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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 2018

FINANCIAL HIGHLIGHTS

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

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 2018 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current Assets			
Property, plant and equipment		**46,144**	52,336
Prepaid lease payments		**2,063**	2,115
Intangible assets		**14,106**	15,187
Interest in an associate	*11*	**27,599**	72,053
Other investment		**–**	20,000
Equity instruments at fair value through other comprehensive income	*12*	**180,892**	–
Finance lease receivables		**4,072**	21,589
Deposits paid for interest in an associate		**7,981**	–
Deferred tax assets		**8,578**	5,373
Amount due from a related party		**63,178**	115,554
		354,613	304,207
Current Assets			
Inventories		**417,387**	623,388
Finance lease receivables		**40,268**	46,197
Trade and other receivables	*13*	**319,874**	509,165
Amounts due from related parties		**58,881**	–
Financial asset at fair value through profit or loss		**47,000**	–
Tax recoverable		**231**	16
Prepaid lease payments		**52**	52
Pledged bank deposits		**48,684**	74,867
Certificate of deposits		**–**	50,000
Bank balances and cash		**150,854**	226,154
		1,083,231	1,529,839
Current Liabilities			
Trade and other payables	*14*	**200,097**	626,439
Tax liabilities		**14,489**	16,446
Bank borrowings	*15*	**96,500**	29,000
Provision		**1,886**	1,886
Contract liabilities		**12,364**	–
Obligations under finance leases		**4,637**	5,336
		329,973	679,107
Net Current Assets		**753,258**	850,732
Total Assets less Current Liabilities		**1,107,871**	1,154,939

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2018

1. GENERAL

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

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

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

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

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

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

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

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

2.1 IFRS 15 Revenue from Contracts with Customers

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

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

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

- Sales of pharmaceutical products and medical devices

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

Summary of effects arising from initial application of IFRS 15

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

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

Note:

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

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

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

Notes:

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

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

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

Impact on the consolidated statement of financial position

	Notes	As reported *RMB'000*	Adjustments *RMB'000*	Amounts without application of IFRS 15 *RMB'000*
Non-current Asset				
Interest in an associate	*(a)*	27,599	(5,432)	22,167
Current Liabilities				
Trade and other payables	*(b)*	201,041	12,364	213,405
Contract liabilities	*(b)*	12,364	(12,364)	–
Capital and Reserves				
Accumulated profits		420,743	(5,432)	415,311

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

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

Impact on the consolidated statement of cash flows

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

Notes:

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

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

2.2 IFRS 9 Financial Instruments and the related amendments

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

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

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

Summary of effects arising from initial application of IFRS 9

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

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

Notes:

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

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

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

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

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

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

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

New and amendments to IFRSs in issue but not yet effective

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

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

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

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

IFRS 16 Leases

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

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

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

Segment revenues and results

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

For the year ended 31 December 2018

	Products sold via the provision of comprehensive marketing, promotion and channel management services *RMB'000*	**Products sold via the provision of co-promotion and channel management services** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue	**905,138**	**719,167**	**1,624,305**
Cost of sales	**(319,286)**	**(672,595)**	**(991,881)**
Gross profit & segment result	**585,852**	**46,572**	**632,424**
Other income			**29,047**
Impairment losses, net of reversal			**(14,696)**
Other gains and losses			**(49,911)**
Distribution and selling expenses			**(399,655)**
Administrative expenses			**(74,353)**
Finance costs			**(1,372)**
Share of loss of an associate			**(14,370)**
Profit before tax			**107,114**

For the year ended 31 December 2017

	Products sold via the provision of comprehensive marketing, promotion and channel management services *RMB'000*	Products sold via the provision of co-promotion and channel management services *RMB'000*	Consolidated *RMB'000*
Segment revenue	944,519	1,209,416	2,153,935
Cost of sales	(346,632)	(1,085,882)	(1,432,514)
Gross profit & segment result	597,887	123,534	721,421
Other income			44,665
Impairment losses, net of reversal			6,718
Other gains and losses			(11,716)
Distribution and selling expenses			(370,272)
Administrative expenses			(66,557)
Finance costs			(2,301)
Share of loss of an associate			(12,641)
Profit before tax			309,317

Disaggregation of revenue from contracts with customers by major products

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

Geographical information

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 72% (2017: 49%) of non-current assets excluding equity instruments at FVTOCI, other investment, finance lease receivables, deferred tax assets and amount due from a related party of the Group are located in the PRC, and the remaining 28% (2017: 51%) is located in the United States in relation to the interest in an associate. Over 99% (2017: 99%) of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

Information about major customers

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

4. OTHER INCOME

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

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

5. OTHER GAINS AND LOSSES

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

Pioneer Pharma (Hong Kong) Co., Limited ("**Pioneer HK**") is incorporated in Hong Kong.

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

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

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

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

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

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

8. PROFIT FOR THE YEAR

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

9. EARNINGS PER SHARE

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

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

For the years ended 31 December 2018 and 2017, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the Scheme and the ordinary shares repurchased and cancelled by the Company.

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

10. DIVIDENDS

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

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

11. INTEREST IN AN ASSOCIATE

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

Note: As at 31 December 2018, the fair value of the Group's interest in NovaBay, of which its shares are listed on the New York Stock Exchange, was United States Dollars ("**US$**") 4,014,000 (equivalent to RMB27,599,000) (2017: US$20,069,000 (equivalent to RMB130,646,000)) based on the quoted market price available on the New York Stock Exchange.

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

Name of associate	Form of entity	Class of shares held	Principal activity	Place of incorporation and operation	Proportion of ownership interest (ordinary share) and voting power held by the Group 2018	2017
NovaBay *(Note)*	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	Untied States	**30.50%**	33.88%

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

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

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

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

12. OTHER INVESTMENT/EQUITY INSTRUMENTS AT FVTOCI

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

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

Notes:

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

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

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

13. TRADE AND OTHER RECEIVABLES

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

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

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

For sales of medical devices, except for sales of medical devices under finance lease pursuant to which the legal ownership is transferred upon full payment of the contract sum, the remaining sales of medical devices involved immediate transfer of legal ownership with contract sums to be settled by instalments over a general period of 12 to 36 months as stated in contracts are included in trade receivables.

The following is an aging analysis of trade receivables net of allowance for credit losses, presented based on invoice date at respective reporting dates, which approximated the respective revenue recognition dates:

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

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

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

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB61,127,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on the historical experience of the Group, those trade receivables that are past due but not impaired are generally recoverable due to the long term cooperation history. In determining the allowance for trade receivables, the management considers the credit history including default in payments, settlement records and subsequent settlements and any changes in the creditability of its customers. The Group does not hold any collateral over these balances.

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

	2017
	RMB'000
61 days to 180 days	35,835
181 days to 1 year	8,896
1 year to 2 years	10,382
2 years to 3 years	6,014
	61,127

Movement in the allowance for doubtful debts of trade receivables:

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

14. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

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

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

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

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

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

15. BANK BORROWINGS

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

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

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

Notes:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

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

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

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

For the Reporting Period, the Group's revenue decreased by 24.6% year-on-year to RMB1,624.3 million (2017: RMB2,153.9 million), gross profit decreased by 12.3% year-on-year to RMB632.4 million (2017: RMB721.4 million) and net profit for the year decreased by 69.8% year-on-year to RMB84.8 million (2017: RMB280.6 million).

For the Reporting Period, the Group's revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 1.6% compared to last year to RMB805.7 million, representing 49.6% of the Group's revenue for the Reporting Period. Gross profit increased by 0.9% compared to last year to RMB529.4 million, representing 83.7% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 21.1% compared to last year to RMB99.4 million, representing 6.1% of the Group's revenue for the Reporting Period. Gross profit decreased by 22.8% compared to last year to RMB56.5 million, representing 8.9% of the Group's gross profit for the Reporting Period.

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

1. Product Development

As of 31 December 2018, the Group had a product portfolio of pharmaceutical products (mostly being prescription products) covering ophthalmology, pain management, cardiovascular, immunology, gynecology, gastroenterology and other therapeutic areas; and medical devices covering several medical specialties including ophthalmology, orthopedics, odontology and wound care products.

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

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

During the Reporting Period, as a result of many factors such as the trend towards refined medical insurance cost control, the increasingly stringent management of drug's clinical pathway and the control of the percentage of drug sales in total revenue of public medical institutions, although drug prices reduction in tender processes and drug consumption limitations in medical institutions have continued, the trend towards structural differentiation for clinical use of drugs became more obvious. The Group adopted a sensible promotion strategy, highlighting the products' superior quality and clear clinical effectiveness, resulting in the Group securing a stable market position for its products. During the Reporting Period, revenue generated from this segment slightly decreased by 1.6% compared to last year to RMB805.7 million, representing 49.6% of the Group's revenue for the Reporting Period. Gross profit increased by 0.9% compared to last year to RMB529.4 million, representing 83.7% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from the sales of Difene was RMB163.0 million, representing an increase of 13.0% compared to last year. Through proactively organizing and participating in various academic conferences, the Group seized the opportunities for increasing brand publicity, and refined its strategy of academic promotion, so as to expand market coverage through accelerating its penetration into more hospitals and small-sized medical institutions, as well as increasing the sales of Difene at each target hospital. With the constant expansion of the coverage of medical institutions, the superior quality of Difene has gained recognition from more doctors and patients, and the brand recognition of the products has also been further strengthened. Difene is the sole dosage product of its type in the market and comes in 10-pack and 20-pack packaging specifications. In the past, revenue from Difene mainly originated from sales of the 10-pack specification. Benefiting from the Group's overall layout in the past year, as well as the official execution of new tender results in more provinces, 20-pack specification has become a significant supplement to the market, achieving an increasing contribution to the Group's revenue. Through increased marketing activities, such as education programmes for doctors and patients on the product, the Group will strategically further expand the market coverage of 20-pack specification, so as to increase its sales volume. Furthermore, in 2018, the two specifications of Difene successively won favourably priced bids in more provinces, laying a solid foundation for the future development of the product.

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

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

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

For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services decreased by 21.1% compared to last year to RMB99.4 million, representing 6.1% of the Group's revenue for the Reporting Period. Gross profit decreased by 22.8% compared to last year to RMB56.5 million, representing 8.9% of the Group's gross profit for the Reporting Period. The Group's overall performance of the business segment of medical devices was still affected by the factors such as the decrease in bidding prices of some medical device consumables and market competition. However, based on the features of its products, the Group organized its promotion strategy carefully, and accelerated the marketing campaigns of products launched for a shorter time, so as to lay the foundation for the future business development of medical device sector. Specifically, during the Reporting Period, the sales of ophthalmic surgical equipment and consumables and dental equipment and consumables still achieved solid growth. Moreover, the sales of NeutroPhase (a wound cleanser) has also appeared a rapid growth trend following the adjustment of promotion direction and strategies. The Group will gradually enhance the market position of medical devices products, strengthen its promotion activities, and improve the contribution of this business segment to the Group's revenue.

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

Category	**2018**	**Percentage of the Group's total revenue/ gross profit**	2017	Percentage of the Group's total revenue/ gross profit
	RMB'000	***(%)***	*RMB'000*	*(%)*
Revenue:				
Alcon series ophthalmic pharmaceutical products	**719,167**	**44.3**	1,209,416	56.1
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**46,572**	**7.4**	123,534	17.1

The Group has been providing co-promotion and channel management services for all of Alcon's Products in China for over 20 years. As disclosed in the Company's announcement dated 28 December 2017, the Group entered into a transitional agreement with Alcon and Beijing Novartis Pharmaceutical Co., Ltd. ("**Beijing Novartis**") in December 2017, pursuant to which Alcon and Beijing Novartis agreed to continue to supply an agreed minimum value of Alcon's Products to the Group in 2018, and the total value (i.e. the total cost) of the Alcon's Products which the Group may sell in 2018 would be no less than RMB617 million (net of tax).

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

On 1 January 2019, the Group entered into an agreement with Alcon, pursuant to which Alcon granted the Group the exclusive rights to import, store, distribute and sell nine products (eleven specifications) in China. The agreement was effective for a term of five years from 1 January 2019. The Group and Alcon have been cooperating with each other for over 20 years and both witnessed the development and changes of the ophthalmic pharmaceutical market in China. The continuation of this cooperation will help strengthen the Group's long-term partnership with Alcon as well as the Group's profitability.

1.3 Product Pipeline

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

In 2018, in accordance with the requirement of "Reform Opinions on Deepening the Review and Approval System and Encouraging the Innovation of Medical Products" issued by General Office of the State Council, several reform measures in respect of Chinese pharmaceuticals and medical devices approval policies were pushed forward. In particular, the optimization of clinical trial review and approval procedures, as well as the acceptance of overseas clinical trial data, will result in accelerating the launched process in China for overseas high-quality pharmaceuticals and medical devices. The Group proactively maintains close liaison with a number of overseas pharmaceutical and medical device companies in order to timely introduce their products with potentials or market foundations for marketing, promotion and sales.

2. Marketing Network Development

In 2018, the "Two-Invoice System" policy has been fully implemented in all provinces of the country. As the sole importer of an overseas medical product in China, the Group is considered as the manufacturer of such imported medical product under the "Two-Invoice System". Since last year, the Group's business model has also been optimized and improved. During the Reporting Period, the Group has continually refined the network of distributors, and consolidated product distribution channels to meet the requirements of "Two-Invoice System". Meanwhile, it also helps to enhance the Group's operational efficiency and prevent operational risk.

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

During the Reporting Period, the Group continued to implement the operational mechanism of product business unit divided by products or product series, and conduct products' promotion and sales work. The Group has established a sales and product manager team for each product business unit, to manage and support their third-party promotion partners. In the environment of ever-changing policies and violent market competition of pharmaceutical industry, the Group constantly adjusted and optimized all components within the marketing network, with the aim of strengthening rapid market responsiveness, as well as effective and professional product promotion activities. During the Reporting Period, with the more attention paid by the Group to the academic training of the in-house marketing team, the Group strengthened the frequency and depth of the marketing activities for product academic promotion involved by the internal marketing team, so as to raise the internal core driving force for the product promotion. According to the market situation, the Group has also increased its efforts in optimizing the network structure of the third-party promotion partners, and improved the understanding and knowledge for the products of the third-party promotion partners, including providing further large-scale and normalized training, and assisting them in providing doctors with clinical solutions related to the products. Through the close collaboration between in-house teams and third-party promotion partners, the Group shared the pharmaceutical policies and market information all over the country, and improved the communication mechanism and platform with third-party promotion partners so as to improve the operation efficiency and continuously drive the Group's products development. During the Reporting Period, the development of the Group's marketing network led to significant improvement to its market coverage. For instance, number of hospitals and medical institutions using Difene has increased by 4,518, the number of hospitals using Fluxum has increased by 545. In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group's operation.

3. Significant Investment

3.1 Investment in NovaBay

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

The Group has made several rounds of investments in NovaBay since 2013. As of 31 December 2018, the Group held a total of 5,212,747 ordinary shares of NovaBay, representing approximately 30.5% of its equity interest, and did not hold any NovaBay warrants.

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

For the year ended 31 December 2018, the Company recognised an impairment loss of RMB48,103,000 in relation to the Group's investment in NovaBay, due to the overall drop in share price and the going concern issue of NovaBay identified by its management.

3.2 Investment in Paragon

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

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

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

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

For the year ended 31 December 2018, as a result of the drop in share price of Paragon, the Company recognised a fair value loss in other comprehensive income in respect of its investment in Paragon.

3.3 Investment in Pioneer Huimei

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

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

4. Future and Outlook

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income

Other income decreased by 35.0% from RMB44.7 million in 2017 to RMB29.0 million in 2018, primarily due to a decrease in the amount of government grants received by the Group.

Distribution and selling expenses

Distribution and selling expenses increased by 7.9% from RMB370.3 million in 2017 to RMB399.7 million in 2018, primarily due to an increase of marketing and promotion activities for expanding the market shares of certain products, as well as an increase of marketing and promotion expenses as a result of an increase in sales price of some products in certain regions. Distribution and selling expenses as a percentage of revenue increased from 17.2% in 2017 to 24.6% in 2018.

Administrative expenses

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

Finance costs

Finance costs decreased by 40.4% from RMB2.3 million in 2017 to RMB1.4 million in 2018 primarily due to a decrease in the average amount of bank loans which results in lower interest expense.

Other gains and losses

The Group recorded other gains and losses at a net loss of RMB49.9 million in 2018 primarily due to the impairment loss on investment in NovaBay. A net loss of RMB11.7 million in 2017 primarily due to net foreign exchange loss.

Income tax expense

Income tax expense decreased by 22.2% from RMB28.7 million in 2017 to RMB22.3 million in 2018. The Group's effective income tax rate in 2018 and 2017 was 20.9% and 9.3%, respectively. Since the beginning of 2012, the Group has been conducting business primarily through Naqu Pioneer, which was subject to a reduced EIT rate of 9%.

Profit for the year

As a result of the above factors, the Group's profit decreased by 69.8% from RMB280.6 million in 2017 to RMB84.8 million in 2018. The Group's net profit margin decreased from 13.0% in 2017 to 5.2% in 2018.

Liquidity and capital resources

Cash Position

The Group has historically met its working capital and other capital requirements principally from net cash flow supplemented by bank borrowings. The Group's cash and cash equivalents decreased from RMB226.2 million as of 31 December 2017 to RMB150.9 million as of 31 December 2018.

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

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

Net cash from operating activities

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

Net cash used in investing activities

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

Net cash used in financing activities

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

Bank borrowings and gearing ratio

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

Net Current Assets

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

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

Inventories

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

Trade and other receivables

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

Trade and other payables

The Group's trade and other payables decreased by 68.1% from RMB626.4 million as at 31 December 2017 to RMB200.1 million as at 31 December 2018. The Group's trade payables turnover days increased from 125.6 days as at 31 December 2017 to 131.0 days as at 31 December 2018, primarily due to an increase in the proportion of products purchased with a longer payment term for the Reporting Period.

Capital Expenditure

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

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchases of property, plant and equipment	**385**	9,726
Purchases of intangible assets	**475**	860
Total	**860**	10,586

Indebtedness

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

	Less than 1 year	**Between 1 and 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As of 31 December 2018			
Bank borrowings	**96,500**	**–**	**96,500**
Trade payables	**143,129**	**130**	**143,259**
As of 31 December 2017			
Bank borrowings	29,000	–	29,000
Trade payables	568,369	575	568,944

Contingent Liabilities

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

Market Risks

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

Dividend

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

EMPLOYEE AND REMUNERATION POLICY

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

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

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

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

ANNUAL GENERAL MEETING

The annual general meeting ("**AGM**") will be held on Wednesday, 22 May 2019. A notice convening the forthcoming AGM will be published and dispatched to the shareholders of the Company (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 12 May 2019 to 22 May 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM to be held on 22 May 2019. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 10 May 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions as set out in the CG Code for the year ended 31 December 2018. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code contained in Appendix 10 to 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 for the year ended 31 December 2018.

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

The Company had bought back the following shares on the Stock Exchange during the year ended 31 December 2018 with details as set out below:

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

All of the shares bought back were subsequently cancelled. The Board considers that the value of the shares of the Company in the capital market was undervalued. The market value of the shares was far below their intrinsic value, taking into account the Group's sufficient and strong financial resources. The Board believes that the Company's healthy financial position allows the Company to conduct the above buy-backs while maintaining sufficient financial resources for the continuous growth of the Group's operations. The Board also believes the share buy-backs and subsequent cancellation of the repurchased shares can improve the return to Shareholders. Save as disclosed above and the purchases of the shares by the trustee pursuant to the Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

SHARE AWARD SCHEME

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

On 9 October 2015, the Board had resolved to grant a total of 25,060,000 awarded shares to 150 selected employees with the award price of HK$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme during the year ended 31 December 2018.

AUDIT COMMITTEE

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

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

AUDITOR

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

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2018 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 2018 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, 28 March 2019

As at the date of this announcement, the Directors are Mr. LI Xinzhou and Mr. LUO Chunyi as executive Directors, Mr.WANG Yinping and Mr. WU Mijia as non-executive Directors and Mr. ZHANG Hong, Mr. YAN Guoxiang and Mr. WONG Chi Hung, Stanley as independent non-executive Directors.