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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 2017

FINANCIAL HIGHLIGHTS

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

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 2017 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	3	**2,153,935**	1,790,275
Cost of sales		**(1,432,514)**	(1,196,858)
Gross profit		**721,421**	593,417
Other income	4	**44,665**	50,753
Other gains and losses	5	**(4,998)**	33,745
Distribution and selling expenses		**(370,272)**	(277,488)
Administrative expenses		**(66,557)**	(73,370)
Finance costs	6	**(2,301)**	(5,523)
Share of loss of associates		**(12,641)**	(39,184)
Profit before tax		**309,317**	282,350
Income tax expense	7	**(28,710)**	(43,726)
Profit for the year	8	**280,607**	238,624
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of foreign operations		**13,210**	(18,425)
– Share of exchange differences of associates		**(5,175)**	6,792
– Release of translation reserve upon disposal of subsidiaries		**–**	30,263
Other comprehensive income for the year		**8,035**	18,630
Total comprehensive income for the year		**288,642**	257,254
Profit for the year attributable to:			
Owners of the Company		**278,925**	237,445
Non-controlling interests		**1,682**	1,179
		280,607	238,624
Total comprehensive income attributable to:			
Owners of the Company		**286,964**	256,191
Non-controlling interests		**1,678**	1,063
		288,642	257,254
		RMB yuan	*RMB yuan*
Earnings per share			
Basic and diluted	9	**0.22**	0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current Assets			
Property, plant and equipment		**52,336**	49,853
Prepaid lease payments		**2,115**	2,167
Intangible assets		**15,187**	15,883
Interest in an associate	*11*	**72,053**	89,223
Other investment		**20,000**	20,000
Finance lease receivables		**21,589**	38,905
Deferred tax assets		**5,373**	5,947
Amount due from a related party		**115,554**	117,419
		304,207	339,397
Current Assets			
Inventories		**623,388**	520,244
Finance lease receivables		**46,197**	29,299
Trade and other receivables	*12*	**509,165**	436,837
Amounts due from related parties		**–**	39,805
Tax recoverable		**16**	78
Prepaid lease payments		**52**	52
Pledged bank deposits		**74,867**	73,120
Certificate of deposits		**50,000**	–
Bank balances and cash		**226,154**	309,640
		1,529,839	1,409,075
Current Liabilities			
Trade and other payables	*13*	**626,439**	481,925
Amounts due to related parties		**–**	2,827
Tax liabilities		**16,446**	28,598
Bank borrowings	*14*	**29,000**	76,251
Provision		**1,886**	1,886
Obligations under finance lease		**5,336**	3,186
		679,107	594,673
Net Current Assets		**850,732**	814,402
Total Assets less Current Liabilities		**1,154,939**	1,153,799

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

1. GENERAL

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

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

New and revised IFRSs issued but not yet effective

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

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

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

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

IFRS 9 *Financial Instruments*

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

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

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

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

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

Classification and measurement

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

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

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

Impairment

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

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

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

IFRS 16 *Leases*

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

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

The amendments clarify the following:

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

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

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

   (i) the original liability is derecognised;

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Information reported to the executive directors, being the chief operating decision maker ("**CODM**") for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the gross profit earned by each segment.

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

(a) Ophthalmic pharmaceutical products – sales of the Group's ophthalmic pharmaceutical products to the customers under the co-promotion and channel management arrangement ("**Products sold via the provision of co-promotion and channel management services**"); and

(b) Sales of all of the Group's pharmaceutical products and medical devices except for ophthalmic pharmaceutical products to the customers under the comprehensive marketing, promotion and channel management arrangement ("**Products sold via the provision of comprehensive marketing, promotion and channel management services**").

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

Segment revenues and results

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

For the year ended 31 December 2017

	Products sold via the provision of comprehensive marketing, promotion and channel management services	**Products sold via the provision of co-promotion and channel management services**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	**944,519**	**1,209,416**	**2,153,935**
Cost of sales	**(346,632)**	**(1,085,882)**	**(1,432,514)**
Gross profit & segment result	**597,887**	**123,534**	**721,421**
Other income			**44,665**
Other gains and losses			**(4,998)**
Distribution and selling expenses			**(370,272)**
Administrative expenses			**(66,557)**
Finance costs			**(2,301)**
Share of loss of an associate			**(12,641)**
Profit before tax			**309,317**

For the year ended 31 December 2016

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

Revenue from major products

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

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

Geographical information

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

Information about major customers

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

4. OTHER INCOME

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

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

5. OTHER GAINS AND LOSSES

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

A subsidiary, Pioneer Dynamic Co., Ltd., was incorporated in Taiwan and subject to corporate income tax of 17%. No provision for Taiwan income tax was made for the period from 1 January 2017 to the date of cessation of operation on 11 July 2017 as it is loss-making and had no assessable profits since its incorporation.

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

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, which is located in Naqu, Tibet, is subject to a reduced EIT rate of 9% from 2010 to 2019.

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

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

8. PROFIT FOR THE YEAR

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

9. EARNINGS PER SHARE

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

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

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

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

10. DIVIDENDS

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

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

11. INTEREST IN AN ASSOCIATE

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

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

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

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

Note:

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

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB61,127,000 (2016: RMB79,482,000), which are past due as at 31 December 2017. Based on the historical experience of the Group, those trade receivables that are past due but not impaired are generally recoverable due to the long term cooperation history. In determining the allowance for trade receivables, the management considers the credit history including default in payments, settlement records and subsequent settlements and any changes in the creditability of its customers. The Group does not hold any collateral over these balances.

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

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

Movement in the allowance for doubtful debts:

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

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

13. TRADE AND OTHER PAYABLES AND LONG TERM LIABILITIES

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

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

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

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

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

14. BANK BORROWINGS

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

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

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

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

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

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

1. Product Development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.3 Product Pipeline

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

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

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

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

2. Marketing Network Development

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

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

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

3. Significant Investment

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

The Group has made several rounds of investments in NovaBay since 2013. As of 31 December 2017, the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 33.9% of its equity interest, and does not hold any NovaBay warrants.

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

4. Future and Outlook

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income

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

Distribution and selling expenses

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

Administrative Expenses

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

Finance costs

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

Other gains and losses

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

Income tax expense

Income tax expense decreased by 34.3% from RMB43.7 million in 2016 to RMB28.7 million in 2017. The Group's effective income tax rate in 2017 and 2016 was 9.3% and 15.5%, respectively. Since the beginning of 2012, the Group has been conducting business primarily through Naqu Pioneer, which was subject to a reduced EIT rate of 9%.

Profit for the year

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

Liquidity and Capital Resources

Cash Position

The Group has historically met its working capital and other capital requirements principally from net cash flow supplemented by bank borrowings. The Group's cash and cash equivalents slightly decreased from RMB309.6 million as of 31 December 2016 to RMB226.2 million as of 31 December 2017.

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

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

Net cash from operating activities

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

Net cash used in investing activities

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

Net cash used in financing activities

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

Bank borrowings and gearing ratio

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

Net Current Assets

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

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

Inventories

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

Trade and Other Receivables

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

Trade and Other Payables

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

Capital Expenditure

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

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

Indebtedness

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

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Total *RMB'000*
As of 31 December 2017			
Bank borrowings	**29,000**	**–**	**29,000**
Trade payables	**568,369**	**575**	**568,944**
As of 31 December 2016			
Bank borrowings	76,251	–	76,251
Trade payables	416,839	75	416,914

Contingent Liabilities

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

Market Risks

The Group is exposed to various types of market risks, including interest rate fluctuation risk, foreign exchange risk and credit risk in the normal course of business.

Dividends

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

EMPLOYEE AND REMUNERATION POLICY

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

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

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

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

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 15 May 2018. A notice convening the Annual General Meeting 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 5 May 2018 to 15 May 2018, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming AGM to be held on 15 May 2018. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 4 May 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions as set out in the CG Code for the year ended 31 December 2017. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors, and each of the Directors have confirmed that he has complied with the required standard set out in the Model Code and the code of conduct for the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

All of the shares bought back were subsequently cancelled. The Board considers that the value of the Shares in the capital market was undervalued. The market value of the Shares was far below their intrinsic value, taking into account the Group's sufficient and strong financial resources. The Board believes that the Company's healthy financial position allows the Company to conduct the above buy-backs while maintaining sufficient financial resources for the continuous growth of the Group's operations. The Board also believes the share buy-backs and subsequent cancellation of the repurchased Shares can improve the return to shareholders.

Save as disclosed above and the purchases of the shares by the trustee pursuant to the Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

SHARE AWARD SCHEME

The Share Award Scheme has a term of 10 years commencing from 10 April 2015 on which the Share Award Scheme was adopted by the Board. The Share Award Scheme is administrated by the Board and the trustee of the Share Award Scheme. For details of the Share Award Scheme, please refer to the announcement of the Company dated 10 April 2015.

On 9 October 2015, the Board had resolved to grant a total of 25,060,000 awarded shares to 150 selected employees with the award price of HK$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme during the year ended 31 December 2017.

AUDIT COMMITTEE

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

The annual results for the year ended 31 December 2017 of the Group has been reviewed by the Audit Committee and this annual results announcement is based on the Group's audited consolidated financial statements for the year ended 31 December 2017.

AUDITOR

The Company appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2017. 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 2017 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 2017 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, 21 March 2018

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.