased and cancelled (Note 35)	(1,505)	(17,932)	–	–	–	–	–	–	(19,437)	–	(19,437)
Capital injection by non-controlling interests *(Note e)*	–	–	–	–	–	–	–	–	–	3,500	3,500
Acquisition of additional interest in a subsidiary *(Note d)*	–	–	(4,827)	–	–	–	–	–	(4,827)	(1,573)	(6,400)
At 31 December 2019	**77,566**	**843,697**	**(57,119)**	**8,746**	**18,005**	**(167,674)**	**(101,681)**	**520,008**	**1,141,548**	**2,439**	**1,143,987**

For the year ended 31 December 2019

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, the Company paid an amount of RMB1,871,000 to Bank of Communications Trustee Limited ("Trustee") to purchase the Company's existing shares of 1,008,000 in the market pursuant to the Share Award Scheme (the "Scheme") made on 10 April 2015 ("Adoption Date") by the board of directors of the Company. As of 31 December 2019 and 2018, all the shares were held by the Trustee. For details please refer to note 41.

(c) Other reserve represents (i) the share capital and capital reserve of Pioneer Pharma Shareholding Co., Ltd. ("Pioneer Pharma"); (ii) the decrease in resource of the Company and its subsidiaries (the "Group") arising upon payment for acquisition of an associate by Pioneer Pharma during the year ended 31 December 2012; (iii) It also 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; and (iv) the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid arising from the acquisition of additional interest in a subsidiary during the year ended 31 December 2019.

(d) During the year ended 31 December 2019, the Group acquired an additional 13.33% 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 RMB4,827,000 is recorded in other reserve.

(e) During the year ended 31 December 2019, non-controlling interests of a subsidiary has injected intangible assets amounting to RMB3,500,000 to this subsidiary.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	148,469	107,114
Adjustments for:		
Finance costs	3,988	1,372
Interest income on bank deposits	(972)	(1,727)
Dividends received from an equity instrument at FVTOCI	(2,676)	(1,633)
Interest income on amount due from a related party	(5,723)	(5,457)
Interest income on loan to an associate	(1,437)	–
Depreciation of property, plant and equipment	7,472	6,530
Depreciation of right-of-use assets	185	–
Amortisation of intangible assets	1,200	1,556
Release of prepaid lease payments	–	52
Loss on disposal of property, plant and equipment	99	–
Impairment loss recognised on intangible assets	4,426	–
Gain on disposal on interest in an associate	(544)	–
Share of loss of an associate	17,915	14,370
Gain on dilution on interest in an associate	(1,458)	(7,770)
(Reversal of write-down) write-down of inventories	(830)	1,264
Impairment losses under expected credit loss model, net of reversal		
– trade receivables	10,337	8,760
– finance lease receivables	9,839	5,936
– refundable deposit	7,981	–
(Reversal of impairment) impairment loss on interest in an associate	(10,806)	48,103
Gain on fair value of financial assets at fair value through profit or loss	(6,965)	–
Reversal of provision	(1,886)	–
Reversal of provision for the Scheme	–	(20)
Operating cash flows before movements in working capital	178,614	178,450
Decrease in inventories	24,858	204,737
(Increase) decrease in trade and other receivables	(20,017)	180,531
Increase (decrease) in trade and other payables	115,962	(418,880)
(Decrease) increase in contract liabilities	(1,548)	3,727
Decrease (increase) in amounts due from related parties	2,142	(2,357)
Decrease in finance lease receivables	12,477	12,017
Cash generated from operations	312,488	158,225
Income taxes paid	(27,858)	(27,720)
Interest paid	(3,988)	(1,838)
NET CASH FROM OPERATING ACTIVITIES	280,642	128,667

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Interest received on bank deposits		**972**	1,727
Dividends received from an equity instrument at FVTOCI		**2,676**	1,633
Acquisition of equity instruments at fair value through other comprehensive income		**(10,935)**	(223,885)
Purchases of property, plant and equipment		**(8,886)**	(385)
Upfront payment for right-of-use assets		**(5,581)**	–
Purchases of intangible assets		**–**	(475)
Proceeds on disposal of property, plant and equipment		**–**	47
Placement of pledged bank deposits		**(19,760)**	(285,601)
Withdrawal of pledged bank deposits		**55,953**	311,784
Withdrawal of certificate of deposits		**–**	50,000
Deposits paid for acquisition of interest in an associate		**–**	(7,981)
Placement of financial assets at FVTPL		**(687,000)**	(47,000)
Withdrawal of financial assets at FVTPL		**542,419**	–
Advance to a related party		**(28)**	–
Repayment from a related party		**53,562**	1,309
Capital injection from a non-controlling interests of a subsidiary		**–**	200
Loan to an associate		**(6,710)**	–
Proceed of disposal of partial interest in an associate	*19*	**675**	–
NET CASH USED IN INVESTING ACTIVITIES		**(82,643)**	(198,627)
FINANCING ACTIVITIES			
New bank borrowings raised		**48,022**	131,060
Repayments of bank borrowings		**(96,044)**	(61,000)
Acquisition of additional interest in a subsidiary		**(6,400)**	–
Repayment to lease liabilities		**(4,686)**	–
Payment for repurchase of ordinary shares under the Scheme	*41*	**–**	(1,871)
Shares repurchased and cancelled	*35*	**(19,437)**	(73,034)
NET CASH USED IN FINANCING ACTIVITIES		**(78,545)**	(4,845)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**119,454**	(74,805)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**150,854**	226,154
Effect of foreign exchange rate changes		**(24)**	(495)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**270,284**	150,854

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle

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

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

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

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

IFRS 16 Leases (Continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application.

	Note	**At 1 January 2019** RMB'000
Operating lease commitments disclosed as at 31 December 2018		95
Less: Recognition exemption – low value assets		(58)
Recognition exemption – short-term leases		(37)
Lease liabilities relating to operating leases recognised upon application of IFRS 16		–
Add: Obligations under finance leases recognised at 31 December 2018	*(a)*	4,637
Lease liabilities as at 1 January 2019		4,637
Analysed as		
Current		4,637

For the year ended 31 December 2019

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

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

IFRS 16 Leases (Continued)

As a lessee (Continued)

The carrying amount right-of-use assets at 1 January 2019 comprises the following:

	Note	At 1 January 2019 RMB'000
Right-of-use assets relating to operating lease application of IFRS 16		–
Reclassified from prepaid lease payments	*(b)*	2,115
		2,115
By class:		
Leasehold lands		2,115

Notes:

(a) In relation to assets previously under finance leases, the Group reclassified the obligations under finance leases of RMB4,637,000 to lease liabilities as current liabilities at 1 January 2019. No relevant assets as at 1 January 2019 were recategorised as right-of-use assets as the Group had derecognised such assets under sublease arrangements.

(b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB52,000 and RMB2,063,000, respectively, were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, except for subleases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. The directors of the Company consider that there is no material impact on the consolidated statement of financial position as at 31 December 2019, its consolidated statement of profit or loss and other comprehensive income and statement of cash flows from the application of IFRS 16 on the Group as a lessor.

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

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

IFRS 16 Leases (Continued)

Subleases

At the date of initial application, leased properties under subleases were assessed and classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sublease at that date.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Right-of-use assets	–	2,115	2,115
Prepaid lease payments	2,063	(2,063)	–
Current Asset			
Prepaid lease payments	52	(52)	–
Current Liabilities			
Obligations under finance leases	(4,637)	4,637	–
Lease liabilities	–	(4,637)	(4,637)

Note: For the purpose of reporting cash flows for operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (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 that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 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.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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

New and amendments to IFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 *Lease* (before application of IFRS 16), 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

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 *Financial Instruments* ("IFRS 9") or, when applicable, the cost on initial recognition of an interest in an associate or a joint venture.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, an interest 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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 interest 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 the 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 interest 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 is not allocated to any assets, including goodwill, that 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, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

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 or 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of offices that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (prior to 1 January 2019)

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.

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). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as Lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases, measured using the interest rate implicit in the respective leases. Interest 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.

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 2)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 each 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

All borrowing costs, that do not meet the criteria of capitalisation, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

Short-term employee benefits

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

Cash-settled share-based payment transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods and services, or for administrative purpose (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values 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 "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

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 property, plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets 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 property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units) 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 or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Financial instruments

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (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 selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income 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 other comprehensive income and accumulated in the investments revaluation 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 investments revaluation 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

The Group performs impairment assessment under expected credit loss ("ECL") model of financial assets (including loan to an associate, deposit paid for interest in an associate, trade and other receivables, amounts due from related parties, pledged bank deposits and bank balances, and other items (representing finance leases receivables) which are subject to impairment under IFRS 9) 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 credit impaired balances 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (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; or

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (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 IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

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.

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 entity.

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, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments 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, amount due to an associate 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.

Provision of ECL for trade receivables

Trade receivables with credit impaired balance are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables. The debtors in provision matrix is grouped based on the types of sales, types of debtors and size of operations those are considered to have shared credit risk characteristics and similar loss patterns. The provision rates are 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.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 25 and 40 respectively.

Write-down for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and writes down 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 write down for obsolete items. As at 31 December 2019, the carrying amount of Group's inventories was RMB393,359,000 (2018: RMB417,387,000), net of write-down for inventories of RMB438,000 (2018: RMB1,268,000).

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:

	2019 RMB'000	2018 RMB'000
Sales of pharmaceutical products	**1,187,010**	1,524,874
Sales of medical devices	**128,968**	99,431
	1,315,978	1,624,305

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 channel management arrangement ("Products sold via the provision of channel management services") (2018: 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")). Both Products sold via the provision of channel management services and Products sold via the provision of co-promotion and channel management services related solely to sale arrangements with Alcon.

After the expiry of previous agreement as at 31 December 2018, the Group has signed a new agreement with Alcon with effective from 1 January 2019 for the sale of ophthalmic pharmaceutical products. Under the new agreement, the Group no longer provides co-promotion services for the sales of ophthalmic pharmaceutical products. Therefore, starting from 1 January 2019, the segment no longer includes such co-promotion services and the segment has been renamed to reflect the change in underlying sale arrangements and the reduction in composition and types of goods provided; 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").

5. REVENUE AND SEGMENT INFORMATION (Continued)

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.

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 2019

	Products sold via the provision of comprehensive marketing, promotion and channel management services RMB'000	Products sold via the provision of channel management services RMB'000	Consolidated RMB'000
Segment revenue	987,030	328,948	1,315,978
Cost of sales	(320,919)	(315,263)	(636,182)
Gross profit & segment result	666,111	13,685	679,796
Other income			37,710
Other gains and losses			12,010
Impairment losses under expected credit loss model, net of reversal			(28,157)
Distribution and selling expenses			(446,803)
Administrative expenses			(84,184)
Finance costs			(3,988)
Share of loss of an associate			(17,915)
Profit before tax			148,469

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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
Other gains and losses			(49,911)
Impairment losses under expected credit loss model, net of reversal			(14,696)
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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Disaggregation of revenue from contracts with customers by major products

	2019 RMB'000	2018 RMB'000
Products sold via the provision of channel management services:		
Alcon	328,948	–
Products sold via the provision of co-promotion and channel management services:		
Alcon	–	719,167
Products sold via the provision of comprehensive marketing, promotion and channel management services:		
Fluxum	364,530	298,188
Difene	180,913	162,984
Neoton	112,125	115,501
Polimod	98,466	122,896
Macmiror complex and Macmiror	69,386	63,460
Vinpocetine API	17,882	28,619
FLEET Phospho-Soda	14,229	13,091
Other	531	968
Pharmaceutical products	858,062	805,707
Medical equipments and supplies	128,968	99,431
	1,315,978	1,624,305

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 76% (2018: 72%) of non-current assets excluding equity instruments at FVTOCI, finance lease receivables, deferred tax assets, and amount due from a related party of the Group are located in the PRC, and the remaining 24% (2018: 28%) is located in the United States in relation to the interest in an associate. Over 99% (2018: 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.

6. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government grants *(Note)*	13,172	2,630
Interest income on bank deposits	972	1,727
Interest income on amount due from a related party	5,723	5,457
Interest income on finance leases	5,192	8,853
Interest income on loan to an associate	1,437	–
Service income	7,447	8,747
Dividends received from an equity instrument at FVTOCI	2,676	1,633
Others	1,091	–
	37,710	29,047

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

	2019 RMB'000	2018 RMB'000
Net foreign exchange losses	(3,238)	(9,578)
Loss on disposal of property, plant and equipment	(99)	–
Impairment loss recognised on intangible assets	(4,426)	–
Gain on fair value change of financial assets at FVTPL	6,965	–
Gain on dilution on interest in an associate (Note 19)	1,458	7,770
Reversal of (provision for) impairment loss on interest in an associate *(Note 19)*	10,806	(48,103)
Gain on disposal on interest in an associate *(Note 19)*	544	–
	12,010	(49,911)

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	3,983	1,372
Interest on lease liabilities	5	–
	3,988	1,372

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 RMB'000	2018 RMB'000
Impairment losses recognised on:		
– trade receivables	10,337	8,760
– finance lease receivables	9,839	5,936
– refundable deposit	7,981	–
	28,157	14,696

Details of impairment assessment are set out in note 40(b).

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	23,714	19,963
Hong Kong Profits Tax	2,614	1,929
PRC withholding tax on dividends distributed by subsidiaries	10,000	5,000
	36,328	26,892
Underprovision (overprovision) in prior year		
EIT	128	(1,344)
Deferred tax *(Note 23)*		
Current year	10,048	(3,205)
Effect at change in tax rate	(1,858)	–
	8,190	(3,205)
	44,646	22,343

For the year ended 31 December 2019

10. INCOME TAX EXPENSE (Continued)

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 2018 (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 Hong Kong Dollars ("HKD") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 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. Starting from 1 January 2020, EIT for Tibet will be 15%.

The income tax expense 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:

	2019 RMB'000	2018 RMB'000
Profit before tax	**148,469**	107,114
Tax at the applicable income tax rate of 25%	**37,117**	26,778
Tax effect of expenses not deductible for tax purpose	**11,028**	18,993
Tax effect of income not taxable for tax purpose	**(3,513)**	(2,433)
Tax effect of tax losses not recognised	**2,081**	701
Tax effect of concessionary tax rate	**(17,737)**	(25,352)
Underprovision (overprovision) in prior year	**128**	(1,344)
PRC withholding tax on dividends distributed by subsidiaries	**10,000**	5,000
Adjustment to deferred tax attributable to change in tax rate	**(1,858)**	–
Deferred tax liabilities arising on undistributed profit of the PRC subsidiaries	**7,400**	–
	44,646	22,343

For the year ended 31 December 2019

11. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 13)*	5,056	5,773
Other staff's retirement benefits scheme contributions	9,534	8,879
Other staff costs	44,697	40,876
Total staff costs	59,287	55,528
Auditors' remuneration	1,890	1,962
(Reversal of write-down) write-down of inventories	(830)	1,264
Release of prepaid lease payments	–	52
Depreciation for property, plant and equipment	7,472	6,530
Depreciation of right-of-use assets	185	–
Amortisation of intangible assets	1,200	1,556
Cost of inventories recognised as an expense	636,182	991,881
Minimum lease payment under operating lease in respect of premises	–	297

12. EARNINGS PER SHARE

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

	2019	2018
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	RMB104,627,000	RMB84,597,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,219,280,296	1,249,702,677

For the years ended 31 December 2019 and 2018, 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 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

For the year ended 31 December 2019

13. 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 2019									
	Executive director *(Note a)*	Executive director and chief executive officer *(Note a)*	Executive director *(Note a)*	Non-executive directors *(Note b)*			Independent non-executive directors *(Note c)*			
	Li Xinzhou RMB'000	Luo Chunyi RMB'000 *(Note d)*	Luk Chi Shing RMB'000 *(Note g)*	Wu Mijia RMB'000	Wang Yinping RMB'000 *(Note g)*	Hui Lap Keung RMB'000	Zhang Hong RMB'000 *(Note e)*	Yan Guoxiang RMB'000 *(Note f)*	Wong Chihung RMB'000	Total 2019 RMB'000
Fees	–	–	–	216	–	115	–	270	315	916
Other emoluments										
Salaries and other allowance	1,740	800	21	–	1,392	–	–	–	–	3,953
Retirement benefits scheme contributions	–	69	–	–	118	–	–	–	–	187
	1,740	869	21	216	1,510	115	–	270	315	5,056

	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 *(Note g)*	Xu Zhonghai RMB'000 *(Note e)*	Lai Chanshu RMB'000 *(Note f)*	Wong Chihung RMB'000	Total 2019 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

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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 Mr. Luo Chunyi has been appointed as chief executive officer with effect from 22 January 2019 and the emolument disclosed above is also for his service as the chief executive officer.

(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.

(g) Mr. Wang Yinping has resigned as non-executive director of the Company on 20 December 2019. Mr. Luk Chi Sing has been appointed as executive director of the Company with effect from 20 December 2019.

The five highest paid individuals include 3 (2018: 3) directors for the year ended 31 December 2019. The emoluments of the remaining 2 (2018: 2) highest paid individuals who are neither a director nor chief executive officer of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salary and other allowances	**804**	1,224
Retirement benefits scheme contributions	**98**	94
	902	1,318

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:

	2019 No. of individuals	2018 No. of individuals
Nil to HKD1,000,000	**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. During the year ended 31 December 2019, Mr. Zhang Hong has waived emolument (2018: nil).

14. DIVIDENDS

During the year ended 31 December 2018, no dividend was paid or declared by group entities to external parties.

Subsequent to the end of the reporting period, a special dividend in respect of the year ended 31 December 2019 of HKD0.096 (equivalent to RMB0.086) (2018: nil) per share, amounting to approximately HKD120,976,000 (equivalent to RMB108,370,000) (2018: nil) in aggregate, has been approved by the directors of the Company.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HKD0.035 (equivalent to RMB0.032) (2018: nil) per share, amounting to approximately HKD44,653,000 (equivalent to RMB40,325,000) (2018: nil) in aggregate, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2018	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
Additions	–	–	3,184	1,036	4,666	8,886
Disposals	–	–	(1,727)	–	–	(1,727)
At 31 December 2019	42,298	4,548	25,845	2,920	4,666	80,277
ACCUMULATED DEPRECIATION						
At 1 January 2018	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
Provided for the year	2,058	881	4,367	166	–	7,472
Elimination on disposals	–	–	(1,628)	–	–	(1,628)
At 31 December 2019	11,329	4,516	15,088	1,885	–	32,818
CARRYING VALUES						
At 31 December 2019	30,969	32	10,757	1,035	4,666	47,459
At 31 December 2018	33,027	913	12,039	165	–	46,144

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Buildings	5%
Leasehold improvement	20%
Furniture and equipment	20%
Motor vehicles	20%

All the Group's buildings are located in the PRC with land use rights.

16. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	2,115	–	2,115
As at 31 December 2019			
Carrying amount	7,562	185	7,747
For the year ended 31 December 2019			
Depreciation charge	134	51	185
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16			37
Expense relating to leases of low-value assets, excluding short-term leases of low value assets			58
Total cash outflow for leases			10,367
Additions to right-of-use assets			5,817

16. RIGHT-OF-USE ASSETS (Continued)

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for offices. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

In addition, the Group owns office buildings and a construction in progress for industrial buildings where its manufacturing facilities will be primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

17. PREPAID LEASE PAYMENTS

Analysed for reporting purposes as:

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

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

18. INTANGIBLE ASSETS

	Licenses and patents RMB'000
COST	
At 1 January 2018	26,439
Additions	475
At 31 December 2018	26,914
Additions	3,500
At 31 December 2019	30,414
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2018	11,252
Provided for the year	1,556
At 31 December 2018	12,808
Provided for the year	1,200
Impairment loss recognised	4,426
At 31 December 2019	18,434
CARRYING VALUES	
At 31 December 2019	11,980
At 31 December 2018	14,106

An impairment loss of RMB4,426,000 is recognised for licenses and patents that cannot be registered and used as intended during the year ended 31 December 2019 (2018: nil).

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

19. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of interests in associates	115,650	114,081
Share of post-acquisition losses and other comprehensive expense	(65,192)	(48,295)
Accumulated gain on dilution	11,374	9,916
Impairment loss on interest in an associate	(37,297)	(48,103)
	24,535	27,599
Fair value of NovaBay Pharmaceuticals, Inc. ("NovaBay") *(Note)*	22,835	27,599

Note: As at 31 December 2019, 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$") 3,269,000 (equivalent to RMB22,835,000) (2018: US$4,014,000 (equivalent to RMB27,599,000)) based on the quoted market price available on the New York Stock Exchange.

Details of the Group's interests in associates 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	
					2019	2018
NovaBay *(Note 1)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	United States	18.57%	30.50%
Chongqing Shushi Medical Facilities Company Limited ("Shushi") 重慶舒視醫療器械有限公司 *(Note 2)*	Incorporated	Registered capital	Sales of medical devices	PRC	34%	–

19. INTERESTS IN ASSOCIATES (Continued)

Note 1: During the year ended 31 December 2019, NovaBay issued an aggregate of 10,848,000 shares with consideration of US$9,296,000 (equivalent to RMB64,941,000) (2018: 1,704,000 shares with consideration of US$5,585,000 (equivalent to RMB38,403,000)) to various investors. A gain on dilution of RMB1,458,000 (2018: RMB7,770,000) was recognised in profit or loss. As of 31 December 2019, the Group held a total of 5,188,421 ordinary shares representing approximately 18.57% (31 December 2018: 5,212,747 ordinary shares representing approximately 30.50%) of issued shares of NovaBay. During the year ended 31 December 2019, the Group sold a total of 24,326 ordinary shares of NovaBay at consideration of US$98,000 (equivalent to RMB675,000). A gain on disposal of approximately RMB544,000 was recognised in profit or loss. The Group is able to exercise significant influence over NovaBay because it has the power to appoint one out of the eight directors under the Articles of Association of this company.

Note 2: During the year 31 December 2019, the Group has established an associate, Shushi, with other shareholders and owns 34% equity interest at Shushi. The Group will inject RMB1,700,000 to Shushi. Shushi is engaged in sale of medical devices but yet to commence its operation at 31 December 2019.

Indicated by the financial performance of NovaBay for the year ended 31 December 2019, 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 interest in NovaBay as at 31 December 2019 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 higher (2018: less) than the corresponding carrying amount, the Group recognised a reversal of impairment loss of RMB10,806,000 (2018: impairment loss of RMB48,103,000) for the year ended 31 December 2019 in relation to the interest in an associate.

Summarised financial information of material associate

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

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

19. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of material associate (Continued)

NovaBay

	2019 RMB'000	2018 RMB'000
Non-current assets	**96,539**	97,030
Current assets	**65,109**	59,189
Non-current liabilities	**65,386**	40,592
Current liabilities	**39,184**	27,284

	2019 RMB'000	2018 RMB'000
Revenue	**45,285**	82,491
Loss for the year	**69,068**	43,635
Total comprehensive expense for the year	**69,068**	43,635

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

	2019 RMB'000	2018 RMB'000
Net assets of the associate	**57,078**	88,343
Proportion of the Group's ownership interest in NovaBay	**10,599**	26,945
Goodwill	**49,533**	48,757
Impairment	**(37,297)**	(48,103)
Carrying amount of the Group's interest in NovaBay	**22,835**	27,599

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20. EQUITY INSTRUMENTS AT FVTOCI

	2019 RMB'000	2018 RMB'000
Listed investment:		
– Equity securities listed in Australia *(Note a)*	119,796	155,692
Unlisted investments:		
– Equity securities *(Note b)*	30,300	25,200
	150,096	180,892

Notes:

a) The listed equity investment represents 16.5% (2018: 15%) ordinary shares of an entity listed in Australian Securities Exchange, Paragon Care Limited ("Paragon"). During the year ended 31 December 2019, the Group has acquired additional 1.5% (2018: 15%) of ordinary shares of Paragon with consideration of RMB10,935,000 (2018: RMB223,885,000). 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 2020. Thus, it is not considered as an associate of the Group as at 31 December 2019 and 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 realising its performance potential in the long run.

b) The balances as of 31 December 2019 and 31 December 2018 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 2019 and 31 December 2018, the Fund received contributions from shareholders of RMB250 million, among which the Group 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 bank deposits. 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 2019, the certain percentage of carrying amount of the listed equity investment at FVTOCI of RMB35,425,000 (2018: RMB155,692,000) has been pledged as security for the bank borrowings of RMB48,843,000 (2018: RMB96,500,000).

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21. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**14,459**	58,687	**11,295**	46,113
In more than one year but not more than two years	**3,486**	8,991	**3,322**	8,444
In more than two years but not more than five years	**–**	2,366	**–**	1,730
	17,945	70,044	**14,617**	56,287
Less: unearned finance income	**(3,328)**	(13,757)	**N/A**	N/A
Present value of minimum lease payment receivables	**14,617**	56,287	**14,617**	56,287
Impairment on finance lease receivables	**(5,226)**	(11,947)	**(5,226)**	(11,947)
	9,391	44,340	**9,391**	44,340
Analysed for reporting purposes as:				
Current assets			**8,038**	40,268
Non-current assets			**1,353**	4,072
			9,391	44,340

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21. 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. 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 upon inception of the contract.

In addition, the Group had 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. No new sale contracts under above terms have entered during the current year ended 31 December 2019 (2018: nil). 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 IFRS 16 (2018: IAS 17) and finance lease receivables have been recognised accordingly.

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

	2019	2018
Effective interest rate per annum	1% to 22%	1% to 22%

Security deposits of RMB214,000 (2018: RMB295,000) 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 2019 and 31 December 2018. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

Security deposits received have been classified into liabilities of RMB214,000 (2018: RMB295,000) based on the final lease instalment due date stipulated in the finance lease agreements.

Details of impairment assessment of finance lease receivables are set out in note 40(b).

22. DEPOSIT PAID FOR INTEREST IN AN ASSOCIATE

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 a fixed consideration of EUR3,000,000 (equivalent to RMB23,080,000). As at 31 December 2018, the Group has paid RMB7,981,000 as deposit for the transaction.

The deposit is refundable if certain performance condition cannot meet. During the year ended 31 December 2019, the directors of the Company decided not to further pursue the transaction as the performance condition was not met. The Group has demanded the deposit paid in full from the investee but still has not received the deposit after long pursuing. The directors of the Company considered it is unlikely the investee will repay the deposit, therefore, the Group has impaired the whole deposit paid as at year ended 31 December 2019. Details of impairment assessment of deposit paid are set out in note 40(b).

23. DEFERRED TAX

	2019 RMB’000	2018 RMB’000
Deferred tax assets	7,788	8,578
Deferred tax liabilities	(7,400)	–
	388	8,578

The following are the major deferred tax assets recognised and movements thereon during the year ended 31 December 2019 and 31 December 2018:

	ECL and inventories provision 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
At 1 January 2018	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
Charge to profit or loss for the year	(574)	(203)	(169)	(1,702)	(7,400)	(10,048)
Effect of change in tax rate	1,468	138	–	252	–	1,858
At 31 December 2019	4,168	2,990	–	630	(7,400)	388

23. DEFERRED TAX (Continued)

The Group has unused tax losses of RMB28,525,000 (2018: RMB45,483,000) as at 31 December 2019 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:

	2019 RMB'000	2018 RMB'000
2019	–	25,280
2020	11,424	11,424
2021	4,709	4,709
2022	1,267	1,267
2023	2,803	2,803
2024	8,322	–
	28,525	45,483

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 2019, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries amounted to RMB561,550,000 (2018: RMB492,118,000). 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 RMB413,550,000 (2018: RMB492,118,000) 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.

24. INVENTORIES

All inventories represented finished goods of pharmaceutical products and medical devices. As at 31 December 2019, inventories included goods in transit of RMB49,005,000 (2018: RMB20,094,000).

During the year ended 31 December 2019, reversal of write-down of inventories of RMB830,000 (2018: write-down of RMB1,264,000) has been recognised by the Group for inventories that are subsequently sold out and included in cost of sales.

25. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	269,641	290,638
Less: Allowance for credit losses	(8,070)	(20,637)
	261,571	270,001
Other receivables, prepayments and deposits	22,098	15,054
	283,669	285,055
Advance payment to suppliers	31,717	22,792
Other tax recoverable	11,968	12,027
Total trade and other receivables	327,354	319,874

As at 1 January 2018, the gross amount of trade receivables amounted to RMB492,246,000.

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 21, the remaining sales of medical devices involved immediate transfer of legal ownership with contract sums to be settled by instalments over a general period of 12 to 36 months as stated in contracts are included in trade receivables.

The following is an 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:

	2019 RMB'000	2018 RMB'000
0 to 60 days	189,194	162,345
61 days to 180 days	56,911	72,104
181 days to 1 year	11,188	19,182
1 year to 2 years	3,561	12,783
Over 2 years	717	3,587
	261,571	270,001

25. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2019, total bills received amounting to RMB35,080,000 (31 December 2018: RMB42,647,000) 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 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB68,040,000 (2018: RMB86,464,000) which are past due as at the reporting date. Out of the past due balances, RMB15,466,000 (2018: 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 RMB35,080,000 (2018: RMB42,647,000), the Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the years ended 31 December 2018 and 2019 are set out in note 40(b).

26. PLEDGED BANK 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 for the year ended 31 December 2019 and 2018, which are therefore classified as current assets. The deposits are to be released upon the settlement of relevant bank borrowings.

Pledged bank deposits of RMB12,491,000 carry fixed interest rate from 0.35% to 1.1% (2018: RMB48,684,000 carry fixed interest rate from 0.35% to 1.1%) per annum as at 31 December 2019.

Bank balances and cash

The Group's bank balances carry interest at market rates that range from 0.35% to 3.65% (2018: from 0.35% to 3.45%) per annum as at 31 December 2019.

27. FINANCIAL ASSETS AT FVTPL

	2019 RMB'000	2018 RMB'000
Unlisted investments:		
– Structured bank deposits *(Note a)*	**166,546**	47,000
– Trust *(Note b)*	**32,000**	–
	198,546	47,000

Notes:

(a) During the year ended 31 December 2019, the Group entered into several contracts of structured deposits with banks in the PRC. The structured bank deposits earn minimum return of 0.30% to 2.85% per annum, while the total expected return is up to 3.46% to 4.00% per annum (2018: 2.60% per annum). The contracts are with maturity on or before 27 August 2020 or are redeemable on demand. The principal of RMB166,546,000 (2018: RMB47,000,000) was guaranteed by the relevant banks as at 31 December 2019.

(b) The balance as of 31 December 2019 represents the investment in Wuxing Huixin Wealth Management Trust (五行匯誠資產配置集合資金信託, the "Trust"), which is incorporated in the PRC. The Trust specialises in investing in fixed income products. As at 31 December 2019, the Trust received contributions from shareholders of RMB4,570 million, among which the Group injected RMB32 million which accounted for 0.7% of the interest of the Trust. The Trust is redeemable after 18 September 2020 and will mature on 19 December 2020. The principal of RMB32,000,000 was not guaranteed by the Trust. The expected return of the Trust is 7.05% per annum.

28. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

	2019 RMB'000	2018 RMB'000
Trade payables	263,532	143,259
Payroll and welfare payables	4,229	4,340
Other tax payables	1,321	829
Marketing service fee payables	12,175	23,647
Deposits received from distributors	19,946	21,995
Accrued purchase	–	1,979
Other payables and accrued charges	6,491	6,027
	307,694	202,076
Less: Amounts due after one year shown under long-term liabilities *(Note)*	–	(1,979)
	307,694	200,097

Note: The amount represented the accounts for the cost of medical devices which were sold under the finance lease contracts and was 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:

	2019 RMB'000	2018 RMB'000
0 to 90 days	262,796	139,040
91 to 180 days	2	4,089
181 to 365 days	604	–
Over 365 days	130	130
	263,532	143,259

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29. RELATED PARTIES DISCLOSURES

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

	2019 RMB'000	2018 RMB'000
Purchase of finished goods from Covex, S.A. *(Note)*	2,353	–
Purchase of finished goods from NovaBay	1,438	315
Interest income on amount due from a related party	5,723	5,457
Interest income on loan to an associate	1,437	–

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

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

	2019 RMB'000	2018 RMB'000
Name of the related parties		
Amounts due from related parties		
Mr. Li – current *(Note a)*	8,520	56,524
Covex, S.A. – current *(Note b)*	215	2,357
PDH Dental Ltd. – current *(Note d)*	28	–
	8,763	58,881
Mr. Li – non-current (Note a)	63,343	63,178
	72,106	122,059
Loan to an associate		
NovaBay – current *(Note c)*	8,147	–
Amount due to an associate		
Shushi – current *(Note e)*	1,700	–

29. RELATED PARTIES DISCLOSURES (Continued)

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

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 RMB63,343,000 will be due at 22 December 2021.

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

(c) During the year ended 31 December 2019, the Group granted a promissory note with a principal amount of US$1,000,000 (equivalent to RMB6,710,000) to NovaBay, which is secured by all of the assets of NovaBay. The promissory note which is interest bearing at a fixed total interest of US$300,000 (equivalent to RMB2,093,000) was fully drawn down on 27 February 2019 and to be repaid on or before 1 July 2020.

As of 31 December 2019, the Group has interest receivable of RMB1,437,000 in respect of the loan to an associate.

(d) Amount represents amount due from PDH Dental Limited that is unsecured, interest-free, non-trade in nature and repayable on demand. PDH Dental Limited is controlled and beneficially owned by Mr. Li.

(e) Amount represents amount due to an associate for capital injection with consideration of RMB1,700,000.

(c) Compensation of key management personnel

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**7,128**	9,477
Retirement benefits scheme contributions	**608**	793
	7,736	10,270

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

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30. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Carrying amount of bank borrowings repayable within one year and shown under current portion	48,843	96,500
Analysed as:		
Secured	48,843	96,500

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

	2019 RMB'000	2018 RMB'000
Pledge of assets		
Trade receivables *(Note a)*	–	267,499
Equity instrument at FVTOCI for bank borrowing *(Note b)*	35,425	155,692
Pledged bank deposits for letter of credit	12,491	48,684
	47,916	471,875

Notes:

a) Included in the balances are inter-company trade receivables amounting to RMB32,058,000 which was pledged for the banking facility as at 31 December 2018.

b) Certain percentage of equity instrument at FVTOCI amounting to RMB35,425,000 (2018: RMB155,692,000) has been pledged for the bank borrowing of RMB48,843,000 (2018: RMB96,500,000) that is denominated in Australian Dollar ("AUD").

The effective interest rate on the Group's variable-rate borrowings is Bank Bill Swap Bid Rate ("BBSY") plus 2.75% (2018: BBSY plus 2.75%) per annum.

31. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	118
Within a period of more than one year but not more than two years	69
	187
Less: Amount due for settlement with 12 months shown under current liabilities	(118)
Amount due for settlement after 12 months shown under non-current liabilities	69

32. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2018, the Group leased 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 were fixed at respective contract dates at 6% per annum. No arrangements had been entered into for contingent rental payments. The finance leases had been transferred to lease liabilities upon adoption of IFRS 16.

	Minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2018 RMB'000
Amount payable under finance lease:		
Within one year	5,419	4,637
Less: future finance charges	(782)	N/A
Present value of lease obligations	4,637	4,637
Analysed for reporting purposes as:		
Current liabilities		4,637

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

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33. PROVISION

	Provision for replacement of goods RMB'000
COST	
At 1 January 2018	1,886
Additions	645
Utilisations	(645)
At 31 December 2018 and 1 January 2019	1,886
Additions	377
Utilisations	(377)
Reversal	(1,886)
At 31 December 2019	–

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

34. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Advance from customers *(Note)*	**10,816**	12,364

As at 1 January 2018, contract liabilities amounted to RMB8,637,000.

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

	Advance from customers	
	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**12,364**	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. The balance is expected to be recognised as revenue within one year.

35. SHARE CAPITAL OF THE COMPANY

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised			
At 1 January 2018, 31 December 2018 and 31 December 2019	3,000,000,000	30,000,000	82,096
Issued and fully paid			
At 1 January 2018	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
Shares repurchased and cancelled *(Note)*	(24,310,000)	(243,100)	(1,505)
At 31 December 2019	1,260,167,000	12,601,670	77,566

Note:

During the year ended 31 December 2019, the Company repurchased its own shares with considerations RMB19,437,000 (equivalent to HKD21,964,000) (2018: RMB73,034,000 (equivalent to HKD88,034,000)) 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 2019	4,000,000	0.98	0.95	3,917
March 2019	6,048,000	1.00	0.93	6,018
April 2019	3,601,000	1.02	0.98	3,668
May 2019	9,689,000	0.85	0.63	7,705
June 2019	429,000	0.68	0.68	292
September 2019	543,000	0.75	0.60	364
Total	24,310,000			21,964
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

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.

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36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group		Principal activities
				2019	2018	
				%	%	
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	100	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	100	Inactive

36. 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
				2019 %	2018 %	
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	70	Sales of pharmaceutical products
Pioneer Pharma (Australia) Pty Ltd 先鋒澳大利亞有限公司	Australia	17 August 2018	AUD100	100	100	Investment holding
Pioneer Pharma (Chongqing) Co. Ltd*2 重慶乾鋒制藥有限公司	PRC	16 November 2018	RMB10,000,000	100	100	Inactive
Chongqing Pioneer Pharma Co. Ltd*2 重慶先鋒醫藥有限公司	PRC	16 November 2018	RMB10,000,000	100	100	Sales of and imported in-licensed

* 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.

37. OPERATING LEASES

The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	95

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.

38. 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 RMB9,721,000 (2018: RMB9,092,000) for the year ended 31 December 2019, represents contributions paid to the retirement benefits scheme by the Group.

As at 31 December 2018 and 2019, there were no outstanding contributions to the MPF Schemes.

39. 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 include lease liabilities, amount due to an associate and bank borrowings as disclosed in notes 31, 29 and 30, 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.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets:		
FVTPL	198,546	47,000
Equity instruments at FVTOCI	150,096	180,892
Amortised cost	626,951	636,697
Financial liabilities:		
Amortised cost	355,237	294,236
Obligations under finance leases	–	4,637
Lease liabilities	187	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, finance lease receivables, financial assets at FVTPL, equity instruments at FVTOCI, loan to an associate, deposit paid for interest in an associate, amounts due from related parties, pledged bank deposits, bank balances and cash, trade and other payables, amount due to an associate, lease liabilities, obligations under finance leases 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, interest rate risk and other price 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.

40. 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; and
- Certain foreign currency purchases and certain trade payables are 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	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
US$	**1,217**	103	**97,615**	34,701
Euro ("EUR")	**351**	193	**10,610**	16,634
HKD	**730**	1,758	**24**	–
	2,298	2,054	**108,249**	51,335

Sensitivity analysis

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

The group is mainly exposed to US$, HKD and EUR. The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in US$, HKD and EUR against RMB. 5% (2018: 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% (2018: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$, HKD and EUR weaken 5% (2018: 5%) against the functional currency. For a 5% (2018: 5%) strengthening of US$, HKD and EUR against the functional currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	US$ impact		HKD impact		EUR impact	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
Profit for the year	**3,615**	1,297	**(26)**	(66)	**385**	617

40. 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 lease liabilities, obligations under finance leases, pledged bank deposits, amount due from a related party and loan to an associate (see note 31 for lease liabilities/note 32 for obligations under finance leases, note 26 for the pledged bank deposits and note 29 for the amount due from a related party and loan to an associate). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see note 30 for details of the borrowings).

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

(iii) Other price risk

The Group is exposed to other price risk through its investments in financial assets at FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to price risk at the reporting date. If the prices of the financial assets at FVTOCI with fair value measurement categorised within Level 1 had been 5% (2018: 5%) higher/lower, the other comprehensive expense for the year ended 31 December 2019 would decrease/increase by RMB5,990,000 (2018: decrease/increase by RMB7,785,000) as a result of the changes in fair value of financial assets at FVTOCI.

Credit risk and impairment assessment

As at 31 December 2019, 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 this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade receivables individually for debtors with credit-impaired balance and based on provision matrix for remaining debtor' balances. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. For finance lease receivables, the Group performs impairment assessment on the gross carrying amount of RMB14,617,000 (2018: RMB56,287,000) on individual basis.

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.

40. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The Group measures the loss allowance on liquid funds (including gross carrying amount of pledged bank deposits of RMB12,491,000 (2018: RMB48,684,000) and gross carrying amount of bank balances of RMB270,284,000 (2018: RMB150,854,000)) 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 (gross carrying amount of RMB72,106,000 (2018: RMB122,059,000))and other receivables (gross carrying amount of RMB2,352,000 (2018: RMB759,000)) 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 2019. For deposit paid for interest in an associate (gross carrying amount of RMB7,981,000 (2018: RMB7,981,000), it is considered to be credit-impaired and full allowance was made on the balance.

In 2019, 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 2019, the carrying amounts of the Group's amount due from Mr. Li is RMB71,863,000 (2018: 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 2019.

In 2019, the Group has concentration of credit risk on loan to an associate, Novabay. The Group measures the loss allowance on the loan to an associate equals to 12m ECL. As at 31 December 2019, the carrying amount of the Group's loan to an associate is RMB8,147,000 (2018: nil). The loan to an associate is secured by all of the assets of NovaBay to minimise the credit risk. The Group considers there is a low loss given default and no loss allowance has been made as at 31 December 2019.

The Group has concentration of credit risk by individual customer as 6% (2018: 8%) of the total trade receivables as at 31 December 2019 were due from the Group's largest customer whereas 15% (2018: 19%) of the total trade receivables as at 31 December 2019 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 2019 and 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 2019 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB5,001,000 as at 31 December 2019 (2018: RMB17,068,000) were assessed individually.

40. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Gross carrying amount

	2019		2018	
	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Share credit risk characteristics *(Note)*				
Class A	Less than 0.5%	153,257	Less than 0.5%	176,299
Class B	0.5%	31,969	0.5%	31,283
Class C	1.5%	18,057	1.5%	17,670
Class D	3.0%	34,216	3.0%	10,588
Class E	6.0% to 7.5%	27,141	7.5%	37,730
		264,640		273,570

Note: The Group has classified the trade receivables balance into different groupings based on the types of sales, types of debtors and size of operations which are considered to have shared credit risk characteristics and similar loss patterns.

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 2019

40. 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 1 January 2018	–	11,877	11,877
Impairment losses recognised	3,569	5,191	8,760
As at 31 December 2018	3,569	17,068	20,637
Changes due to financial instruments recognised on 1 January 2019			
– Transfer to credit-impaired	(497)	497	–
– Impairment losses reversed	(3,072)	(1,152)	(4,224)
– Impairment losses recognised	–	6,491	6,491
– Write-offs	–	(22,904)	(22,904)
New financial assets originated	3,069	5,001	8,070
As at 31 December 2019	3,069	5,001	8,070

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.

40. 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 1 January 2018	–	6,011	6,011
Impairment losses recognised	5,847	89	5,936
As at 31 December 2018	5,847	6,100	11,947
Changes due to financial instruments recognised on 1 January 2019			
– Transfer to credit-impaired	(4,129)	4,129	–
– Impairment losses recognised	3,508	6,331	9,839
– Write-offs	–	(16,560)	(16,560)
As at 31 December 2019	5,226	–	5,226

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 assessed individually 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. The Group writes off a finance lease receivable when the contract period is expired.

The following table shows the movement in lifetime ECL that has been recognised for refundable deposit.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019 and 2018	–	–	–
Changes due to financial instruments recognised on 1 January 2019	–	7,981	7,981
As at 31 December 2019	–	7,981	7,981

For refundable deposit, it is credit-impaired as there is an event of default and hence fully impaired.

For the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

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

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

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

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 and less than two years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019						
Non-derivative financial liabilities						
Trade and other payables	–	304,694	–	–	304,694	304,694
Amount due to an associate	–	1,700	–	–	1,700	1,700
Bank borrowings	3.65	48,986	–	–	48,986	48,843
Lease liabilities	4.90	31	93	84	208	187
		355,411	93	84	355,588	355,424

	Weighted average interest rate %	On demand or less than three months RMB'000	Three months to one year RMB'000	More than one year and less than two years 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
Bank borrowings	2.92	96,732	2,262	–	98,994	96,500
Obligations under finance leases	6.00	1,355	4,064	–	5,419	4,637
		293,844	6,326	1,979	302,149	298,873

40. 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)
	31.12.2019	31.12.2018			
1) Equity instrument at FVTOCI	16.5% equity investment in Paragon – RMB119,796,000	15% equity investment in Paragon – RMB155,692,000	Level 1	Quoted bid prices in active market	Not applicable
2) Financial assets at FVTPL	Structured bank deposits – RMB166,546,000	Structured bank deposits – RMB47,000,000	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 *(Note a)*
3) Financial assets at FVTPL	Investment in the Trust – RMB32,000,000	N/A	Level 3	Discounted cash flows	Expected yields of fixed income products invested by Trust and a discount rate that reflects the credit risk of the Trust *(Note a)*
4) Equity instrument at FVTOCI	8% equity investment in the Fund – RMB30,300,000	8% equity investment in the Fund – RMB25,200,000	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 ratio of market capital to net book value from comparable companies is determined by the mean of comparable companies as at the valuation date *(Note b)* 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 20% *(Note b)*

Notes:

(a) No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

(b) The higher the ratio of market capital to net book value from 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. No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

There were no transfers between levels in the both years.

40. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements (Continued)

Unrealised fair value gain of RMB5,100,000 (2018: 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 'investments revaluation reserve'. The directors of the Company considered the unrealised fair value change of financial assets at FVTPL to be insignificant as at 31 December 2019.

Reconciliation of level 3 fair value measurements of a financial asset

	Unlisted equity instrument RMB'000	Financial assets at FVTPL RMB'000
At 1 January 2018	21,520	–
Total gains to other comprehensive income	3,680	–
Purchase of structure bank deposit	–	47,000
At 31 December 2018	25,200	47,000
Total gains to profit or loss	–	6,965
Total gains to other comprehensive income	5,100	–
Placement of financial assets at FVTPL	–	687,000
Withdrawal of financial assets at FVTPL	–	(542,419)
At 31 December 2019	30,300	198,546

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.

41. 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 "Share Award Scheme 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 Share Award Scheme Trust in the Stock Exchange are recorded as treasury stock in the reserve and are for the Scheme only.

41. SHARE AWARD SCHEME (Continued)

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

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

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

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

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Share Award Scheme 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

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 2019, the Awarded Shares represent approximately 19.5% (31 December 2018: 19.5%) of the scheme limit under the Scheme.

As at 31 December 2019 and 2018, the Share Award Scheme Trust held 47,678,000 Award Shares. All the Awarded Shares are remained at the Share Award Scheme Trust for the years ended 31 December 2019 and 2018.

As at 31 December 2019, the Group has no liabilities (31 December 2018: nil). The fair value of the cash-settled share-based payment is determined using the Black-Scholes pricing model based on the assumptions. There are no expense charged (2018: reversal of expenses of RMB20,000 (equivalent to HKD23,000)) during the year in respect of the cash-settled share-based payment.

42. 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.

	Lease liabilities RMB'000 *(Note 31)*	**Bank Borrowings** RMB'000 *(Note 30)*	**Total** RMB'000
At 1 January 2018	–	29,000	29,000
Financing cash flows	–	70,060	70,060
Foreign exchange translation	–	(2,560)	(2,560)
At 31 December 2018	–	96,500	96,500
Adjustment upon application of IFRS 16	4,637	–	4,637
At 1 January 2019 (restated)	4,637	96,500	101,137
Financing cash flows	(4,686)	(48,022)	(52,708)
New leases entered into	236	–	236
Foreign exchange translation	–	365	365
At 31 December 2019	187	48,843	49,030

For the year ended 31 December 2019

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-current Assets		
Investment in a subsidiary	614,671	645,813
Other investment	187	319
	614,858	646,132
Current Asset		
Bank balances and cash	533	1,376
Current Liability		
Other payables	245	257
Net Current Assets	288	1,119
Total Assets less Current liabilities	615,146	647,251
Capital and Reserves		
Share capital	77,567	79,071
Reserves	537,579	568,180
Total Equity	615,146	647,251

For the year ended 31 December 2019

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

Movement in Company's reserves

	Share premium RMB'000	Treasury share reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	932,343	(165,803)	(101,451)	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 1 January 2019	861,629	(167,674)	(125,775)	568,180
Loss and total comprehensive expense for the year	–	–	(12,669)	(12,669)
Shares repurchased and cancelled	(17,932)	–	–	(17,932)
At 31 December 2019	843,697	(167,674)	(138,444)	537,579

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, non-controlling interests of a subsidiary has injected intangible assets amounting to RMB3,500,000 to this subsidiary.

During the year ended 31 December 2019, the Group has established an associate, Shushi, with other shareholders and has not yet paid initial capital injection amounting to RMB1,700,000 to Shushi as at 31 December 2019 and included in amount due to an associate.

45. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**5,703**	–

46. EVENT AFTER THE REPORTING PERIOD

(a) On 20 October 2019, 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 25% equity interest of a company, which principally engaged in manufacturer of zirconia products in Korea and is primarily engaged in producing zirconia-related dental products, including veneers, crowns and implants, etc. The consideration of the acquisition is US$3,000,000 (equivalent to RMB20,929,000). The completion date is January 2020 and the Group will recognise the investment as interest in an associate.

(b) In March 2020 and April 2020, the Group has entered into several sales contracts with Angelina Environmental Spain SL ("Angelina Environmental") for the sale of disposable and protective face masks to Angelina Environmental for a total amount of approximately EUR3,800,000. Angelina Environmental is indirectly wholly-owned by Mr. Li and Ms. Wu Qian.

(c) The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had a negative impact on the operations of the Group, as most of the Group's operations are located in Haikou City and Xiantao City in the PRC. The Group had to close its office and warehouse since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

Even though the Group had resumed its trading activities since 3 February 2020, they are still not operating at normal capacity as delivery of goods had been delayed and the Group's business are all in various locations in the mainland where different precautious measures were imposed by local governments. The Group's ability to serve its customers may be largely depending on various government measures and continuous supply from its suppliers and the availability of workforce, which may be affected by the temporary suspension of supplier's plant and/or travel restrictions and home quarantine requirements. The Group has taken action to negotiate with its major suppliers and employees to confirm continuous and adequate supply of goods and manpower.

Given the dynamic nature of these circumstances and unpredictability of future development, the directors of the Company consider that the financial effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date these financial statements are authorised for issue, but are expected to affect the consolidated results for the financial year ending 2020 and beyond.