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)

(Stock Code: 01345)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 22.5% to RMB1,790.3 million in 2016 from RMB1,460.9 million in 2015.
- Net profit of the Group increased by 38.3% to RMB238.6 million in 2016 from RMB172.5 million in 2015.
- Basic earnings per share of the Company was RMB0.18 in 2016, which represents a 38.5% increase compared to RMB0.13 in 2015.
- A final dividend of RMB10.3 cents per share was recommended by the Board (bringing the total dividend for the year ended 31 December 2016 to RMB17.4 cents per share) and is subject to the approval of the Shareholders at the AGM to be held on 28 April 2017.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Pioneer Pharma Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Revenue	*3*	**1,790,275**	1,460,899
Cost of sales		**(1,196,858)**	(998,322)
Gross profit		**593,417**	462,577
Other income	*4*	**50,753**	77,877
Other gains and losses	*5*	**33,745**	(82,687)
Distribution and selling expenses		**(277,488)**	(135,378)
Administrative expenses		**(73,370)**	(66,745)
Finance costs	*6*	**(5,523)**	(19,954)
Share of loss of associates		**(39,184)**	(28,895)
Profit before taxation	*7*	**282,350**	206,795
Income tax expense	*8*	**(43,726)**	(34,294)
Profit for the year		**238,624**	172,501
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of foreign operations		**(18,425)**	(18,148)
– Share of exchange differences of associates		**6,792**	608
– Fair value gain on other investments		**–**	15,711
– Release of translation reserve upon disposal of subsidiaries		**30,263**	–
Other comprehensive income (expense) for the year		**18,630**	(1,829)
Total comprehensive income for the year		**257,254**	170,672
Profit (loss) for the year attributable to:			
Owners of the Company		**237,445**	174,302
Non-controlling interests		**1,179**	(1,801)
		238,624	172,501
Total comprehensive income (expense) attributable to:			
Owners of the Company		**256,191**	172,953
Non-controlling interests		**1,063**	(2,281)
		257,254	170,672
		RMB yuan	*RMB yuan*
Earnings per share			
Basic and diluted	*9*	**0.18**	0.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Non-current Assets			
Property, plant and equipment		**49,853**	76,497
Prepaid lease payments		**2,167**	2,219
Intangible assets		**15,883**	61,207
Interest in associates	*11*	**89,223**	47,070
Other investments		**20,000**	20,000
Finance lease receivables		**38,905**	59,446
Loans and promissory note to associates		**–**	15,963
Deferred tax assets		**5,947**	2,132
Amount due from a related party	*15*	**117,419**	–
		339,397	284,534
Current Assets			
Inventories		**520,244**	663,249
Finance lease receivables		**29,299**	21,720
Trade and other receivables	*12*	**436,837**	420,366
Amount due from related parties	*15*	**39,805**	1,296
Tax recoverable		**78**	475
Prepaid lease payments		**52**	52
Derivative financial instrument		**–**	251
Pledged bank deposits		**73,120**	112,968
Bank balances and cash		**309,640**	317,113
		1,409,075	1,537,490
Current Liabilities			
Trade and other payables	*13*	**481,925**	471,690
Amounts due to related parties		**2,827**	–
Tax liabilities		**28,598**	14,778
Bank borrowings	*14*	**76,251**	285,935
Provision		**1,886**	1,870
Obligations under finance lease		**3,186**	1,943
		594,673	776,216
Net Current Assets		**814,402**	761,274
Total Assets less Current Liabilities		**1,153,799**	1,045,808

	Notes	**2016**	2015
		RMB'000	*RMB'000*
Capital and Reserves			
Share capital		**82,096**	82,096
Reserves		**1,028,763**	915,994
Equity attributable to owners of the Company		**1,110,859**	998,090
Non-controlling interests		**(308)**	(1,649)
Total Equity		**1,110,551**	996,441
Non-current liabilities			
Deferred tax liabilities		**7,250**	13,406
Long-term liabilities	*13*	**23,302**	20,074
Liabilities for Share Award Scheme		**1,464**	557
Obligation under finance leases		**11,232**	15,330
		1,153,799	1,045,808

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 have been 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 People's Republic of China (the "**PRC**"). The Company's immediate and ultimate holding company is Pioneer Pharma (BVI) Limited ("**Pioneer BVI**") and Tian Tian Limited ("**Tian Tian**"), respectively. Both companies are incorporated in the British Virgin Islands ("**BVI**") and are controlled by Mr. Li Xinzhou ("**Mr. Li**") and Ms. Wu Qian ("**Mrs. Li**"), the spouse of Mr. Li (collectively referred to as "**Controlling Shareholders**").

The Company is an investment holding company. The principal activities of the 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")

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

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

New and amendments to IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the Related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

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

IFRS 9 *Financial Instruments*

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the application of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

IFRS 15 ***Revenue from Contracts with Customers***

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

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

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

IFRS 16 ***Leases***

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB87,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

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

The amendments clarify the following:

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

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

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

   (i) the original liability is derecognised;

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

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

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

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company do not anticipate that the application of the new and amendments to IFRSs will have material impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	2016	2015
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**1,652,079**	1,328,093
Sales of medical devices	**138,196**	132,806
	1,790,275	1,460,899

The Group's chief operating decision maker during the years ended 31 December 2015 and 2016 was the executive directors, who reviews the gross profit of major type of products sold for the purposes of resource allocation and assessment of segment performance. Segment profit represents the gross profit earned by each segment.

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

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

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

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

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 2016

	Products sold via the provision of comprehensive marketing, promotion and channel management services *RMB'000*	**Products sold via the provision of co-promotion and channel management services** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue	**771,780**	**1,018,495**	**1,790,275**
Cost of sales	**(286,818)**	**(910,040)**	**(1,196,858)**
Gross profit & segment result	**484,962**	**108,455**	**593,417**
Other income			**50,753**
Other gains and losses			**33,745**
Distribution and selling expenses			**(277,488)**
Administrative expenses			**(73,370)**
Finance costs			**(5,523)**
Share of loss of associates			**(39,184)**
Profit before taxation			**282,350**

For the year ended 31 December 2015

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

Revenue from major products

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

	2016	2015
	RMB'000	*RMB'000*
Alcon	**1,018,495**	863,621
Difene	**135,027**	112,298
Fluxum	**159,509**	122,894
Polimod	**160,136**	73,555
Macmiror complex and Macmiror	**35,459**	37,865
Vinpocetine API	**48,197**	48,554
Neoton	**69,767**	45,265
Budesonide Easyhaler and Salbutamol Easyhaler	**5,027**	4,066
FLEET Phospho-Soda	**18,952**	14,947
Medical equipments and supplies	**138,196**	132,806
Others	**1,510**	5,028
	1,790,275	1,460,899

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 99% (2015: Over 72%) of non-current assets excluding interest in associates and other investments of the Group are located in the PRC. Over 98% (2015: 98%) of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

Information about major customers

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

4. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Government grants *(Note)*	**28,379**	31,667
Interest on bank deposits	**6,815**	25,008
Interest on trust investments	**–**	4,675
Interest on loans and promissory note to associates	**563**	262
Interest on amount due from a related party	**165**	–
Interest income on finance leases	**10,879**	11,015
Service income	**3,763**	3,095
Others	**189**	2,155
	50,753	77,877

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.

5. OTHER GAINS AND LOSSES

	2016	2015
	RMB'000	*RMB'000*
Net foreign exchange gains (losses)	**6,425**	(21,672)
Reversal of impairment loss previously recognised on trade and other receivables	**–**	44
Impairment loss on trade and other receivables	**(13,013)**	(5,277)
Gain on disposal of subsidiaries *(Note 15(b))*	**2,794**	–
Loss on disposal of an associate	**(1,683)**	–
Gain on disposal of property, plant and equipment	**640**	–
Gain on dilution on interest in associates *(Note 11)*	**5,899**	7,975
Impairment loss on finance lease receivables	**(661)**	(6,871)
Loss on fair value change of derivative financial instruments	**(9,107)**	(4,837)
Gain on initial recognition of warrants and other investments *(Note)*	**8,856**	3,910
Written off of interest receivable from an associate	**(1,290)**	–
Impairment loss on goodwill	**–**	(14,696)
Impairment loss on investment in associates *(Note 11)*	**(6,378)**	(41,263)
Reversal of impairment loss on investment in an associate *(Note 11)*	**41,263**	–
	33,745	(82,687)

Note: During the year ended 31 December 2016, amount represents the difference between the fair value at acquisition date of warrants over the acquisition cost (2015: difference between the fair value at acquisition date of other investments and warrants over the total acquisition cost).

6. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	**5,523**	19,954

7. PROFIT BEFORE TAXATION

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration	**4,079**	3,953
Other staff's retirement benefits scheme contributions	**10,236**	8,739
Other staff costs	**38,911**	39,107
Total staff costs	**53,226**	51,799
Auditors' remuneration	**3,454**	2,878
Allowance for (reversal of allowance for) inventories, net	**2,334**	(679)
Release of prepaid lease payments	**52**	52
Depreciation for property, plant and equipment	**6,879**	7,001
Amortisation of intangible assets	**6,301**	9,880
Cost of inventories recognised as an expense	**1,196,858**	998,322
Minimum lease payment under operating lease in respect of premises	**250**	1,454

8. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**32,609**	28,572
PRC withholding tax on dividends distributed by subsidiaries	**7,500**	10,000
	40,109	38,572
Under provision in prior year		
EIT	**3,675**	–
Deferred tax		
Current year	**(58)**	(4,278)
	43,726	34,294

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

Pioneer Medical (HK) Company Limited ("**Pioneer Medical (HK)**") and Pioneer Pharma (Hong Kong) Company Limited ("**Pioneer HK**") are incorporated in Hong Kong and subject to Hong Kong Profits Tax at a rate of 16.5% on assessable profits in Hong Kong. No provision for Hong Kong Profits Tax for the year ended 31 December 2015 and 2016 is made for Pioneer HK as it is loss-making has had no assessable profits since its incorporation. No provision for Hong Kong Profits Tax for the year ended 31 December 2015 and for the period ended 12 September 2016 is made for Pioneer Medical (HK) as it is loss-making has had no assessable profits since its incorporation and the amount is immaterial.

Pioneer Pharma (Singapore) Pte. Ltd. ("**Pioneer Singapore**") and Pioneer Medident (SE Asia) Pte. Ltd. ("**Pioneer Medident**") are subject to Singapore Profits Tax of a rate of 17%. No provision for Singapore Profits Tax was made for the year ended 31 December 2015 and the period ended 23 December 2016 as the amount involved is insignificant.

A subsidiary, Pioneer Dynamic Co., Ltd., was incorporated in Taiwan and subject to corporate income tax of 17%. No provision for Taiwan income tax was made for the year ended 31 December 2015 and 2016 as it is loss-making and had no assessable profits since its incorporation.

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

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

Covex, S.A., a company incorporated in Spain, is subject to Spanish corporate income tax for small companies at a rate of 25%. No provision for Spanish income tax was made for the year ended 31 December 2015 and the period ended 23 December 2016 as Covex, S.A. had no assessable profits since the Group's acquisition in July 2014.

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**282,350**	206,795
Tax at the applicable income tax rate of 25%	**70,588**	51,699
Tax effect of expenses not deductible for tax purpose	**14,889**	19,645
Tax effect of income not taxable for tax purpose	**(13,303)**	(2)
Tax effect of tax losses not recognised	**2,003**	4,104
Tax effect of tax losses not recognised but subsequently used	**–**	(31)
Tax effect of concessionary tax rate	**(46,376)**	(47,621)
Under provision in prior year	**3,675**	–
PRC withholding tax on dividends distributed by subsidiaries	**7,500**	10,000
Deferred tax liabilities (utilisation of deferred tax liabilities) arising on undistributed profit of PRC subsidiaries	**4,750**	(3,500)
	43,726	34,294

9. EARNINGS PER SHARE

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

	2016	2015
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**RMB237,445,000**	RMB174,302,000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,295,326,836**	1,312,598,408

For the year ended 31 December 2016 and 2015, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share for both years ended has been taken into account the ordinary shares purchased by the Trustee on the market pursuant to the Share Award Scheme.

For the year ended 31 December 2016 and 2015, the diluted earnings per share is the same as basic earnings per share as there is no dilutive potential ordinary shares outstanding in both years.

10. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2016 Interim – RMB7.1 cents per share (2015: RMB5.7 cents per share)	**95,000**	75,274
2015 Final – RMB3.6 cents per share (2014: RMB8.5 cents per share)	**47,500**	112,507
	142,500	187,781

Subsequent to the end of the Reporting Period, a final dividend in respect of the year ended 31 December 2016 of RMB10.3 cents (2015: RMB3.6 cents) per share, amounting to RMB137,750,000 (2015: RMB47,500,000) 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.

11. INTEREST IN ASSOCIATES

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

	2016	2015
	RMB'000	*RMB'000*
Cost of unlisted investments in associates	**114,081**	131,168
Share of post-acquisition losses and other comprehensive expense	**(26,358)**	(50,810)
Accumulated gain on dilution	**1,500**	7,975
Accumulated impairment loss on investment in associates	**–**	(41,263)
	89,223	47,070

Name of associates	Form of entity	Classes of shares held	Principal activity	Placed incorporation and operation	Proportion of ownership interest(ordinary share) and voting power held by the Group	
					2016	2015
Q3 Medical Devices Limited ("**Q3**") *(Note a)*	Incorporated	Ordinary shares	Manufacturing and trading of medical devices	Ireland/German	**–**	36.57%
YingSheng 3D Medical Imaging Centre ("**YingSheng**") *(Note b)*	Incorporated	Ordinary shares	Stomatological computed tomography services	PRC	**–**	35%
NovaBay Pharmaceuticals Inc. ("**NovaBay**") *(Note c)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	Untied States	**34.14%**	11.71%

Notes:

(a) During the year, Q3 issued an aggregate of 42,970 ordinary shares to an investor. The Group converted an interest receivables of EUR50,000 (equivalent to RMB365,000) into 608 ordinary shares of Q3. A total net gain on dilution of approximately RMB5,899,000 was recognised in profit or loss.

As of 23 December 2016, Q3 ceased to be an associate of the Group subsequent to the disposal of Pioneer Singapore to Mr. Li (Note 15(b)).

(b) On 20 July 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of all the ordinary shares held in YingSheng for a cash consideration of RMB10,000. A disposal loss of RMB1,683,000 was recognised in profit or loss.

(c) During the year ended 31 December 2016, NovaBay issued shares to various other investors and the Group has subscribed 3,314,392 common shares together with 1,308,902 unit of warrants of NovaBay at a total consideration of US$6,330,000 (equivalent to RMB41,558,000). Also, the Group has exercised all the 1,490,202 unit of warrants held and purchased 1,490,202 common shares at a total consideration of US$2,828,000 (equivalent to RMB18,888,000). As a result, the Group's interest in NovaBay was increased from 11.71% to 34.14%.

Indicated by financial performance of NovaBay (2015: NovaBay and Q3) in the year ended 31 December 2016, the Group takes into consideration to perform annual impairment assessment for their carrying amounts in accordance with IAS 36 Impairment of Assets as single assets.

The Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. As 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 are insignificant.

In assessing the value in use of NovaBay as at 31 December 2016 (2015: NovaBay and Q3), it has been determined based on the Company's share of the present value of the estimated future cash flows expected to be generated by NovaBay (2015: NovaBay and Q3). The value in use calculations use cash flow projections for NovaBay (2015: NovaBay and Q3) based on financial budgets approved by management covering a 5-year period. They are based on a discount rate of 15.52% (2015: 15.40% and 15.39%, respectively). Other key assumptions for the value in use calculations relate to the estimation of cash inflow/outflows which include budgeted revenue and gross margins during the budget period. Budgeted revenue and gross margins have been determined based on past performance and management's expectations for the market development.

The recoverable amount of the investment in NovaBay as at 31 December 2016 has been determined based on the quoted market price. The recoverable amount of the investment is greater than the corresponding carrying value. Hence, the Company recognised a reversal of impairment loss of approximately RMB41,263,000 for the year ended 31 December 2016 (2015: impairment loss of approximately RMB41,263,000) in relation to the interest in associates.

The recoverable amount of the investment in Q3 has been determined based on the value in use calculations. As the recoverable amount of Q3 was higher than the corresponding carrying amount, nil impairment loss was recognised for the year ended 31 December 2015. As the recoverable amount of Q3 is lower than the corresponding carrying amount, an impairment loss of approximately RMB6,378,000 has been recognised for the period from 1 January 2016 to the date of disposal on 23 December 2016. Subsequent to the disposal of Pioneer Singapore on 23 December 2016, Q3 ceased to be an associate of the Group.

12. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
Trade receivables	**370,025**	314,644
Less: Allowance for doubtful debts	**(19,409)**	(6,640)
	350,616	308,004
Bill receivables	**70,693**	83,895
	421,309	391,899
Other receivables, prepayments and deposits	**10,065**	20,716
Less: Allowance for doubtful debts	**(129)**	(129)
	431,245	412,486
Interest receivables	**2,135**	3,249
Advance payment to suppliers	**2,633**	3,276
Other tax recoverable	**824**	1,355
Total trade and other receivables	**436,837**	420,366

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

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

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
0 to 60 days	**250,654**	197,365
61 days to 180 days	**70,750**	77,349
181 days to 1 year	**21,085**	21,514
1 year to 2 years	**8,127**	11,776
	350,616	308,004

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

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
0 to 60 days	**30,670**	42,339
61 days to 180 days	**31,642**	34,172
181 days to 1 year	**8,381**	7,284
1 year to 2 years	**–**	100
	70,693	83,895

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB79,482,000 (2015: RMB70,593,000), which are past due as at 31 December 2016. Based on the historical experience of the Group, those trade receivables that are past due but not impaired are generally recoverable due to the long term cooperation history. The Group does not hold any collateral over these balances.

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

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
61 days to 180 days	**54,730**	49,605
181 days to 1 year	**19,236**	11,358
1 year to 2 years	**5,516**	9,630
	79,482	70,593

Movement in the allowance for doubtful debts:

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
Balance at beginning of the year	**6,769**	1,753
Impairment losses recognised on receivables	**13,013**	5,277
Amounts written off during the year as uncollectible	**(244)**	(217)
Impairment losses reversed	**–**	(44)
Balance at end of the year	**19,538**	6,769

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB19,538,000 (31 December 2015: RMB6,769,000) which have delayed payments with poor settlement record.

13. TRADE AND OTHER PAYABLES AND LONG TERM LIABILITIES

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
Trade payables	**416,914**	426,078
Payroll and welfare payables	**6,718**	6,424
Advance from customers	**12,798**	4,045
Other tax payables	**2,154**	1,457
Marketing service fee payables	**25,812**	4,404
Interest payables	**711**	1,726
Deposits received from distributors	**13,865**	7,094
Accrued purchase	**23,302**	20,074
Other payables and accrued charges	**2,953**	20,462
	505,227	491,764
Less: Amounts due after one year shown under long-term liabilities *(Note)*	**(23,302)**	(20,074)
	481,925	471,690

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

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

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

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
0 to 90 days	**415,591**	425,561
91 to 180 days	**13**	–
181 to 365 days	**1,235**	416
Over 365 days	**75**	101
	416,914	426,078

14. BANK BORROWINGS

	2016	2015
	RMB'000	*RMB'000*
THE GROUP		
Carrying amount of bank loans repayable within one year and shown under current portion	**76,251**	285,935
Analysed as:		
Secured	**36,167**	125,935
Unsecured	**40,084**	160,000
	76,251	285,935

As at 31 December 2016, the Group entered into various borrowings with the banks, mainly to finance its business operations. Such borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	2016	2015
	RMB'000	*RMB'000*
Pledge of assets		
Bills receivables	**–**	7,629
Trade receivables	**363,051**	304,629
Pledged bank deposits for bank borrowings	**50,000**	100,708
Pledged bank deposits for letter of credits	**23,120**	12,260
	436,171	425,226

The ranges of effective interest rates on the Group's fixed-rate borrowings are 1.81% to 4.79% (2015: 1.01% to 4.97%).

15. DISPOSAL OF SUBSIDIARIES

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

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

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

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

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

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

OPERATIONAL REVIEW

In 2016, reform of China's healthcare market reached a high-water mark and a new critical stage. A number of policies relating to the pharmaceutical industry have been announced, including policies in respect of the "Registration and Approval Process Reform of Healthcare Products", "Uniform Evaluation of Generic Drugs" and "Two-invoice System and VAT Model", which covered aspects of the drug approval, quality and circulation processes. Further, the launch of a wave of tender processes in various provinces have had a significant impact on China's pharmaceutical industry. However, the long term potential and demand in the pharmaceutical industry remain positive and strong. Along with the rising standard of regulatory compliance across the industry, notwithstanding the slowdown in the overall growth of the pharmaceutical industry, the underlying structural adjustments to the industry presented many opportunities for the Group.

As a number of external factors which negatively affected the Group's operating performance in 2015 disappeared, and given it operates in a distinct and important segment of the pharmaceutical industry, the Group, leveraging on its competitive advantage, developed its business even in the context of a changing and challenging environment. 2016 witnessed the recovery of the Group's overall operating performance. For the Reporting Period, the Group's revenue increased by 22.5% year-on-year to RMB1,790.3 million (2015: RMB1,460.9 million), gross profit increased by 28.3% year-on-year to RMB593.4 million (2015: RMB462.6 million) and net profit for the year increased by 38.3% year-on-year to RMB238.6 million (2015: RMB172.5 million).

2016 saw increasing cost controls in the medical insurance sector and decreasing drug prices in tender processes as a result of government policies. Notwithstanding these pressures, the pharmaceutical industry appears to have stabilised on the whole and its performance is now trending upwards. The Group has continued to adopt effective measures to proactively manage the impact of the aforementioned pricing policies and market changes and, as a result, achieved pleasing results in 2016, turning around 2015's disappointing performance. 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 36.4% compared to last year to RMB633.6 million, representing 35.4% of the Group's revenue for the Reporting Period. Gross profit increased by 42.1% compared to last year to RMB402.2 million, representing 67.8% of the Group's gross profit for the Reporting Period.

In 2015, the Group's sales of the WaveLight Eagle laser surgical series decreased significantly due to the suspension of tender processes for large scale equipment in public hospitals. Since 2016, the Group has adjusted its development strategy for the medical device business by focusing on the development of other medical device consumables, such as odontology equipment and consumables, as well as intraocular lenses ("**IOL**"). 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 4.1% compared to last year to RMB138.2 million, representing 7.7% of the Group's revenue for the Reporting Period. Gross profit increased by 14.2% compared to last year to RMB82.7 million, representing 13.9% of the Group's gross profit for the Reporting Period.

During the Reporting Period, the Group continued to maintain its close cooperation with Alcon via the provision of co-promotion and channel management services. The Group provides channel management and co-promotion services for all of Alcon's 24 ophthalmic pharmaceutical products sold in China. For the Reporting Period, the Group's revenue generated from products sold via the provision of co-promotion and channel management services increased by 17.9% compared to last year to RMB1,018.5 million, representing 56.9% of the Group's revenue for the Reporting Period. Gross profit increased by 1.2% compared to last year to RMB108.5 million, representing 18.3% of the Group's gross profit for the Reporting Period.

1. Product Development

The Group's current product portfolio includes a number of products manufactured by small and medium-sized overseas suppliers. These products address unmet medical needs or have superior clinical profiles, improved quality or formulations, or experience relatively limited competition in the Chinese market. As of 31 December 2016, the Group had a product portfolio of pharmaceutical products (substantially all of which were prescription products) covering ophthalmology, pain management, cardiovascular, respiratory, gastroenterology, immunology and other therapeutic areas, and medical devices covering several medical specialties, including ophthalmology, odontology and wound care products.

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

Category	**2016** *RMB'000*	**Percentage of the Group's total revenue/ gross profit** *(%)*	2015 *RMB'000*	Percentage of the Group's total revenue/ gross profit *(%)*
Revenue:				
Pharmaceutical Products	**633,584**	**35.4**	464,472	31.8
Medical Devices	**138,196**	**7.7**	132,806	9.1
Gross Profit:				
Pharmaceutical Products	**402,244**	**67.8**	283,028	61.2
Medical Devices	**82,718**	**13.9**	72,430	15.6

During the Reporting Period, the Group adopted a sensible bidding strategy highlighting the Group's products' superior quality. This strategy resulted in the Group securing successive bids with reasonable pricing in a number of provinces where tender processes were held. Meanwhile, the Group continued to reinforce its marketing efforts with the aim of expanding market coverage and increasing sales volume. 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 36.4% compared to last year to RMB633.6 million, representing 35.4% of the Group's revenue for the Reporting Period. Gross profit increased by 42.1% compared to last year to RMB402.2 million, representing 67.8% of the Group's gross profit for the Reporting Period.

Sales of the Group's more mature products with a stable market base, such as Difene, Fluxum and Polimod, maintained rapid development during the Reporting Period. For the Reporting Period, the Group's revenue generated from the sales of Difene was RMB135.0 million, representing an increase of 20.2% compared to last year. As one of the Group's best-selling products, Difene has established a strong reputation and brand recognition in China after years of market positioning, brand building and marketing network expansion. As the sole dosage product amongst its competitors, Difene successively won bids with favourable pricing in those provinces where tender processes were held. Not only did the Group maintain its existing markets for Difene, it also managed to extend market coverage by filling identified gaps in coverage. Through increased marketing activities, such as education programmes for doctors and patients on the product, and expanding its application to different departments in hospitals, the Group worked to increase Difene sales at each target hospital. Furthermore, the Group increased its efforts to expand market coverage through further enhancing management of third-party promotion partners, accelerating its network penetration into more hospitals and small-sized medical institutions, and closing gaps identified in certain marketing areas. During the Reporting Period, the Group increased its market coverage of Difene by over 500 hospitals and small-sized medical institutions. In the context of the promotion of the policy on encouraging better utilisation of different medical institutions (分級診療政策), Difene has huge development potential in the primary medical market.

During the Reporting Period, the development of another best-selling product of the Group, Fluxum, reached a new level. The Group's revenue generated from the sales of Fluxum was RMB159.5 million, representing an increase of 29.8% compared to last year. Fluxum is the originator of parnaparin, and comes with a series of three dosages. The Group capitalised on the range of different dosages offered by Fluxum, and strategically responded to the new round of drug tender processes around the country. As a result, the Group maintained Fluxum's position in existing markets and also secured a stable pricing structure for the product. Since 2016, following a new round of tender processes, the Group grasped the opportunity resulted from the exit of a number of competitors to enter into certain new markets. During the Reporting Period, the Group continued to build on its network coverage for Fluxum by adding over 280 new hospitals on top of over 300 new hospitals added to the network in 2015. Furthermore, by working closely with third-party promotion partners, the Group's in-house marketing team enhanced its efforts and participation in respect of the clinical promotion of Fluxum, which ensured an increased market share for the product. Due to its leading market position in respect of similar products, as well as the increasing recognition of anticoagulants in hospitals, the Group believes Fluxum has a solid foundation for long-term growth.

Since 2016, sales of Polimod, one of the Group's other best-selling products, have developed rapidly. For the Reporting Period, the Group's revenue generated from the sales of Polimod (which resumed in April 2016) was RMB160.1 million, representing a 117.7% increase compared to last year. In the second half of 2015, the Group was unable to import and sell Polimod due to a delay in the renewal of its import licence. Following the approval of the new licence, the Group resumed importing and selling Polimod in April 2016. Moreover, at the beginning of 2016, the Group entered into a supplemental agreement with Polimod's supplier, Polichem, pursuant to which the Group's rights to market, promote and sell Polimod was extended from eight provinces to the whole territory of China. The Group carried out preliminary work to prepare the markets of the new regions where the Group is authorised to market and promote Polimod, allowing the product to rapidly enter those markets once the import licence was renewed. As the originator of pidotimod, Polimod has obvious advantages in quality and clinical efficacy compared with generic products and has established a strong reputation and brand recognition. By taking advantage of the broad application of Polimod in several departments in hospitals, and the high level of recognition of its clinical efficacy by doctors, the Group will accelerate its marketing efforts and tap into the large potential market in the expanded marketing territory, in order to increase the sales volume of Polimod, and to further increase its contribution to the Group's performance.

The Group has also continued to develop its other pharmaceutical products. For the Reporting Period, the Group's revenue generated from the sales of these products was RMB178.9 million, representing an increase of 14.9% compared to last year. Using the Group's existing resources in respect of cardiovascular products, the Group continued to optimize the market network for the Group's cardiovascular product, Neoton, the sole imported originator of creatine phosphate sodium for injection, in respect of which the Group obtained the exclusive rights to import, sell and co-promote at the end of 2014. The Group also increasingly used the international academic status of the product as a basis for promotional activities, so as to strengthen product recognition among doctors and patients with the ultimate aim of increasing the sales volume of the product. The Easyhaler series products are inhalation drugs used for the treatment of asthma and chronic obstructive pulmonary disease ("**COPD**") in the respiratory therapeutic market, which deliver more scientific and standardised treatment of asthma and COPD. The Group continues to enhance its academic promotion efforts, so as to shorten the time it takes doctors to change their approaches to treatment. As the only suppository product in the Nifuratel products segment, Macmiror Complex has generally won bids in provincial tender processes at a favourable price. The Group strengthened its promotion efforts in hospitals and departments covered in the network, so as to maintain its market share in the gynaecology therapeutic market. With the constant changes in the pharmaceutical market, the Group will actively pursue market development opportunities for these products, in order to increase their contribution to the Group's performance.

In 2014, the Group acquired a controlling equity stake in and restructured the debts of Covex, S.A. ("**Covex**"), a company incorporated in Spain, which enabled the Group to obtain a stable supply of high quality Vinpocetine API at a low cost. Since the acquisition, the Group's sales of Vinpocetine API have deteriorated due to the changing competitive landscape in the Chinese market. Certain customers' sales of Vinpocetine finished products have also been affected by tender results, resulting in a decrease in demand for Vinpocetine API. Further, the price competition of domestic generic drugs has impacted the sale of Vinpocetine API. Consequently, Covex's results have been disappointing. To eliminate the risk that the negative financial performance of Covex may continue to cast further uncertainty on the Group's overall financial performance, the Group disposed of its equity stake in Covex in December 2016.

The Group's business of providing comprehensive marketing, promotion and channel management services for medical devices has achieved sizeable scale after continuous development in recent years. The Group's medical devices portfolio has expanded from the WaveLight Eagle laser surgical series to a wide range of products covering ophthalmic surgical equipment and consumables, IOL, odontology equipment and consumables and wound care products. In 2015, the Group's sales of the WaveLight Eagle laser surgical series decreased significantly due to the suspension of tender processes on large scale equipment in public hospitals. Since 2016, the Group has adjusted its development strategy for the medical device business by focusing on the development of other medical device consumables. The Group's sales of IOL, odontology equipment and consumables in this business segment have developed steadily. During 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 4.1% compared to last year to RMB138.2 million, representing 7.7% of the Group's revenue. Gross profit increased by 14.2% compared to last year to RMB82.7 million, representing 13.9% of the Group's gross profit.

NeutroPhase, a wound cleanser officially launched in 2015, featuring a highly sterilising effect, high levels of safety for cells and exclusive patent technology, is a consumable product in the Group's portfolio of medical devices. At present, the Group has sold the product in over half of China's provinces. During the Reporting Period, the absence of a charge code in hospitals remained an issue for NeutroPhase, which in turn adversely impacted sales of the product. Nevertheless, the Group has made efforts to rectify this issue in certain provinces and has seen progress. The Group will continue to monitor and resolve this issue promptly in other provinces. Meanwhile, the Group continued to carry out market development and increase investment in NeutroPhase markets and achieved obvious results. At the end of 2016, NeutroPhase had won bids in 31 cities, and covered over 120 hospitals and medical institutions (including almost over 60 Class III hospitals) in these cities. In addition, the Group presented its analysis of a large volume of data collected from clinical studies and a number of joint clinical studies with several renowned Class III hospitals in China at academic promotion activities organised by the Group targeted at key opinion leaders and doctors in the wound care area. The clinical effectiveness of NeutroPhase was recognised by a growing number of

experts and doctors. The Group is dedicated to establishing the brand recognition of NeutroPhase in the wound care area, and to lay solid foundations for sales growth of the product. Furthermore, the Group's active exploration of new areas of application, such as in ophthalmology departments, will help to further meet the demands of a greater proportion of the patient population.

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

Category	**2016** ***RMB'000***	**Percentage of the Group's total revenue/ gross profit** ***(%)***	2015 *RMB'000*	Percentage of the Group's total revenue/ gross profit *(%)*
Revenue:				
Alcon series ophthalmic pharmaceutical products	**1,018,495**	**56.9**	863,621	59.1
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**108,455**	**18.3**	107,119	23.2

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

In the second half of 2015, Alcon adjusted its business strategy in China which resulted in some fluctuations in the sales of Alcon's ophthalmic pharmaceutical products. Further, a reduction of bid prices in tender process in certain provinces also impacted the sales of Alcon's ophthalmic pharmaceutical products. Since 2016, notwithstanding the continued pricing pressure for Alcon's pharmaceutical products in certain provinces, following the adjustment of its business strategy leading to more targeted promotion activities and more rigorous market development, sales of Alcon's pharmaceutical products are back to normal. In addition, Alcon launched a new ophthalmic product in China to meet the demands of an increased proportion of the patient population. For the Reporting Period, the Group's revenue generated from the sales of Alcon series ophthalmic pharmaceutical products was RMB1,018.5 million, representing an increase of 17.9% as compared to last year, comprising 56.9% of the Group's revenue. Gross profit was RMB108.5 million, representing an increase of 1.2% as compared to last year and comprising 18.3% of the Group's gross profit. The Group will maintain its close ties with Alcon, as a long-term and stable partner, and will continue to improve the professionalism of its channel management services and further enhance the co-promotion service for Alcon's products, jointly approaching changes in the Chinese ophthalmic pharmaceutical product market.

1.3 Product Pipeline Development

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

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

Since 2016, China's policy in respect of registration of healthcare products has changed significantly and it is becoming more difficult to register new products. The Group appropriately adjusted its pipeline products strategy in accordance with the new policy and streamlined its product pipeline. After a comprehensive evaluation of several factors, such as registration costs and benefits and future market potential of the pipeline products, the Group has retained over 10 products in respect of which it will continue the process of registering or preparing registration applications with the China Food and Drug Administration ("**CFDA**"). The Group expects to leverage its current network of third-party promotion partners, distributors, key opinion leaders and marketing channels to launch these pipeline products promptly once approvals are obtained. Preparations for clinical trials have commenced for Mirtazapine (produced by Ehypharm of France, mainly used for the treatment of depressive episodes), which obtained clinical trial approval in the second half of 2015. In addition, the Group is now preparing supplementary documents for the CFDA for the Hernia repair patch (produced by Biocer of Germany, used for repairing various kind of hernia). The KINETIC Dynamic Anterior Cervical Plate System (produced by Lifespine of the United

States, used for an anterior cervical spinal fixation) is now under review by the CFDA. The Group is now preparing supplementary documents for the CFDA for Intacs® Corneal Implants (produced by AJL of Spain, used for reduction or elimination of myopia and astigmatism in patients with keratoconus).

2. Marketing Network Development

With the introduction of more government policies relating to the healthcare industry and constant change in the pharmaceutical sector, having a well-developed and robust marketing network is fundamental for the Group's development. The Group's marketing and promotion model comprises both in-house and third party marketing teams. To maintain the efficiency and stability of the marketing network, each product business unit of the Group has established sales and product manager teams to manage and support their third-party promotion partners. The Group's marketing and promotional activities are carried out by the in-house team and third-party promotion partners. The in-house team is primarily responsible for formulating marketing and promotion strategies, conducting selected marketing programmes, and appointing, training and supervising third-party marketing teams, who are responsible for most of the day-to-day marketing and promotional activities for the Group's products.

In 2016, the Group made further improvements to its marketing network revolving around its objectives of "professionalism" and "efficiency", to enhance operational efficiency and market responsiveness. The Group's headquarters are responsible for formulating macro marketing and promotion policies and ensuring resources are allocated in an efficient manner, so that the Group as a whole could allocate resources and manage costs efficiently.

In terms of building a professional marketing team, the Group continued to develop its in-house marketing team through internal reorganisations as well as recruitment of new external talent, and strengthening in-house marketing teams' involvement in marketing activities such as direct participation in academic product promotions. Concurrently, business units have periodically changed the third-party promotion partner structure and increased their efforts in improving the quality of third-party promotion partners, including providing further training and support to improve their understanding of the Group's products, and ensuring that accurate clinical solutions are provided to physicians. In terms of managing the marketing team, the Group has introduced a detailed management and performance review process, to improve the team's efficiency, improve the network coverage by filling any gaps identified in the market and by realising market potentials. In addition, the Group aims to improve the communication channel and platform with its third-party promotion partners to enable efficient information and experience sharing, and to jointly tackle changes in government policies and in the market more broadly. During the Reporting Period, the Group's market coverage grew substantially as a result of the improvement of its marketing network. For instance, Difene's market coverage has increased by over 500 new hospitals and medical institutions, and Fluxum's market coverage has increased by over 280 new hospitals. As of 31 December 2016, the Group had sold products through its nationwide marketing, promotion and channel management services networks to approximately 30,000 hospitals and other medical institutions and over 108,000 pharmacies across all provinces, municipalities and autonomous regions in China.

3. Significant Investment

Further Investment in NovaBay

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

The Group has completed several rounds of investment in NovaBay since 2013. As of 31 December 2015, the Group held a total of 408,153 ordinary shares of NovaBay, representing approximately 11.7% of its equity interest. In February, May and August 2016, NovaBay issued shares to various other investors including the Group. In February 2016, the Group entered into a securities purchase agreement with NovaBay, pursuant to which the Group purchased 696,590 ordinary shares of NovaBay for a total consideration of US$1,330,000. In May 2016, the Group entered into a securities purchase agreement with NovaBay, pursuant to which the Group purchased 1,308,901 ordinary shares of NovaBay and 654,451 units of NovaBay warrants with an exercise price of US$1.91 per unit and an expiry date of 4 May 2020 for a total consideration of US$2,500,000. In August 2016, the Group further entered into a securities purchase agreement with NovaBay, pursuant to which the Group purchased 1,308,901 ordinary shares of NovaBay and 654,451 units of NovaBay warrants with an exercise price of US$1.91 per unit and an expiry date of 1 August 2020 for a total consideration of US$2,500,000. Following completion of these transactions, the Group held a total of 3,722,545 ordinary shares of NovaBay, representing approximately 33.1% of its equity interest. In September 2016, the Group exercised an aggregate of 1,490,202 units of warrants in NovaBay, after which the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 36.0% of its equity interest. The Group's further investments allow the Group to enhance its business relationship with NovaBay and also helps to dilute the cost of the Group's investment in NovaBay.

As of 31 December 2016, the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 34.1% of its equity interest, and does not hold any NovaBay warrants.

For the year ended 31 December 2015, the Group recognised an impairment loss on its investment in NovaBay of RMB41.3 million, primarily due to the significant decline in NovaBay's quoted market price in late 2015. However, the closing price of NovaBay as quoted on the New York Stock Exchange as at 31 December 2015, 30 June 2016, and 31 December 2016 was US$2.02, US$2.50, and US$3.30, respectively. Therefore, based on the recoverable amount as of 31 December 2016 comparing to its corresponding carrying value, the Group recorded a reversal of an impairment loss of approximately RMB41.3 million for its investment in NovaBay.

DISPOSAL OF A SUBSIDIARY

On 17 October 2016, Pioneer Pharma (Hong Kong) Co., Limited ("**Pioneer HK**"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement, which was supplemented by a supplemental agreement thereto dated 2 December 2016 with Mr. Li Xinzhou ("**Mr. Li**"), the chairman of the Board, an executive Director and a controlling shareholder of the Company, pursuant to which Pioneer HK sold the entire issued share capital of Pioneer Singapore to Mr. Li at a cash consideration of approximately RMB158.4 million. The transaction was approved by the independent shareholders at the Company's extraordinary general meeting held on 22 December 2016. As a result of this transaction, the Group disposed of all of its equity interest in Pioneer Singapore, Covex, Q3 and Pioneer Medident originally held by the Group (as all of the equity interest in NovaBay originally held by Pioneer Singapore has been transferred to Pioneer HK through an internal reorganization completed prior to the disposal, the Group still holds the equity interest in NovaBay). Following completion of the disposal, each of Pioneer Singapore, Covex and Pioneer Medident ceased to be a subsidiary of the Company and Q3 ceased to be an associate of the Company.

The Group acquired Covex in 2014, the purpose of the acquisition being to enable the Group to obtain a stable supply of high quality Vinpocetine API at a low cost. Since that acquisition, the Group's sales of Vinpocetine API have deteriorated due to the changing and competitive Chinese market and unfavorable tender outcomes of the Group's customers in respect of their Vinpocetine API finished products. Consequently, the results of Covex have been disappointing. In 2013, the Group obtained from the Q3 group the exclusive rights to market, promote and sell TsunaMed products in China and certain Southeast Asian markets. Since 2013, the Group completed several rounds of investment in Q3 through Pioneer Singapore to strengthen cooperation. However, due to delays in the research and development progress of the TsunaMed products, the prospects of commercializing these products in the near term are unclear. Given that the Group has ceased to purchase, or has not started to purchase any products from either Covex or Q3 and given further the small scale of Pioneer Medident, these operations account for only a small proportion of the Group's revenue and the investments in these companies are no longer consistent with the Group's strategy. In addition, as these companies are loss-making, they have adversely affected the Group's financial performance and, were they to remain part of the Group, could create uncertainty as to the Group's future financial performance. The disposal is, therefore, consistent with the Group's long term strategy and is expected to improve the Group's overall financial performance.

For further details, please refer to the announcements of the Company dated 17 October 2016, 2 December 2016 and 29 December 2016, as well as the circular of the Company dated 6 December 2016.

FUTURE AND OUTLOOK

Looking ahead, the Chinese pharmaceutical industry is entering a new era. Following the concept of a "Healthy China" being introduced as a nationwide strategic objective in the "13th Five-Year Plan", and coupled with China's aging population, the long term potential and demand in the pharmaceutical industry remain positive and strong. While the transformation of the sector may create challenges in the short-term, these underlying structural adjustments will present the Group with many opportunities. The Group will reinforce its role in the value chain of the Chinese pharmaceutical sector, and focus on its two core development strategies, being "Products" and "Marketing". Leveraging on its competitive advantages, the Group will further enhance its product portfolio, improve its marketing and promotion strategies, and pursue opportunities for the Group's sustainable development.

FINANCIAL REVIEW

Revenue

Revenue increased by 22.5% from RMB1,460.9 million in 2015 to RMB1,790.3 million in 2016. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 36.4% from RMB464.5 million in 2015 to RMB633.6 million in 2016, primarily due to increased efforts on promotion and expansion on the coverage of these products through the marketing network, as well as the resumption of the import and sales of the product Polimod during the Reporting Period. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 4.1% from RMB132.8 million in 2015 to RMB138.2 million in 2016, primarily due to increased efforts on promotion of medical device consumables. Revenue generated from products sold via the provision of co-promotion and channel management services increased by 17.9% from RMB863.6 million in 2015 to RMB1,018.5 million in 2016, primarily due to the return to the normal growth track of Alcon's ophthalmic pharmaceutical products through its business strategy adjustment in China's market as well as the Group's intensifying efforts on co-promotion services for Alcon's products.

Cost of sales

Cost of sales increased by 19.9% from RMB998.3 million in 2015 to RMB1,196.9 million in 2016, primarily due to an increase of sales. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 27.5% from RMB181.4 million in 2015 to RMB231.3 million in 2016. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 8.1% from RMB60.4 million in 2015 to RMB55.5 million in 2016. Cost of sales for products sold via the provision of co-promotion and channel management services increased by 20.3% from RMB756.5 million in 2015 to RMB910.0 million in 2016.

Gross profit and gross profit margin

Gross profit increased by 28.3% from RMB462.6 million in 2015 to RMB593.4 million in 2016. The Group's average gross profit margin slightly increased from 31.7% in 2015 to 33.1% in 2016. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased from 60.9% in 2015 to 63.5% in 2016, primarily due to an increase in the sales price of some products in certain regions and Polimod in new authorised regions. The Group's gross profit margin for medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased from 54.5% in 2015 to 59.9% in 2016, primarily due to a higher proportion of revenue being derived from medical devices products which generate higher margins. The Group's gross profit margin for products sold via the provision of co-promotion and channel management services decreased from 12.4% to 10.6% in 2016, primarily due to a decrease in the bid price of certain Alcon's ophthalmic pharmaceutical products.

Other income

Other income decreased by 34.8% from RMB77.9 million in 2015 to RMB50.8 million in 2016, primarily due to a decrease in the amount of government grants and the interest income.

Distribution and selling expenses

Distribution and selling expenses increased by 105.0% from RMB135.4 million in 2015 to RMB277.5 million in 2016, primarily due to an increase of marketing and promotion expense as a result of an increase in sales price of some products in certain regions, as well as an increase of marketing and promotion activities of new products and Polimod for expanding market shares in new authorised regions. Distribution and selling expenses as a percentage of revenue increased from 9.3% in 2015 to 15.5% in 2016.

Administrative expenses

Administrative expenses increased by 9.9% from RMB66.7 million in 2015 to RMB73.4 million in 2016, primarily due to the increasing amortisation of the newly operating information system and the increasing expenses on employee training. Administrative expenses as percentage of revenue decreased from 4.6% in 2015 to 4.1% in 2016.

Finance costs

Finance costs decreased by 72.3% from RMB20.0 million in 2015 to RMB5.5 million in 2016, primarily due to a decrease in bank loans which result in lower interest expense.

Other gains and losses

The Group recorded other gains and losses at a net gain of RMB33.7 million in 2016, as compared to a net loss of RMB82.7 million 2015. The net loss in 2015 is primarily due to the impairment loss on investments in NovaBay and on goodwill in Covex by the Group, and the increase in the foreign exchange loss for the borrowings denominated in foreign exchange due to the depreciation of Renminbi. During the current Reporting Period, there was a reversal of impairment loss on investment in NovaBay and a net foreign exchange gain that resulted in a net gain in other gains and losses.

Income tax expense

Income tax expense increased by 27.5% from RMB34.3 million in 2015 to RMB43.7 million in 2016. The Group's effective income tax rate in 2016 and 2015 was 15.5% and 16.6%, respectively. Since the beginning of 2012, the Group has been conducting business primarily through Naqu Pioneer, which was subject to a reduced EIT rate of 9%. Income tax expense in 2016 included the recognition of RMB12.3 million of PRC withholding tax pursuant to the payment of an interim dividend of RMB95.0 million and proposed payment of a final dividend of RMB137.8 million.

Profit for the year

As a result of the above factors, the Group's profit increased by 38.3% from RMB172.5 million in 2015 to RMB238.6 million in 2016. The Group's net profit margin increased from 11.8% in 2015 to 13.3% in 2016.

Liquidity and Capital Resources

Cash position

The Group has historically met its working capital and other capital requirements principally from its net cash inflow supplemented by bank borrowings. The Group's cash and cash equivalents slightly decreased from RMB317.1 million as of 31 December 2015 to RMB309.6 million as of 31 December 2016.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2016:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash from operating activities	**342,039**	304,690
Net cash (used in) from investing activities	**(6,079)**	420,938
Net cash used in financing activities	**(346,908)**	(671,574)
Net (decrease) increase in cash and cash equivalents	**(10,948)**	54,054
Cash and cash equivalent at beginning of the year	**317,113**	260,834
Effect of foreign exchange rate changes	**3,475**	2,225
Cash and cash equivalents at end of the year	**309,640**	317,113

Net cash from operating activities

In 2016, the Group's net cash from operating activities was RMB342.0 million compared to net cash from operating activities of RMB304.7 million in 2015. This was mainly due to accounts receivable collection efforts enhancement and the increase of operating profit.

Net cash (used in) from investing activities

In 2016, the Group's net cash used in investing activities was RMB6.1 million compared to net cash from investing activities of RMB420.9 million in 2015. This was mainly due to further investments in associates.

Net cash used in financing activities

In 2016, the Group's net cash used in financing activities was RMB346.9 million compared to net cash used in financing activities of RMB671.6 million in 2015. This was mainly due to repayment of bank loans.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB76.3 million as at 31 December 2016 compared to RMB285.9 million as at 31 December 2015. On 31 December 2016, the effective interest rate of the Group's bank borrowings ranged from 1.81% to 4.79%, and 47.4% of the Group's bank borrowings were denominated in Renminbi while 52.6% were denominated in US dollars. On 31 December 2016, bank borrowings of RMB36.2 million were secured under the pledge of the Group's bills receivables, trade receivables and bank deposits. On 31 December 2015, bank borrowings of RMB125.9 million were secured under the pledge of the Group's bills receivables, trade receivables and bank deposits. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 4.4% as at 31 December 2016 compared to 15.7% as at 31 December 2015.

Net Current Assets

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current Assets		
Inventories	**520,244**	663,249
Finance lease receivables	**29,299**	21,720
Trade and other receivables	**436,837**	420,366
Amounts due from related parties	**39,805**	1,296
Tax recoverable	**78**	475
Prepaid lease payments	**52**	52
Derivative financial instrument	**–**	251
Pledged bank deposits	**73,120**	112,968
Bank balances and cash	**309,640**	317,113
	1,409,075	1,537,490
Current Liabilities		
Trade and other payables	**481,925**	471,690
Amounts due to related parties	**2,827**	–
Tax liabilities	**28,598**	14,778
Bank and other borrowings	**76,251**	285,935
Provision	**1,886**	1,870
Obligations under finance lease	**3,186**	1,943
	594,673	776,216
Net Current Assets	**814,402**	761,274

As of 31 December 2016, the Group had sufficient working capital and financial resources for its daily operations.

Inventories

The Group's inventory balances decreased by 21.6% from RMB663.2 million as at 31 December 2015 to RMB520.2 million as at 31 December 2016, primarily due to the sales in the past stock preparation of the products whose registration certificates were due for renewal, as well as the higher efficiency of inventory turnover as a result of the Group's enhancement of inventory management.

Trade and Other Receivables

The Group's trade and other receivables increased by 3.9% from RMB420.4 million as at 31 December 2015 to RMB436.8 million as at 31 December 2016. Trade receivables turnover days decreased from 89.4 days for the year ended 31 December 2015 to 69.8 days for the year ended 31 December 2016, primarily due to the Group's intensifying efforts in collecting accounts receivable.

Trade and Other Payables

The Group's trade and other payables increased by 2.2% from RMB471.7 million as at 31 December 2015 to RMB481.9 million as at 31 December 2016. The Group's trade payables turnover days decreased from 149.5 days for the year ended 31 December 2015 to 128.5 days for the year ended 31 December 2016, primarily due to payment for the accounts payable of the past stock preparation during the Reporting Period.

Capital Expenditure

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

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Purchases of property, plant and equipment	**5,193**	6,149
Purchases of intangible assets	**2,775**	1,600
Total	**7,968**	7,749

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	**Between 1 and 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As of 31 December 2016			
Bank borrowings	**76,251**	**–**	**76,251**
Trade payables	**416,839**	**75**	**416,914**
As of 31 December 2015			
Bank borrowings	285,935	–	285,935
Trade payables	425,977	101	426,078

Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2016.

Market Risks

The Group is exposed to various types of market risks, including interest rate fluctuation risk, foreign exchange risk and credit risk in the normal course of business, such as the depreciation of Renminbi against US dollar in 2016, resulting in an increase in product purchasing costs denominated in US dollar.

Dividend

For the year ended 31 December 2016, the aggregate amount of the interim dividend of 2016 and the final dividend of year ended 31 December 2015 was respectively RMB95.0 million and RMB47.5 million. The Board resolved to recommend the payment of a final dividend of RMB10.3 cents per share, subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 28 April 2017. The final dividend is expected to be paid to the Shareholders on 15 May 2017. It will be paid in Hong Kong dollar, such amount is to be calculated by reference to the median exchange rate last published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 2 May 2017.

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2016, the Group had a total of 345 employees. For the year ended 31 December 2016, the staff costs of the Group was RMB53.2 million as compared to RMB51.8 million for the year ended 31 December 2015.

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute during the Reporting Period.

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

ANNUAL GENERAL MEETING

The AGM is scheduled to be held on Friday, 28 April 2017. A notice convening the AGM will be published and dispatched to the Shareholders in the manner required by the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 April 2017 to 28 April 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on 28 April 2017. 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 13 April 2017.

The register of members of the Company will also be closed on 8 May 2017, in order to determine the entitlement of the Shareholders to the final dividend (if approved by the Shareholders at the AGM). 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 5 May 2017.

USE OF PROCEEDS FROM SHARE OFFER

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

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

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

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

As of 31 December 2016, the unused IPO Proceeds of approximately HK$80.8 million were deposited in licensed banks in Hong Kong. For details of the adjustments to use of the IPO Proceeds, please refer to the announcement of the Company dated 9 May 2016.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2016, the Company has complied with all applicable code provisions under the CG Code. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to 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 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities other than the purchases of the shares of the Company (the "**Shares**") by the trustee pursuant to the Share Award Scheme.

SHARE AWARD SCHEME

The Company adopted the Share Award Scheme to recognise 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. The Share Award Scheme has a term of 10 years commencing from 10 April 2015 on which date the Share Award Scheme was adopted by the Board (the "**Adoption Date**"). The Share Award Scheme is administrated by the Board and the trustee of the Share Award Scheme. For details of the Share Award Scheme, please refer to the announcement of the Company dated 10 April 2015. On 9 October 2015, the Board had resolved to grant a total of 25,060,000 awarded shares to 150 selected employees. 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 2016.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company (the "**Audit Committee**") include reviewing the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

The annual results of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee. This annual results announcement is based on the Group's audited consolidated financial statements for the year ended 31 December 2016 which have been agreed with the auditors of the Company.

AUDITOR

The Company appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2016. The Company will submit a resolution in the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.pioneer-pharma.com/), and the 2016 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Pioneer Pharma Holdings Limited
Li Xinzhou
Chairman

Hong Kong, 22 March 2017

As at the date of this announcement, the Directors are Mr. LI Xinzhou and Mr. ZHU Mengjun as executive Directors, Mr. WANG Yinping and Mr. WU Mijia as non-executive Directors and Mr. XU Zhonghai, Mr. LAI Chanshu and Mr. WONG Chi Hung, Stanley as independent non-executive Directors.