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

(incorporated in the Cayman Islands with limited liability)

Stock Code : 01345

Interim Report **2014**

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Xinzhou *(Chairman and Chief Executive Officer)*
Mr. Zhu Mengjun *(Deputy General Manager and Chief Financial Officer)*

Non-executive Directors

Mr. Lu Yuan
Mr. Wu Mijia
Mr. Zhang Wenbin

Independent Non-executive Directors

Mr. Xu Zhonghai
Mr. Lai Chanshu
Mr. Wong Chi Hung, Stanley

AUDIT COMMITTEE

Mr. Wong Chi Hung, Stanley *(Chairman)*
Mr. Xu Zhonghai
Mr. Wu Mijia

REMUNERATION COMMITTEE

Mr. Xu Zhonghai *(Chairman)*
Mr. Lai Chanshu
Mr. Zhang Wenbin

NOMINATION COMMITTEE

Mr. Li Xinzhou *(Chairman)*
Mr. Lai Chanshu
Mr. Xu Zhonghai

AUTHORISED REPRESENTATIVES

Mr. Zhu Mengjun
Ms. Yung Mei Yee

JOINT COMPANY SECRETARIES

Mr. Min Le
Ms. Yung Mei Yee *(FCIS, FCS)*

REGISTERED OFFICE

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George Town
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Cayman Islands

CORPORATE HEADQUARTERS

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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17th Floor, Hopewell Centre
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Wanchai, Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

01345

COMPANY'S WEBSITE

http://www.pioneer-pharma.com/

Financial Highlights

- Revenue of the Group increased by 34.0% to RMB738.8 million in the six months ended 30 June 2014 from RMB551.3 million in the six months ended 30 June 2013.

- Net profit of the Group increased by 22.5% to RMB136.0 million in the six months ended 30 June 2014 from RMB111.1 million in the six months ended 30 June 2013. Excluding the effect of taxes returned in the form of government grants, net profit of the Group increased by 79.1% to RMB136.0 million in the six months ended 30 June 2014 from RMB 76.0 million in the six months ended 30 June 2013.

- Basic earnings per share was RMB0.10 in the six months ended 30 June 2014.

- An interim dividend of RMB8.5 cents per share (equivalent to HK$10.7 cents per share) was declared by the Board.

	For the six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (audited)
Operating results		
Revenue	**738,787**	551,330
Gross profit	**241,255**	163,233
Profit before income tax	**158,090**	124,922
Profit for the period	**136,030**	111,080
Profit for the period, all attributable to the owners of the Company	**136,656**	112,499

Company Overview

China Pioneer Pharma Holdings Limited ("the Company", together with its subsidiaries, the "Group") is one of the largest comprehensive marketing, promotion and channel management service providers dedicated to imported pharmaceutical products and medical devices in China. Founded in 1996, the Group has an 18-year operating history.

The Group provides comprehensive marketing, promotion and channel management services to small- and medium-sized overseas suppliers that lack the critical mass or ability to independently market their products in the rapidly growing Chinese healthcare market. The Group provides co-promotion and channel management services to Alcon, the world's largest eye care products company.

Marketing and promotion services the Group provides include formulating marketing and promotion strategies, educating individual physicians on the clinical uses and benefits of the Group's products, organising academic conferences, seminars, symposiums and other promotional activities, and appointing and supervising third-party promotion partners (who are responsible for most of the day-to-day marketing and promotional activities). When required by its suppliers, the Group also manages the product registration process that is necessary to enable the sale of imported pharmaceutical products and medical devices in China.

Channel management services the Group provides focus on customs clearance and warehousing, participating in tender processes that are a requirement for selling pharmaceutical products and medical devices to public hospitals and medical institutions, appointing and managing distributors (who primarily process purchase orders, deliver products and collect payments), managing and optimising inventory levels at distributors and hospitals, and collecting, integrating and analysing sales data.

The Group currently purchases its products primarily from eight major suppliers based in Europe and North America. The Group's product portfolio includes a number of products manufactured by small- and medium-sized overseas suppliers, sales of which experienced high growth rate during the past few years. These products address unmet medical needs or have superior clinical profiles, improved quality or formulations, or relatively limited competition in the Chinese market.

As of 30 June 2014, the Group had over 240 in-house marketing and promotion employees, over 1,000 third-party promotion partners and over 500 distributors. For the six months ended 30 June 2014, the Group sold its products through its nationwide marketing, promotion and channel management service network to a total of over 26,000 hospitals and other medical institutions and over 95,000 pharmacies across 31 provinces, municipalities and autonomous regions in China.

Management Discussion and Analysis

OPERATION REVIEW

For the six months ended 30 June 2014 (the "Reporting Period"), the Group maintained market competitiveness and recorded strong results. For the Reporting Period, the Group's revenue increased by 34.0% to RMB738.8 million from RMB551.3 million for the six months ended 30 June 2013, and the Group's net profit increased by 22.5% to RMB136.0 million from RMB111.1 million for the six months ended 30 June 2013. Excluding the effect of taxes returned in the form of government grants, net profit of the Group increased by 79.1% to RMB136.0 million in the six months ended 30 June 2014 from RMB 76.0 million in the six months ended 30 June 2013.

For the Reporting Period, the Group continued to enhance its comprehensive marketing, promotion and channel management services to small- and medium-sized overseas pharmaceutical product and medical device suppliers. The Group also increased its promotion efforts for its products and continued to improve and refine each product's marketing strategy. Moreover, the Group expanded its promotion network and increased its promotion efforts in hospitals and pharmacies in order to further drive its product sales growth. For the Reporting Period, revenue generated from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 70.3% compared to the same period last year to RMB341.0 million, representing 46.2% of the Group's revenue for the Reporting Period. Gross profit increased by 73.3% compared to the same period last year to RMB184.4 million, representing 76.4% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group continued to strengthen its relationship with Alcon, the world's largest eye care products company, via the provision of co-promotion and channel management services. The Group provides channel management services for all of Alcon's 21 products sold in China and provides co-promotion services for eight of these products. For the Reporting Period, revenue generated from products sold via the provision of co-promotion and channel management services increased by 13.3% compared to the same period last year to RMB397.8 million, representing 53.8% of the Group's revenue for the Reporting Period. Gross profit increased by 0.1% compared to the same period last year to RMB56.9 million, representing 23.6% of the Group's gross profit for the Reporting Period.

1 Product Development

The Group's current product portfolio includes a number of products manufactured by small- and medium-sized overseas suppliers. These products address unmet medical needs or have superior clinical profiles, improved quality or formulations, or relatively limited competition in the Chinese market. As of 30 June 2014, the Group had a product portfolio of pharmaceutical products (substantially all of which were prescription products), covering ophthalmology, pain management, cardiovascular, respiratory, gastroenterology, immunology and other therapeutic areas, and medical devices covering four medical specialties, including ophthalmology and odontology.

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

Category	For the six months ended 30 June			
	2014 RMB'000 (unaudited)	**Percentage of the Group's total Revenue (%)**	2013 RMB'000 (audited)	Percentage of the Group's total Revenue (%)
Revenue:				
Pharmaceutical Products	**231,999**	**31.4**	163,006	29.6
Medical Devices	**108,960**	**14.8**	37,251	6.8

For the Reporting Period, revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services increased by 42.3% compared to the same period last year to RMB232.0 million, representing 31.4% of the Group's revenue for the Reporting Period. Gross profit increased by 44.6% compared to the same period last year to RMB144.4 million, representing 59.9% of the Group's gross profit for the Reporting Period.

The growth of revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services achieved satisfactory result. Sales of the Group's more mature products, such as Fluxum, Polimod, Macmiror Complex and Macmiror, maintained steady growth in the market, and sales contribution of products that have been marketed and sold for a relatively shorter period, such as Neoton, Vinpocetine API, and Easyhaler series products, was also impressive.

Specifically, the Group strengthened the market position of Fluxum and continued to develop new markets for Fluxum through increased marketing conferences and medical detailing. The Group also increased academic promotion efforts for Fluxum to smaller Class II hospitals in second and third tier cities in order to strengthen Fluxum's brand recognition. For the Reporting Period, the Group's sales of Fluxum was RMB62.7 million, representing a 71.3% increase compared to the same period last year, and contributing 8.5% of the Group's revenue. During the Reporting Period, the Group entered into an addendum agreement with Alfa Wassermann of Italy to extend the expiry date of the Group's marketing, promotion and sales right of Fluxum in China to 31 December 2018.

Polimod is a synthetic oral immune stimulant produced by Polichem of Switzerland. It 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. In 2011, the Group was authorised to market and sell Polimod in eight provinces, municipalities and autonomous regions in China. Macmiror Complex is also produced by Polichem of Switzerland with a fixed combination of nifuratel and nystatin vaginal suppositories with intense and efficacious trichomonacidal, antibacterial and mycostatic action. Macmiror is nifuratel in oral form produced by Polichem of Switzerland. Nifuratel, the active ingredient of Macmiror, is a chemotherapeutic agent (furanederivative) with strong trichomonacidal activity and has a broad spectrum of antibacterial action for treatment. For the Reporting Period, the Group's sales of Polimod, Macmiror Complex and Macmiror was RMB51.1 million, representing a 32.2% increase compared to the same period last year, and contributing 6.9% of the Group's revenue.

The Group has also steadily progressed the development of its other products with vast market potential. For the Reporting Period, the Group's sales of Neoton was RMB8.6 million, representing a 12.1% increase compared to the same period last year. Neoton is creatine phosphate sodium for injection produced by Alfa Wassermann of Italy. It is primarily used for ischemic heart diseases and cardiomyopathy resulting from various causes. In 2013, creatine phosphate was the seventh best-selling chemical drug and the second best-selling cardiovascular drug measured by sales to hospitals in China, according to the Southern Medicine Economic Research Institute and MENET. With the expansion of the scope of marketing, promotion and sales rights the Group has obtained and the development of unpenetrated markets, coupled with increased prescription of the product by doctors at hospitals, the Group believes revenue contribution from sales of Neoton will increase rapidly in the second half of 2014.

For the Reporting Period, the Group's sales of Vinpocetine API was RMB39.7 million, representing a 179.8% increase compared to the same period last year, and contributing 5.4% of the Group's revenue. Vinpocetine API, manufactured by Covex S.A. ("Covex") of Spain, is the key ingredient of Vinpocetine. Vinpocetine is a cerebral vasodilator that can improve blood supply to the brain, inhibit platelet aggregation, reduce blood viscosity, enhance the deformability of red blood cells, improve blood fluidity and microcirculation, which in turn increases the absorption of glucose by nerve cells and oxygen flow to the brain, and enhance brain metabolism. In addition to preventing and treating cerebral insufficiency and its adverse consequences, Vinpocetine can also be used to improve the mental activities of a healthy person.

During the Reporting Period, the Group acquired a 24.0% equity interest in Covex, and sent a resident professional team to Covex, which has been involved in Covex's daily operations and reporting regularly to the Group since then. As a result, the Group has more influence over Covex's management and the ability to secure the exclusive right granted by Covex to market, promote and sell Vinpocetine API in China.

For the Reporting Period, the Group's sales of Easyhaler series products was RMB8.7 million, representing a 1,415.2% increase compared to the same period last year. The Easyhaler series products include Budesonide Easyhaler and Salbutamol Easyhaler, both of which are inhalation drugs used for the treatment of lung diseases manufactured by Orion Corporation of Finland. Budesonide Easyhaler is intended for patients with persistent asthma who need glucocorticosteroid treatment, while Salbutamol Easyhaler is used to alleviate bronchospasm caused by bronchial asthma or chronic obstructive pulmonary disease, or COPD. During the Reporting Period, the Group continued to enhance its promotion efforts for Easyhaler series products at hospitals. By organising and participating in various national and international academic promotion conferences, the Group strengthened Easyhaler's brand recognition. With the possible acceleration of provincial bidding process, the Group believes that sales of Easyhaler series products will maintain rapid growth.

Reorganisation and adjustment of certain regional promotion and sales networks for Difene took place during the first half of 2014, which adversely affected the product's sales for the Reporting Period. However, they laid a foundation for the Group to promote Difene using a more comprehensive sales network platform. After years of market positioning, brand building and expansion of marketing network, Difene has established a strong reputation and brand recognition in China. The excellent efficacy and safety of Difene are increasingly recognised and, as a result, Difene has been increasingly recommended by doctors to patients. With the completion of the reorganisation and adjustment of regional promotion and sales networks, the Group considers the impact to be temporary.

In 2012, the Group started providing comprehensive marketing, promotion and channel management services for imported medical devices in China. In 2013, the Group was able to intensify and streamline its marketing efforts for these products and revenue generated from the sales of medical devices increased significantly. During the Reporting Period, the Group also made significant progress in the sale of medical devices by leveraging on the strong momentum from 2013 and benefiting from its well-established sales and marketing network, flexible sales models and favourable macroeconomic factors. For the Reporting Period, revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 192.5% compared to the same period last year to RMB109.0 million, representing 14.8% of the Group's revenue. Gross profit increased by 516.4% compared to the same period last year to RMB39.9 million, representing 16.5% of the Group's gross profit.

During the Reporting Period, the Group continued to increase marketing and promotion efforts for WaveLight Eagle laser surgical series. WaveLight Eagle laser surgical series includes WaveLight Eagle FS200 series and WaveLight Eagle EX500. It is a laser surgical series produced by Alcon of the United States for the treatment of ametropia of eyes. WaveLight Eagle FS200 series is featured with high surgical accuracy, low complications and high corneal flap production speed, while WaveLight Eagle EX500 series provides higher cutting speed, more accurate treatment results and various individualised treatment means through advanced excimer laser technology.

The Group adopted a multi-strategy sales model for WaveLight Eagle laser surgical series for different regions, resulting in strong growth in sales of this product for the Reporting Period. In general, the Group's sales model for ophthalmological medical devices includes four categories: 1) direct selling; 2) consumable purchase co-operation arrangements; 3) revenue sharing co-operation arrangements; and 4) profit sharing co-operation arrangements. Under 1) direct selling, by entering into sales agreement with a client, the Group sells the equipment to the client directly. Under 2) consumable purchase co-operation arrangements, by entering into a co-operation agreement with a client, the Group does not transfer the ownership of the equipment to the client. In return, the client shall purchase consumables of the device from the Group for an amount not lower than the minimum annual purchase amount of consumables pursuant to the agreement. Upon expiry of the agreement term, the ownership of the device will be transferred to the client without additional charges. Under 3) revenue sharing co-operation arrangements, by entering into a co-operation agreement with a client, the Group does not transfer the ownership of the equipment to the client. In return, the client is required to pay the Group a certain proportion of the revenue generated from the use of the equipment, subject to a minimum amount pursuant to the agreement. Upon expiry of the co-operation term, the ownership of the device will be transferred to the client without additional charges. Under 4) profit sharing co-operation arrangements, by entering into a co-operation agreement with a client, a project group using the medical device will be established. Within the agreed term, the monthly profit generated from the project, which shall be surgery income net of project expenses such as salary of the project group members, travel expenses, facility maintenance fees, consumable purchase costs and daily expenses, will be shared by the Group and the client on a pro-rata basis. Upon expiry of the co-operation term, the ownership of the device will be transferred to the client without additional charges.

For the Reporting Period, the Group established business co-operation with seven hospitals in China by entering into sales or co-operation agreements. For the Reporting period, sales of WaveLight Eagle laser surgical series was RMB59.0 million, representing a 348.9% increase compared to the same period last year, and contributing 8.0% of the Group's revenue for the six months ended 30 June 2014.

During the Reporting Period, except for WaveLight Eagle laser surgical series products, sales of the Group's medical devices covering other medical specialties including odontology, anesthesiology and the newly launched intraocular lens (IOL) was RMB49.9 million, representing 6.8% of the Group's revenue for the six months ended 30 June 2014.

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

Category	For the six months ended 30 June			
	2014 RMB'000 (unaudited)	**Percentage of the Group's total Revenue (%)**	2013 RMB'000 (audited)	Percentage of the Group's total Revenue (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**397,828**	**53.8**	351,073	63.7

The Group is the sole provider of channel management services for all of Alcon's ophthalmic pharmaceutical products in China, and Alcon is the world's largest eye care products company. For the Reporting Period, the Group's revenue from the sale of Alcon series ophthalmic pharmaceutical products was RMB397.8 million, representing a 13.3% increase compared to the same period last year, and contributing 53.8% of the Group's revenue.

For the Reporting Period, the Group expanded the scope of services it provided to Alcon to include co-promotion service for an added eighth product. The Group's revenue generated from the provision of co-promotion services for the eight products of Alcon represented 65.2% of the Group's total revenue generated from provision of co-promotion and channel management services for Alcon products.

1.3 Product Pipeline

The Group actively seeks prospective product candidates for marketing, promotion and sale from overseas pharmaceutical and medical device companies. The Group's product pipeline would sustain the Group's growth in the long term. When selecting prospective product candidates, the Group considers factors such as clinical features, competitive environment, registration and regulatory regime and reputation of suppliers. The Group has secured the marketing, promotion and sales rights for 14 additional prescription pharmaceutical products and over 20 additional medical devices, and is currently in the process of registering these products or preparing the registration application for these products with the China Food and Drug Administration (the "CFDA") for their import and sale in China. The Group expects to leverage on its current sales network, key opinion leaders and marketing channels to launch these pipeline products promptly after their approvals.

NeutroPhase is a skin and wound cleanser produced by NovaBay Pharmaceuticals, Inc. ("NovaBay") of the United States, consisting of 0.01% pure hypochlorous acid in physiological saline solution. It is intended to be used to moisturise absorbable surgical dressing, wash and clean small wounds, minor burns as well as acute and chronic skin lesions, such as diabetic foot ulcers and post-operative wounds. On 1 September 2014, the Group was informed that approval has been obtained from the CFDA for the launch of NeutroPhase in China. NeutroPhase is approved by the CFDA as a medical device and its registration certificate has a term of five years. The Group expects to launch this product in China in due course.

During the Reporting Period, the Group entered into an exclusive distribution agreement with Life Spine, Inc. ("Life Spine"), an innovative U.S. medical device company which designs, develops, manufactures and markets products for the surgical treatment of spinal disorders. The Group will distribute a series of products developed by Life Spine, on an exclusive basis, in China following product registration. The fast growing orthopaedic implant market in China creates a large potential for the development of both Life Spine and the Group.

2 Marketing Network Development

In addition to the expansion of product portfolio, the Group's development strategy focuses on continuously expanding the Group's marketing network. The Group's marketing and promotion model comprises of its in-house marketing team and a team of third-party promotion partners. To maintain the efficiency and stability of marketing network, the Group has established sales and product manager teams to manage and support third-party promotion partners.

The Group's marketing and promotional activities are carried out by its in-house team and third-party promotion partners. The in-house team is primarily responsible for formulating the marketing and promotion strategies, conducting selected marketing programmes, and appointing, training and supervising the third-party promotion partners, who are responsible for most of the day-to-day marketing and promotional activities for the Group's products. This model allows the Group to extend geographic coverage, maintain operational flexibility and reduce fixed and overall marketing and promotion costs.

For the Reporting Period, the Group recruited additional staff to its in-house marketing team. As of 30 June 2014, the Group had over 240 in-house marketing and promotion employees and over 1,000 third-party promotion partners. Leveraging on its existing marketing team, the Group expects to deepen the penetration of hospitals in its existing network and further expand into additional new hospitals, including lower tier hospitals and smaller medical institutions. As of 30 June 2014, the Group sold products through its nationwide marketing, promotion and channel management services networks to over 26,000 hospitals and other medical institutions and over 95,000 pharmacies across 31 provinces, municipalities and autonomous regions in China.

During the Reporting Period, the Group continued to focus on expanding its network of key opinion leaders in key therapeutic areas. Key opinion leaders' views on products help lend credibility to marketing and promotion efforts of the Group. Meanwhile, the Group has also been focusing on increasing academic promotion activities. The Group successfully organised various national and provincial medical or pharmaceutical conferences, symposiums and product seminars. These activities were aimed at raising awareness and strengthening recognition of the Group's products.

3 Future and Outlook

Going forward, the Group will continue to strengthen its position as a leading marketing, promotion and channel management service provider for imported pharmaceutical products and medical devices in China. The Group will also pursue a sustainable growth plan by focusing on two core development strategies, namely the further development and optimisation of its product portfolio, and the expansion and improvement of its sales and marketing network.

The Group will adhere to a strategic product selection strategy to proactively identify products with high growth potential. Meanwhile, the Group will further explore opportunities to establish collaborative relationships with appropriate suppliers through strategic investments so as to competitively position itself when securing or renewing marketing and promotion rights for pharmaceutical products and medical devices.

The Group intends to expand its marketing, promotion and channel management service network by penetrating into additional hospitals, local community health centres and pharmacies, and cross-selling products to additional departments within the hospitals and health centres. The Group also plans to continue to expand its marketing, promotion and channel management service network by adding promotion partners and distributors in areas where the Group has limited or no presence.

The Group will continue to monitor its in-house team and third-party promotion partners, tailor its marketing plans to target hospitals and target markets, and fine tune the division of coverage among its in-house team and promotion partners, in order to maximise market penetration and enhance the effectiveness of the Group's marketing and promotional activities. The Group will also continue to enhance the management and training of its in-house team and third-party promotion partners, and increase its promotional efforts by organising more academic promotion events related to the Group's products to ensure that accurate and updated product information is delivered to physicians.

FINANCIAL REVIEW

Revenue

Revenue increased by 34.0% from RMB551.3 million in the six months ended 30 June 2013 to RMB738.8 million in the Reporting Period. Revenue generated from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 70.3% from RMB200.3 million in the six months ended 30 June 2013 to RMB341.0 million in the Reporting Period, primarily due to (i) increased sales of certain existing key products, including Fluxum, Polimod, Macmiror Complex and Macmiror, as a result of the expansion of coverage of these products through marketing network; (ii) increased sales of products with vast market potential, including Neoton and Easyhaler, as a result of increased promotion efforts; (iii) increased sales of medical devices; and (iv) the overall growth of market demand for the Group's products. Revenue generated from products sold via the provision of co-promotion and channel management services increased by 13.3% from RMB351.1 million in the six months ended 30 June 2013 to RMB397.8 million in the Reporting Period, primarily due to increased promotion efforts for the eight Alcon products for which the Group provided co-promotion services as well as the increasing market demand for Alcon products.

Cost of Sales

Cost of sales increased by 28.2% from RMB388.1 million in the six months ended 30 June 2013 to RMB497.5 million in the Reporting Period, primarily due to a substantial increase in sales volume. Cost of sales for products sold via the provision of comprehensive marketing, promotion and channel management services increased by 66.8% from RMB93.9 million in the six months ended 30 June 2013 to RMB156.6 million in the Reporting Period. Cost of sales for products sold via the provision of co-promotion and channel management increased by 15.9% from RMB294.2 million in the six months ended 30 June 2013 to RMB340.9 million in the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit increased by 47.8% from RMB163.2 million in the six months ended 30 June 2013 to RMB241.3 million in the Reporting Period. The Group's average gross profit margin increased from 29.6% in the six months ended 30 June 2013 to 32.7% in the six months ended 30 June 2014, primarily due to higher proportional revenue contribution from products sold via the provision of comprehensive marketing, promotion and channel management service, which generate higher margins. The Group's gross profit margin from products sold via the provision of comprehensive marketing, promotion and channel management services increased from 53.1% in the six months ended 30 June 2013 to 54.1% in the Reporting Period. The Group's gross profit margin from products sold via the provision of co-promotion and channel management services decreased from 16.2% in the six months ended 30 June 2013 to 14.3% in the Reporting Period, primarily due to the lowering of the maximum retail prices of certain pharmaceutical products by the National Development and Reform Commission (the "NDRC") in the first half of 2013, which affected some of Alcon's products. The reduction in the maximum retail prices of certain of the Group's Alcon products affected the full six months for the Reporting Period, while it only partially impacted the six months ended 30 June 2013.

Other Income

Other income decreased by 49.7% from RMB42.5 million in the six months ended 30 June 2013 to RMB21.4 million in the Reporting Period, primarily due to decrease in government grants, which was partially offset by an increase in interest on bank deposits. The government grants amounting to RMB35.1 million in the six months ended 30 June 2013 were additional grants received by the Group's wholly-owned subsidiary Naqu Area Pioneer Pharma Co., Ltd ("Naqu Pioneer") in respect of taxes paid pursuant to local government's policies to encourage local business operations. The Group did not receive similar government grants in the Reporting Period due to the temporary suspension of the refund policies.

Distribution and Selling Expenses

Distribution and selling expenses increased by 37.7% from RMB47.7 million in the six months ended 30 June 2013 to RMB65.7 million in the Reporting Period. Distribution and selling expenses as a percentage of revenue increased from 8.6% in the six months ended 30 June 2013 to 8.9% in the Reporting Period, primarily due to sales expansion and increase in promotion efforts, and salaries and employee benefits for our personnel engaged in sales marketing and distribution activities.

Administrative Expenses

Administrative expenses increased by 57.5% from RMB13.6 million in the six months ended 30 June 2013 to RMB21.4 million in the Reporting Period primarily due to an increase in average salaries and benefits for management and administrative staff consistent with the Group's expanded business activities. Administrative expenses as percentage of revenue increased from 2.5% in the six months ended 30 June 2013 to 2.9% in the Reporting Period.

Finance Costs

Finance costs increased by 89.3% from RMB3.8 million in the six months ended 30 June 2013 to RMB7.2 million in the Reporting Period primarily due to increased average balance of bank borrowings of the Group.

Income Tax Expense

Income tax expense increased by 59.4% from RMB13.8 million in the six months ended 30 June 2013 to RMB22.1 million in the Reporting Period. The Group's effective income tax rate in the six months ended 30 June 2013 and the Reporting Period was 11.1% and 14.0%, 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%. The significant increase in income tax expense in the Reporting Period is mainly due to the recognition of RMB6.0 million of PRC withholding tax pursuant to the proposed payment of an interim dividend of RMB114.0 million.

Profit for the Reporting Period

As a result of the above factors, the Group's profit increased by 22.5% from RMB111.1 million for the six months ended 30 June 2013 to RMB136.0 million for the Reporting Period. The Group's net profit margin decreased from 20.1% for the six months ended 30 June 2013 to 18.4% for the Reporting Period.

Liquidity and Capital Resources

The Group has historically met its working capital and other capital requirements principally from net cash flow from operations with bank borrowings as supplement. The Group's cash and cash equivalents decreased from RMB702.1 million as of 31 December 2013 to RMB421.6 million as of 30 June 2014, primarily due to payment of final dividend and relative PRC withholding tax amounting to RMB150.0 million, and repayment of bank borrowings during the Reporting Period.

Inventories

The Group's inventory balance increased by 1.1% from RMB419.8 million as of 31 December 2013 to RMB424.5 million as of 30 June 2014, primarily due to the increase in business volume as a result of which the Group increased its overall inventory levels in order to accommodate the increasing number of hospitals covered by its sales network.

Trade and Other Receivables

The Group's trade and other receivables increased from RMB331.0 million as of 31 December 2013 to RMB469.9 million as of 30 June 2014, primarily due to the substantial growth of sales revenue. At the same time, trade receivables turnover days increased from 48.4 days as of 31 December 2013 to 71.4 days as of 30 June 2014, primarily due to the relatively longer credit periods granted to customers for the purchase of medical devices, sales of which increased in the Reporting Period compared to the corresponding period of last year.

Trade and Other Payables

The Group's trade and other payables increased from RMB360.7 million as of 31 December 2013 to RMB418.0 million as of 30 June 2014. The Group's trade payables turnover days increased from 116.0 days as of 31 December 2013 to 124.7 days as of 30 June 2014.

Bank Borrowings and Gearing Ratio

The Group had total bank borrowings of RMB446.4 million as of 30 June 2014 as compared to RMB429.5 million as of 31 December 2013. On 30 June 2014, the effective interest rate of the Group's bank borrowings ranged from 1.20% to 5.60%. As of 30 June 2014, bank borrowings of RMB434.1 million were secured by the pledge of the Group's bank deposits. As of 31 December 2013, bank borrowings of RMB333.8 million were secured by the pledge of the Group's bank deposits and bills receivables. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 21.6% as at 30 June 2014 compared to 21.5% as at 31 December 2013.

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2014, the Group had a total of 349 employees. For the Reporting Period, staff costs of the Group were RMB24.4 million as compared to RMB16.8 for the same period last year. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, the inflation level, the corporate operating efficiency and the employee's performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary review and promotional assessment. The Group's employees are considered for annual bonuses based on certain performance criteria and appraisal 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 programmes 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 any material labour dispute during the Reporting Period.

Other Information

CORPORATE GOVERNANCE PRACTICE

During the period from 1 January 2014 to 30 June 2014, the Company had adopted, applied and complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organisational structure of the Company, Mr. Li Xinzhou is the chairman of the Board and the chief executive officer of the Company. With extensive experience in the pharmaceutical products and medical devices industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises two executive Directors, three non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Under Code Provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Due to other engagements, Mr. Lu Yuan, Mr. Wu Mijia, Mr. Zhang Wenbin, Mr. Xu Zhonghai, Mr. Lai Chanshu and Mr. Wong Chi Hung, Stanley were unable to attend the annual general meeting of the Company held on 9 May 2014.

Save as disclosed herein, the Company has complied with the code provisions as set out in the Code for the six months ended 30 June 2014. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with the required standard set out in the Model Code and the code of conduct during the period throughout the six months ended 30 June 2014.

USE OF NET PROCEEDS FROM LISTING

The Group intends to apply the net proceeds from the listing (after deducting underwriting fees and related listing expenses), which amounted to approximately HK$1,307.8 million, in the manner consistent with that as disclosed in the Company's prospectus dated 24 October 2013.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company (the "Audit Committee") include the review and supervision of the Group's financial reporting system, 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 unaudited interim results for the six months ended 30 June 2014 of the Group have been reviewed by the Audit Committee.

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

For the six month ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the six months ended 30 June 2014, there was no change to information which is required to be disclosed by the Directors pursuant to rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As of 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long Position in the Shares of the Company

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Li Xinzhou	Beneficial owner	500,000	0.04%
	Interest of controlled corporation(1)	999,454,000	74.96%
Zhu Mengjun	Beneficial owner	750,000	0.06%

Notes:

1. Mr. Li Xinzhou and his wife Ms. Wu Qian together own 97% of the issued share capital of Pioneer Pharma (BVI) Co., Ltd. which holds 999,454,000 shares in the Company.

(ii) Long Position in the Shares of Associated Corporation

Name of Director	Name of associated corporation	Nature of interest	Number of shares	Approximate percentage of shareholding
Li Xinzhou	Covex S.A.	Beneficial owner	2,095,841	24.00%

Save as disclosed above, as at 30 June 2014, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the six months ended 30 June 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES

As at 30 June 2014, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Wu Qian	Interest of spouse(1)	500,000	0.04%
	Interest of controlled corporation(2)	999,454,000	74.96%
Pioneer Pharma (BVI) Co., Ltd.	Beneficial owner	999,454,000	74.96%

Notes:

1. The 500,000 shares are held by Mr. Li Xinzhou, Ms. Wu Qian's husband.

2. Ms. Wu Qian and her husband Mr. Li Xinzhou together held 97% of the issued share capital of Pioneer Pharma (BVI) Co., Ltd. which holds 999,454,000 shares in the Company.

Save as disclosed above, as at 30 June 2014, no other persons (who were not Directors or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SIGNIFICANT INVESTMENTS HELD

Investment in NovaBay

NovaBay is a clinical-stage biotechnology company incorporated in Delaware, United States. Its shares are traded on the NYSE MKT. The Group commenced its business relationship with NovaBay in 2012 and obtained the exclusive right to market, promote and sell NovaBay's NeutroPhase products in China and certain Southeast Asia markets in the same year. As of 30 June 2014, the Group held 7,613,812 NovaBay Shares in total, representing approximately 15.0% equity interest in NovaBay calculated based on the total number of NovaBay's outstanding shares of 50,779,057 as of 28 July 2014.

Investment in Q3

QualiMed Innovative Medizinprodukte GmbH ("QualiMed") is a company incorporated in Germany specialising in the design, development and manufacturing of medical devices. The Group entered into the first supply agreement with QualiMed in 2013 and obtained the exclusive right to market, promote and sell QualiMed's TsunaMed products, which are medical devices used for the treatment of vascular diseases, in China and certain Southeast Asia markets.

To further enhance business cooperation with QualiMed and to improve the Company's prospects of renewing or extending the exclusive right granted by QualiMed for certain of its products, the Group made various investments in QualiMed holding company, Q3 Medical Devices Limited ("Q3"), in 2013. In addition to QualiMed, Q3 also wholly controls amg International GmbH ("AMG"), another company incorporated in Germany which sells coronary and peripheral vascular products. As of 30 June 2014, the Group held approximately 24.4% equity interest in Q3.

On 31 December 2013, Pioneer Pharma (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company ("Pioneer Singapore"), entered into a loan agreement with Q3 pursuant to which Q3 agreed not to request Pioneer Singapore to provide the Convertible Loan 3 or to act as the guarantor for a bank loan of EUR1,500,000 as previously agreed under the investment agreement between Pioneer Singapore and Q3 dated 17 April 2013. Instead, Pioneer Singapore agreed to grant to Q3 a EUR1,500,000 loan repayable by 31 December 2016. On 14 January 2014, a supplemental agreement was entered into fixing the interest rate of the loan at 10% per annum. Further details of the loan agreement and the supplemental agreement are set out in the announcements of the Company dated 31 December 2013 and 14 January 2014, respectively.

Investment in Covex

Covex S.A. ("Covex") is a Spanish company engaged in chemical and pharmaceutical business, and manufactures API raw materials, pharmaceutical products and dietary supplements. On 16 May 2014, pursuant to the exercise of a call option, Pioneer Singapore entered into a share purchase agreement with Pioneer Pharma Shareholding Company Limited (先鋒醫藥股份有限公司), a company majority owned by Mr. Li Xinzhou and his spouse ("Pioneer Pharma"), pursuant to which Pioneer Singapore agree to acquire, and Pioneer Pharma agree to sell, 2,095,841 shares of Covex, representing approximately 24.0% of the entire issued share capital of Covex, for a total consideration of EUR1,450,000. The acquisition was completed on 18 June 2014. Further details of the acquisition are set out in the announcement of the Company dated 16 May 2014.

SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD

On 1 July 2014, Pioneer Singapore, entered into a share acquisition agreement with Memory Secret S.L. (the "Seller"), pursuant to which Pioneer Singapore agrees to acquire, and the Seller agrees to sell, the entire issued share capital of a company incorporated in Spain (the "Target") that holds approximately 44.6% equity interest in Covex for a consideration of EUR2,905,000. Following completion of the share acquisition, Pioneer Singapore will hold, together with the 24.0% interest in Covex that it already holds as of the date of this interim report, an aggregate of approximately 68.6% of the equity interest in Covex. In addition, on 1 July 2014, Pioneer Singapore entered into a debt acquisition agreement with the creditors of the Target and Covex (the "Creditors"), pursuant to which Pioneer Singapore acquired, and the Creditors sold, certain debts with an aggregate face value of EUR17,226,435 owed by the Target and Covex for a consideration of EUR7,124,107. Further details of the agreement are set out in the announcement of the Company dated 2 July 2014.

INTERIM DIVIDEND

The Board has declared an interim dividend of RMB8.5 cents per share (equivalent to HK$10.7 cents per share) for the six months ended 30 June 2014 payable on or after Tuesday, 23 September 2014 to the shareholders of the Company whose names appear on the register of members of the Company as at the close of business on Friday, 12 September 2014.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 12 September 2014, in order to determine the entitlement to shareholders to the interim dividend. 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 Thursday, 11 September 2014.

Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF CHINA PIONEER PHARMA HOLDINGS LIMITED
(incorporated in the Cayman Islands as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Pioneer Pharma Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 20 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 ‘Interim Financial Reporting’ (‘HKAS 34’) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touch Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Revenue	3	**738,787**	551,330
Cost of sales		**(497,532)**	(388,097)
Gross profit		**241,255**	163,233
Other income	4	**21,382**	42,536
Other gains and losses	5	**(4,330)**	(7,091)
Distribution and selling expenses		**(65,742)**	(47,740)
Listing expenses		**–**	(7,440)
Administrative expenses		**(21,408)**	(13,596)
Finance costs		**(7,230)**	(3,820)
Share of loss of an associate		**(5,837)**	(1,160)
Profit before taxation	6	**158,090**	124,922
Income tax expense	7	**(22,060)**	(13,842)
Profit for the period		**136,030**	111,080
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**1,125**	274
– Fair value (loss) gain on other investments and trust investments		**(19,921)**	3,122
Other comprehensive (expense) income for the period		**(18,796)**	3,396
Total comprehensive income for the period		**117,234**	114,476
Profit (loss) for the year attributable to:			
Owners of the Company		**136,656**	112,499
Non-controlling interests		**(626)**	(1,419)
		136,030	111,080
Total comprehensive income (expense) attributable to:			
Owners of the Company		**117,860**	115,895
Non-controlling interests		**(626)**	(1,419)
		117,234	114,476
		RMB yuan	RMB yuan
Earnings per share			
Basic and diluted	9	**0.10**	0.11

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Non-current Assets			
Property, plant and equipment	*10*	**50,777**	17,219
Prepaid lease payments		**2,297**	2,323
Intangible assets		**14,852**	15,221
Interest in associates	*11*	**31,301**	23,593
Other investments		**36,981**	53,359
Trust investments	*12*	**75,000**	–
Finance lease receivables		**75,161**	41,025
Deferred tax assets	*13*	**2,988**	2,142
Loan to an associate	*15*	**13,237**	–
Trade receivables	*14*	**2,334**	–
		304,928	154,882
Current Assets			
Inventories		**424,528**	419,844
Finance lease receivables		**11,680**	4,733
Trade and other receivables	*14*	**467,521**	331,028
Amount due from an related party	*18*	**245**	–
Tax recoverable		**–**	192
Prepaid lease payments		**52**	52
Structured note	*16*	**–**	19,829
Pledged bank deposits		**436,468**	304,282
Certificate of deposit		**–**	60,000
Bank balances and cash		**421,637**	702,073
		1,762,131	1,842,033

	Notes	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Current Liabilities			
Trade and other payables	*17*	**417,954**	360,742
Amounts due to related parties	*18*	**25**	10,603
Tax liabilities		**8,474**	424
Bank borrowings	*19*	**446,386**	429,545
Provision	*20*	**4,715**	4,222
		877,554	805,536
Net Current Assets		**884,577**	1,036,497
Total Assets less Current Liabilities		**1,189,505**	1,191,379
Capital and Reserves			
Share capital	*21*	**82,096**	82,096
Reserves		**1,050,892**	1,075,532
Equity attributable to owners of the Company		**1,132,988**	1,157,628
Non-controlling interests		**(969)**	(343)
Total Equity		**1,132,019**	1,157,285
Non-current liability			
Deferred tax liability	*13*	**6,000**	7,500
Amounts due to related parties	*18*	**470**	460
Long-term payables		**51,016**	26,134
		1,189,505	1,191,379

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to the owners of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Other reserve** RMB'000	**Translation reserve** RMB'000	**Statutory reserve** RMB'000	**Retained profits** RMB'000	**Investments revaluation reserve** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2013 (Audited)	–	–	73,810	554	52,458	88,478	(3,243)	212,057	768	212,825
Profit (loss) for the period	–	–	–	–	–	112,499	–	112,499	(1,419)	111,080
Other comprehensive income	–	–	–	274	–	–	3,122	3,396	–	3,396
Total comprehensive income (expense) for the period	–	–	–	274	–	112,499	3,122	115,895	(1,419)	114,476
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	230	230
Issue of shares of the Company *(Note 22)*	6,286	–	–	–	–	–	–	6,286	–	6,286
Deemed distributions to shareholders	–	–	(165,141)	–	–	–	–	(165,141)	–	(165,141)
Adjustments arising from the Group Reorganisation	–	–	40,685	–	(45,000)	4,315	–	–	–	–
Dividends declared by Pioneer Pharma and recognised as distribution	–	–	–	–	–	(163,000)	–	(163,000)	–	(163,000)
At 30 June 2013 (Audited)	6,286	–	(50,646)	828	7,458	42,292	(121)	6,097	(421)	5,676
At 1 January 2014 (Audited)	**82,096**	**956,993**	**(50,646)**	**629**	**9,000**	**166,623**	**(7,067)**	**1,157,628**	**(343)**	**1,157,285**
Profit (loss) for the period	**–**	**–**	**–**	**–**	**–**	**136,656**	**–**	**136,656**	**(626)**	**136,030**
Other comprehensive income (expense)	**–**	**–**	**–**	**1,125**	**–**	**–**	**(19,921)**	**(18,796)**	**–**	**(18,796)**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**1,125**	**–**	**136,656**	**(19,921)**	**117,860**	**(626)**	**117,234**
Appropriation to reserve	**–**	**–**	**–**	**–**	**3,088**	**(3,088)**	**–**	**–**	**–**	**–**
Dividends declared and recognised as distribution *(note 8)*	**–**	**–**	**–**	**–**	**–**	**(142,500)**	**–**	**(142,500)**	**–**	**(142,500)**
At 30 June 2014 (Unaudited)	**82,096**	**956,993**	**(50,646)**	**1,754**	**12,088**	**157,691**	**(26,988)**	**1,132,988**	**(969)**	**1,132,019**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
NET CASH FROM OPERATING ACTIVITIES	**29,392**	159,325
NET CASH USED IN INVESTING ACTIVITIES		
Interest received	**7,180**	6,702
Advance to related parties	**–**	(8,000)
Advance to an associate	**(13,237)**	–
Repayment from related parties	**–**	8,000
Purchases of other investments	**(3,085)**	–
Purchase of trust investment	**(75,000)**	–
Purchases of property, plant and equipment	**(34,962)**	(6,284)
Investment in an associate and subscription of convertible debt instrument	**–**	(20,117)
Acquisition of associates	**(12,347)**	–
Placement of pledged bank deposits	**(325,000)**	(312,618)
Withdrawal of pledged bank deposits	**192,814**	294,726
Withdrawal of restricted bank deposits	**–**	11,862
Withdrawal of structured note	**20,000**	–
Withdrawal of certificate of deposit	**60,000**	–
	(183,637)	(25,729)
NET CASH USED IN FINANCING ACTIVITIES		
New bank borrowing raised	**304,957**	274,088
Repayments of bank borrowings	**(288,116)**	(244,353)
Capital contributions from non-controlling shareholders	**–**	230
Advance from a related party	**–**	4,455
Consideration paid to Pioneer Pharma on acquisition of Transferred Business	**–**	(1,300)
Proceeds from issuance of new shares pursuant to the public offering	**–**	6,286
Dividend paid	**(142,500)**	(136,980)
	(125,659)	(97,574)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(279,904)**	36,022
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**702,073**	59,559
Effect of foreign exchange rate changes	**(532)**	560
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**421,637**	96,141

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The principal activities of the Group are the import and distribution of pharmaceutical products and medical devices.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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") on 5 November 2013.

Details of the group reorganisation completed in June 2013 are set out in the Company's consolidated financial statements for the year ended 31 December 2013.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Application of a new Interpretation and amendments to IFRS

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to International Financial Reporting Standards ("IFRS") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*;
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 *Recoverable Amount Disclosure for Non-Financial Assets*;
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*; and
- IFRIC – Int 21 *Levies*.

The application of the new interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Revenue represents revenue arising from sales of pharmaceutical products and medical devices in the People's Republic of China ("PRC") and South East Asia. An analysis of the Group's revenue is as follows:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Sales of pharmaceutical products	**629,827**	514,079
Sales of medical devices	**108,960**	37,251
	738,787	551,330

The Group's chief operating decision maker is Mr. Li Xinzhou, the chief executive officer, who reviews the gross profit of major type of products sold for the purposes of resource allocation and assessment of segment performance. Segment profit represents the gross profit earned by each segment.

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

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

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

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

3. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the six months ended 30 June 2014 (Unaudited)

	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	340,959	397,828	738,787
Cost of sales	(156,602)	(340,930)	(497,532)
Gross profit & segment result	184,357	56,898	241,255
Other income			21,382
Other gains and losses			(4,330)
Distribution and selling expenses			(65,742)
Administration expenses			(21,408)
Finance costs			(7,230)
Share of loss of an associate			(5,837)
Profit before taxation			158,090

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2013 (Audited)

	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	200,257	351,073	551,330
Cost of sales	(93,883)	(294,214)	(388,097)
Gross profit & segment result	106,374	56,859	163,233
Other income			42,536
Other gains and losses			(7,091)
Distribution and selling expenses			(47,740)
Listing expense			(7,440)
Administration expenses			(13,596)
Finance costs			(3,820)
Share of loss of an associate			(1,160)
Profit before taxation			124,922

4. OTHER INCOME

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Government grants *(Note)*	**–**	35,112
Interest on bank deposits	**15,672**	6,772
Interest income on finance leases	**2,143**	–
Interest income on loan to associate *(Note 15)*	**630**	–
Rental income	**–**	410
Service income	**1,616**	–
Others	**1,321**	242
	21,382	42,536

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

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Net foreign exchange (losses) gains	**(3,483)**	682
Reversal of impairment loss previously recognised on trade and other receivables	**5**	133
Impairment loss on trade and other receivables	**(1,023)**	(260)
Loss on fair value change of convertible debt instrument held by the Group	**–**	(1,668)
Loss on fair value change of derivative financial instruments	**–**	(5,978)
Gain on fair value change of structured note	**171**	–
	(4,330)	(7,091)

For the six months ended 30 June 2014

6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**1,719**	252
Other staff's retirement benefits scheme contributions	**3,984**	3,419
Other staff costs	**18,715**	13,082
Total staff costs	**24,418**	16,753
Auditors' remuneration	**787**	550
(Reversal of) allowance for inventories, net	**(796)**	(417)
Release of prepaid lease payments	**26**	26
Depreciation for property, plant and equipment	**1,404**	1,066
Depreciation for investment properties	**–**	224
Amortisation of intangible assets (included in administrative expenses)	**279**	233
Cost of inventories recognised as an expense	**497,532**	388,097
Minimum lease payment under operating lease in respect of premises	**606**	28
Rental income	**–**	(410)

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current tax		
PRC Enterprise Income Tax	**24,179**	12,662
Under (Over) provision in prior period		
PRC Enterprise Income Tax	**227**	433
Deferred tax *(note 13)*		
Current period	**(2,346)**	747
	22,060	13,842

8. DIVIDENDS

During six months ended 30 June 2013, no dividend was paid or declared by group entities to external parties other than the distribution made by Pioneer Pharma Shareholding Co., Ltd. ("Pioneer Pharma") of a total of RMB163,000,000 prior to completion of the group reorganisation.

During the current interim period, a final dividend of HK$13.5 cents per share in respect of the year ended 31 December 2013 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB142,500,000.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK$10.7 cents per share will be paid to the owners of the Company whose names appear in the Register of Members on Friday, 12 September 2014.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the six months ended 30 June	
	2014 **RMB'000** **(Unaudited)**	2013 RMB'000 (Audited)
Earnings		
Earnings for the purposes of calculating basic earnings per share	**136,656**	112,499
Numbers of shares		
Number of ordinary shares (2013: weighted average number of ordinary shares) for the purpose of calculating basic earnings per share	**1,333,334,000**	983,377,843

For the six months ended 30 June 2013, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2013 has been taken into account the bonus shares issued to the shareholders and the capitalisation issue as described more fully in Appendix IV to the Company's listing prospectus dated 24 October 2013.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current interim period, the Group paid approximately RMB1,854,000 (2013: RMB9,045,000) for construction costs for a new office and RMB33,108,000 (2013: RMB6,987,000) for acquisition of buildings, furniture and equipment and motor vehicles in order to upgrade its capabilities.

11. INTEREST IN ASSOCIATES

(I) On 20 February 2014, Pioneer Ruici injected RMB175,000, which represent 35.0% of the entire registered capital, in a newly established company, YingSheng 3D Medical Imaging Centre ("YingSheng"). YingSheng is planned to be engaged in stomatological computed tomography business in the PRC.

(II) On 16 May 2014, Pioneer Pharma (Singapore) Pte. Ltd. ("Pioneer Singapore"), one of the subsidiaries of the Company, entered into a share purchase agreement with Pioneer Pharma, pursuant to which Pioneer Singapore will acquire 2,095,841 shares, representing approximately 24.0% of the entire issued share capital of Covex for a total consideration of EUR1,450,000, equivalent to RMB12,172,000. The acquisition was completed on 18 June 2014.

Covex is primarily engaged in manufacturing of pharmaceutical products in Spain.

At the end of the reporting period, the net fair value of the identifiable assets, liabilities and contingent liabilities and resulting goodwill of an associate were recognized provisionally at the date of acquisition and the fair value assessment is expected to be completed during the year ending 31 December 2014.

12. TRUST INVESTMENTS

During the period, the Group entered into various fund trust arrangements with a trust company, the trust provide funding to specified corporate borrowers, unrelated to the Group. All the funds held by the Group are due after one year as of 30 June 2014.

The trust investment was classified as available-for-sale investment on initial recognition and the fair value was determined based on future cash flow discounted at a rate that reflect the credit risk of various counterparties.

13. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

	Allowance for bad debts RMB'000	Allowance for inventories RMB'000	Unrealised profit on inventories RMB'000	Provision for sale return RMB'000	Derivative financial instruments RMB'000	Accrued expenses RMB'000	Withholding tax RMB'000	Total RMB'000
THE GROUP								
At 1 January 2013	43	127	4,467	290	195	1,209	–	6,331
Credit (charge) to profit or loss for the year	15	(46)	(2,648)	42	(195)	135	1,950	(747)
Deemed distribution upon completion of the group reorganisation	(53)	(6)	–	–	–	–	–	(59)
At 30 June 2013 (Audited)	5	75	1,819	332	–	1,344	1,950	5,525
Credit (charge) to profit or loss for the year	51	(2)	(1,280)	48	–	(250)	(9,450)	(10,883)
At 31 December 2013	56	73	539	380	–	1,094	(7,500)	(5,358)
Credit (charge) to profit or loss for the period	91	(72)	598	44	–	185	1,500	2,346
At 30 June 2014 (Unaudited)	**147**	**1**	**1,137**	**424**	**–**	**1,279**	**(6,000)**	**(3,012)**

For the purposes of presentation in the condensed statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Deferred tax assets	**2,988**	2,142
Deferred tax liability	**(6,000)**	(7,500)
	(3,012)	(5,358)

13. DEFERRED TAXATION (Continued)

As at the end of the current interim period, the Group has unused tax losses of approximately RMB17,605,000 (31 December 2013: RMB13,955,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
2017	**929**	885
2018	**1,251**	1,289
2019	**7,868**	8,364
2020	**1,231**	–
No expiry	**6,326**	3,417
	17,605	13,955

As at the end of the current interim period, the aggregate amount of temporary differences associated with undistributable earnings of PRC subsidiaries amounted to RMB166,153,000 (31 December 2013: RMB187,218,000). Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB46,153,000 (31 December 2013: RMB37,218,000) as the Group has set aside such fund for the business development in the PRC and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax liability approximately RMB6,000,000 (31 December 2013: RMB7,500,000) was recognised in profit or loss during the period ended 30 June 2014.

14. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
THE GROUP		
Trade receivables	**361,067**	215,136
Less: Allowance for doubtful debts	**(1,460)**	(462)
	359,607	214,674
Bill receivables	**60,125**	97,241
	419,732	311,915
Other receivables, prepayments and deposits	**12,625**	4,417
Less: Allowance for doubtful debts	**(27)**	(7)
	432,330	316,325
Interest receivables	**14,326**	5,834
Advances to staff	**12,776**	191
Advance payment to suppliers	**3,954**	4,336
Other tax recoverable	**6,469**	4,342
Total trade and other receivables	**469,855**	331,028
Classified as:		
– Non Current		
Trade receivables	**2,334**	–
– Current		
Trade receivables	**357,273**	214,674
Bill receivables	**60,125**	97,241
Other receivables, prepayments and deposits	**50,123**	19,113
	467,521	331,028
	469,855	331,028

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

For sales of medical devices, except for sales of medical devices under finance lease pursuant to which the legal ownership is transferred upon full payment of the contract sum in finance lease receivable, 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 months to 36 months as stated in contracts are included in trade receivables.

14. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the period ended date, which approximated the respective revenue recognition dates:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
THE GROUP		
0 to 60 days	280,060	169,897
61 days to 180 days	59,914	36,234
181 days to 1 year	19,422	8,055
1 year to 2 years	211	488
	359,607	214,674

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
THE GROUP		
0 to 60 days	16,778	60,570
61 days to 180 days	28,148	31,410
181 days to 1 year	14,163	3,671
1 year to 2 years	1,036	1,590
	60,125	97,241

15. LOAN TO AN ASSOCIATE

On 31 December 2013, Pioneer Singapore entered into a loan agreement (the "Q3 Loan Agreement") with Q3 Medical Devices Limited, an associate of the Company, for the granting of a unsecured loan of EUR1,500,000 (the "Q3 Loan"), equivalent to RMB12,607,000 by Pioneer Singapore to Q3 and to be repaid on or before 31 December 2016. Further details have been disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2013. Pioneer Singapore will negotiate the interest rate that reflects market conditions upon drawn down of loan. The Q3 Loan was fully drawn down in January 2014 at an interest rate of 10% per annum on the principal outstanding.

As of 30 June 2014, the Company has accrued interest receivable of RMB630,000 regarding the Q3 Loan.

16. STRUCTURED NOTE

The Group had entered into an agreement to purchase an unsecured Chinese RMB structured note on 20 December 2013 with an offshore bank. According to this note, the Group will receive a redemption amount of 102% of the nominal amount of RMB20,000,000 if the equivalent amount of RMB per one US$ (the "Fixing Rate") as quoted by the offshore bank on 20 June 2014 ("Determination Date") is equal to or less than the strike rate of 6.015 and receive a redemption amount of 100% of the nominal amount if the Fixing Rate on Determination Date is greater than the strike rate. The structured note was designated at FVTPL on initial recognition and the fair value was determined based on the prices that the offshore bank would redeem discounted by the market interest rate. A fair value gain of approximately RMB171,000 was recognised in profit or loss during the six months ended 30 June 2014.

The note was fully settled on 20 June 2014 and no other outstanding structured note as at 30 June 2014.

17. TRADE AND OTHER PAYABLES

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
THE GROUP		
Trade payables	**359,425**	318,618
Payroll and welfare payables	**4,230**	3,138
Advance from customers	**2,163**	1,261
Other tax payables	**9,295**	6,857
Marketing service fee payables	**13,941**	11,167
Interest payables	**2,664**	2,110
Deposits received from distributor	**20,812**	10,540
Accrued IPO charges	**–**	2,760
Other payables and accrued charges	**56,440**	30,425
	468,970	386,876
Less: Amounts due after one year shown under long-term liabilities *(Note)*	**(51,016)**	(26,134)
	417,954	360,742

Note: The amount represents the accounts for the cost of medical devices which are sold under 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.

17. TRADE AND OTHER PAYABLES (Continued)

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
THE GROUP		
0 to 90 days	**297,977**	302,201
91 to 180 days	**61,261**	16,417
181 to 365 days	**187**	–
	359,425	318,618

18. RELATED PARTIES DISCLOSURES

THE GROUP

(a) The name of related companies of the Group and their relationships with the Group are as follows:

	Name of related companies	Relationships with the Group
(1)	海南三風友製藥有限公司 Hainan San Feng You Limited ("Hainan San Feng You")	Company controlled and beneficially owned by close family member of Mr. Li Xinzhou
(2)	Covex, S.A.	Associate of the Pioneer Pharma from 25 May 2012 to 18 June 2014 and it became the Group's associate from 18 June 2014
(3)	Pioneer Pharma *(note)*	Company controlled and beneficially owned by Mr. Li Xinzhou
(4)	深圳影勝醫療技術有限公司 YingSheng 3D Medical Imaging Centre ("YingSheng")	Associate of the Group from 17 January 2014
(5)	Q3 Medical Devices Limited ("Q3")	Associate of the Group from 17 April 2013
(6)	洋浦新洲投資有限公司 Yangpu Xinzhou Investment Company Limited ("Xinzhou Investment")	Company controlled and beneficially owned by Mr. Li Xinzhou

Note: Pioneer Pharma became a related party of the Group upon the completion of the group reorganisation in June 2013.

18. RELATED PARTIES DISCLOSURES (Continued)

THE GROUP (Continued)

(b) The name of related parties of the Group who are individual and their relationships with the Group are as follows:

Name of related parties		Relationships with the Group
(1)	Mr. Yuen Sengcheong ("Mr. Yuen")	Key management personnel of the Group
(2)	Mr. Yang Zhiyu ("Mr. Yang")	Key management personnel of the Group
(3)	Mr. Zhang Wenbin ("Mr. Zhang")	Key management personnel of the Group

(c) Except as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following material transactions with its related parties during the reporting period:

	For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Purchase of finished goods from Hainan San Feng You	**492**	–
Purchase of finished goods from Covex, S.A.	**3,138**	16,235
Interest income on loan from Q3	**630**	–
Rental expense paid to Xinzhou Investment *(Note)*	**300**	300
Rental expense paid to Pioneer Pharma *(Note)*	**126**	126

Note: Historically, certain office premise occupied by the Group was owned by Mr. Li and Mrs. Li which was rented to the Group free of charge. On 19 June 2013, Naqu Area Pioneer Pharma Co., Ltd ("Naqu Pioneer") and Xinzhou Investment formalised the lease arrangement and entered into an agreement pursuant to which Naqu Pioneer has agreed to pay a monthly rental of RMB50,000 to Xinzhou Investment for the continuing use of the office premises for a term of three years commencing on 1 July 2013 and ending on 30 June 2016.

The Group further entered two lease agreements dated 6 June 2013 for renting office premises in Hainan and two vehicles from Pioneer Pharma for a fixed monthly rental of RMB15,000 and RMB3,000 per vehicle, respectively. The term of the agreements are for a period of three years commencing on 1 July 2013 and ending on 30 June 2016.

18. RELATED PARTIES DISCLOSURES (Continued)

THE GROUP (Continued)

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

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Name of the related parties		
Amount due from an associate – current		
YingSheng	245	–
Loan to an associate – non current		
Q3	13,237	–
Amount due to related parties – non current		
Mr. Yuen *(Note)*	(400)	(400)
Mr. Yang *(Note)*	(70)	(60)
	(470)	(460)
Amount due to related parties – current		
Hainan San Feng You	(25)	–
Covex, S.A.	–	(10,603)
	(25)	(10,603)

Note: During the year ended 31 December 2013, Mr. Yuen and Mr. Yang entered into loan agreements with Pioneer Ruici, pursuant to which Mr. Yuen and Mr. Yang extended the loans for a period of five years and the amounts will be repayable on 13 August 2017 and bear no interest.

18. RELATED PARTIES DISCLOSURES (Continued)

THE GROUP (Continued)

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

According to a promotion partner agreement dated on 12 October 2011 entered into between Mr. Zhang and Pioneer Pharma and a supplemental agreement dated 1 January 2013 pursuant to which Pioneer Pharma assigns its rights and liabilities under the promotion partner agreement to Naqu Pioneer (the "Promotion Partner Agreement"), the Group appointed Mr. Zhang as a promotion partner of Salbutamol Easyhaler products in Jiangsu and Beijing areas of the PRC. The term of the Promotion Partner Agreement is seven years commencing 12 October 2011 and ending 11 October 2018 and a deposit of RMB5 million is payable by Mr. Zhang. As of 30 June 2014, the Group received deposits of RMB2 million (31 December 2013: RMB2 million) and recorded in other payable in the consolidated statement of financial position. No sale was made up to both periods of 30 June 2014 and 31 December 2013.

(e) ***Compensation of key management personnel***

The remuneration of key management personnel during the period was as follows:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Short-term employee benefits	**3,080**	1,621
Post employee benefits	**198**	191
	3,278	1,812

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

19. BANK BORROWINGS

During the period, the Group obtained various new bank loans to finance its business operation of approximately RMB304,957,000 (31 December 2013: RMB498,466,000). The amounts are secured and due within one year.

At the end of the reporting period, borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Pledge of assets		
Bills receivables	–	1,655
Pledged bank deposits	436,468	304,282
	436,468	305,937

As 30 June 2014, the effective interest rates on the Group's fixed-rate borrowings are ranging from 1.20% to 5.60% (2013: 1.00% to 7.28%).

20. PROVISION

	Provision for sales return RMB'000
THE GROUP	
COST	
At 1 January 2013	3,223
Additions	1,864
Utilisations	(1,402)
At 30 June 2013	3,685
Additions	2,444
Utilisations	(1,907)
At 1 January 2014	**4,222**
Additions	**2,491**
Utilisations	**(1,998)**
At 30 June 2014 (Unaudited)	**4,715**

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

21. SHARE CAPITAL

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised:			
On 5 February 2013 (date of incorporation) *(note a)*	500,000,000	5,000,000	31,397
Addition *(note c)*	2,500,000,000	25,000,000	50,699
At 31 December 2013 and 30 June 2014	3,000,000,000	30,000,000	82,096
Issued and fully paid:			
At incorporation *(note a)*	1	0.01	–
Issuance of shares on 14 February 2013 *(note b)*	99	0.99	–
Issuance of shares on 13 June 2013 *(note b)*	100,100,000	1,001,000	6,286
At 30 June 2013	100,100,100	1,001,001	6,286
Issuance of shares at 6 September 2013 *(note b)*	399,899,900	3,998,999	24,677
Capitalisation issue *(note c)*	500,000,000	5,000,000	30,963
Issuance of shares upon initial public offering *(note d)*	333,334,000	3,333,340	20,170
At 31 December 2013 and 30 June 2014	1,333,334,000	13,333,340	82,096

(a) The Company was incorporated and registered as an exempted limited liability company in the Cayman Islands on 5 February 2013 with an authorised share capital of US$5 million divided into 500,000,000 shares of US$0.01 each. Upon its incorporation, one share was allotted and issued to initial subscriber.

(b) On 14 February 2013, the initial subscriber transferred that one share to Pioneer Pharma (BVI) Limited ("Pioneer BVI"), at a consideration of US$0.01 and Pioneer BVI subscribed for an additional 99 shares at par value in cash, and the Company became a wholly owned subsidiary of Pioneer BVI. On 13 June 2013, the Company allotted and issued additional 100,100,000 shares to Pioneer BVI at par value for cash consideration. On 6 September 2013, the Company allotted and issued additional 399,899,900 shares to Pioneer BVI at par value for cash consideration.

(c) Pursuant to written resolutions of the shareholders passed on 16 October 2013, inter-alia, the authorised share capital of the Company was increased from US$5,000,000 to US$30,000,000 by the creation of an additional 2,500,000,000 shares of US$0.01 each and the directors are authorised to issue 500,000,000 shares by way of capitalisation of share premium account on the date of listing of the Company on the Stock Exchange.

(d) On 5 November 2013, 333,334,000 shares of US$0.01 each of the Company, amounting to US$3,333,340 (approximately RMB20,170,000), were issued at HK$4.1 per share which was equivalent to approximately RMB1,046,789,000, in total upon the listing of the shares of the Company on the Stock Exchange after netting off transaction costs of RMB58,833,000. The new shares allotted and issued rank pari passu in all respects with other shares in issue to the existing shareholders.

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30.06.2014	31.12.2013				
1) Trust Investment	**Assets – RMB75,000,000**	N/A	Level 3	Discounted cash flow. Future cash flows discounted at a rate that reflects the credit risk of various counterparties.	Discount rate	The higher estimated discount rate, the lower the fair value
2) Other investments	**Listed equity securities in US – Biotechnology industry – RMB36,981,000**	Listed equity securities in US – Biotechnology industry – RMB53,359,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
3) Structured note	**N/A**	Assets – RMB19,829,000	Level 3	The fair value is determined based on the final redemption amount estimated by the option pricing model which stimulate the Fixing Rate on the redemption date discounted by the time value.	Exchanged rate estimated by counter bank	The higher the estimated exchange rate, the lower the fair value

There were no transfers between Level 1 and 2 for the Group in both periods.

As at 30 June 2014, the directors consider that the carrying amount of financial assets and liabilities carried at amortised cost in the consolidated financial statements approximate their fair values.

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 Inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Reconciliation from the beginning balance to the ending balance of Level 3 fair value measurements of financial assets:

	Structure note RMB'000	Trust investments RMB'000	Total RMB'000
At 1 January 2014	19,829	–	19,829
Purchase	–	75,000	75,000
Total gains (losses)			
– in profit or loss			
(Included in "Other gains and losses")	171	–	171
– in other comprehensive income			
(Included in "Investment revaluation reserve")	–	–	–
Settlements	(20,000)	–	(20,000)
At 30 June 2014	–	75,000	75,000

The losses in profit or loss represented the fair value change related to the structure note and trust investments held at the end of each reporting period or the transfer date.

23. NON-CASH TRANSACTIONS

During the six months ended 30 June 2013, assets and liabilities that are derecognised by or reinstated the Group on the date of completion of group reorganisation are as follows:

	RMB'000
Assets or liabilities reinstated	
Amount due from Pioneer Pharma	34,646
Dividend payable to Pioneer Pharma	(92,652)
	(58,006)
Assets or liabilities derecognised	
Deferred tax assets	(59)
Dividend payables to shareholders of Pioneer Pharma	26,020
Other receivable	(106)
Other payable	776
Investment properties	(6,390)
Property, plant and equipment	(8,479)
Tax recoverable	(1,083)
	10,679
	(47,327)

24. CAPITAL COMMITMENT

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)
Capital expenditure authorised but not contracted for	**617,556**	720,392

25. EVENTS AFTER THE END OF THE INTERIM PERIOD

On 1 July 2014, Pioneer Singapore entered into the share acquisition agreement with Memory Secret S.L., pursuant to which Pioneer Singapore agrees to acquire the entire issued share capital of the Covex Farma S.L. ("Covex Farma") for a paid consideration of EUR2,905,000, equivalent to RMB24,386,000. Covex Farma holds approximately 44.6% equity interest in Covex S.A..

On 1 July 2014, Pioneer Singapore further entered into the debt acquisition agreement with 65 creditors of Covex S.A. and Covex Farma, pursuant to which Pioneer Singapore acquired certain debts from these creditors with an aggregate face value of EUR17,226,435, equivalent to RMB144,609,000 for a consideration of EUR7,124,107, equivalent to RMB59,804,000. The debt acquisition is completed and settled on the same date.

Up to the date of approving these condensed consolidated financial statements, Pioneer Singapore has not received court order stated that Covex S.A. and Covex Farma has left the insolvency situation and the management of the Company are still in the process of accessing the financial impact of the acquisition.