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

先機為重 Pioneering Success
鋒行天下

2019
INTERIM REPORT

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Wang Yinping
Mr. Wu Mijia
Mr. Hui Lap Keung (also known as Patrick)

Independent Non-executive Directors

Mr. Zhang Hong
Mr. Yan Guoxiang
Mr. Wong Chi Hung, Stanley

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Zhang Hong *(Chairman)*
Mr. Yan Guoxiang
Mr. Wu Mijia

NOMINATION COMMITTEE

Mr. Li Xinzhou *(Chairman)*
Mr. Yan Guoxiang
Mr. Zhang Hong

AUTHORIZED REPRESENTATIVES

Mr. Luo Chunyi
Mr. Fu Yu

JOINT COMPANY SECRETARIES

Mr. Fu Yu
Ms. Ng Ka Man

REGISTERED OFFICE

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Cayman Islands

CORPORATE HEADQUARTERS

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR

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AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISOR
Allen & Overy

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED
01345

COMPANY'S WEBSITE
http://www.pioneer-pharma.com

Financial Highlights

- Revenue of the Group for the six months ended 30 June 2019 was RMB620.3 million, which represents a 34.8% decrease compared to RMB951.6 million for the same period last year.
- Gross profit of the Group for the six months ended 30 June 2019 was RMB305.1 million, which represents a 8.0% decrease compared to RMB331.7 million for the same period last year.
- Net profit of the Group for the six months ended 30 June 2019 was RMB98.2 million, which represents a 18.8% decrease compared to RMB120.9 million for the same period last year.
- Basic earnings per share of the Company was RMB0.080 for the six months ended 30 June 2019, which represents a 16.7% decrease compared to RMB0.096 for the same period last year.

	For the six months ended 30 June				
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Operating results					
Revenue	**620,253**	951,622	1,028,182	806,029	803,243
Gross profit	**305,051**	331,703	326,823	251,310	252,725
Profit before income tax	**103,578**	133,822	157,030	116,563	182,447
Profit for the period	**98,151**	120,943	142,674	100,015	160,836
Profit for the period, all attributable to the owners of the Company	**98,657**	120,682	141,348	98,807	161,964

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 in China, dedicated to imported pharmaceutical products and medical devices. Founded in 1996, the Group has over two decades of operating history.

The Group provides comprehensive marketing, promotion and channel management services to small and medium-sized overseas suppliers that lack sufficient manpower or ability to independently market their products in the rapidly growing healthcare market in China. The Group provides channel management services to Alcon Pharmaceuticals Ltd. ("**Alcon**"), the world's largest eye-care products company.

Marketing and promotion services that the Group provides include formulating marketing and promotion strategies, educating individual physicians on the clinical uses and benefits of the Group's products, organizing 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 of the Group). When required by its suppliers, the Group also manages the product registration process that is a prerequisite to the sale of imported pharmaceutical products and medical devices in China.

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

The Group currently purchases its products primarily from several major suppliers based in Europe and North America. These products offset unmet medical needs because of their superior clinical profiles, improved quality or formulations, or the lack of competition from similar products in the Chinese market.

For the six months ended 30 June 2019 (the "**Reporting Period**"), the Group sold its products through its nationwide marketing, promotion and channel management service network to a total of approximately 30,000 hospitals and other medical institutions and over 100,000 pharmacies across all provinces, municipalities and autonomous regions in China.

REVIEW OF OPERATIONS

Since 2019, China's medical reform has entered into a critical stage, with new policies continuously being introduced, new regulations continuously being implemented and new pilot points continuously being carried out, and the pharmaceutical industry is undergoing profound changes. On retrospect of the overall condition of the industry, although the incremental improvement of the National Medical Security Administration system and the policy of medical insurance cost control have still put pressure on drug prices in tender processes, the demand in the industry remains huge and is increasing at a steady pace against the backdrop of consumption upgrade and the acceleration of population aging, and that the industry is still on a rise. The incremental implementation of the "Consistency Evaluation of Generic Drugs" and the dissemination of the "Adjuvant Drug List" are pushing forward structural adjustments of the industry, and at the same time bringing an even more observable polarization of enterprises in the industry.

Specifically for the Group, the government's support and preferential policies on innovative drugs and medical devices, such as optimization of the approval process and accreditation of international clinical trial data, will help to expand the range of products for the Group's selection. As various provinces have been enhancing the implementation of the policy requirements of medical insurance cost control, the Company is expected to have a more prominent market competitiveness in view of the clear effect and outstanding quality of its drugs and medical devices and the enhanced efficiency of medical insurance funds application resulting therefrom. The Group will leverage on its advantages in product quality and brand image, and strengthen its academic promotion, so as to seize opportunities to further develop its business amidst a changing and challenging environment.

For the Reporting Period, through the Group's active efforts on organizing the market potential and promotion strategies of products, as well as increasing the frequency and deepening the depth of academic promotion activities, most of the products sold via the provision of comprehensive marketing, promotion and channel management services continued to achieve noticeable development. As disclosed in the Company's announcement dated 28 December 2017, transitional arrangements relating to the sale of Alcon's ophthalmic pharmaceutical products, which were sold by the Group via the provision of co-promotion and channel management services, have been under implementation for the year ended 31 December 2018. The transition period has now concluded. According to the distribution agreement signed by the Group and Alcon, since 2019, the Group has been exclusively entitled to the sale of 10 specifications in 8 types of Alcon's ophthalmic pharmaceutical products, which has had a great impact on the overall performance of the Group.

For the Reporting Period, the Group's revenue decreased by 34.8% compared to the same period last year to RMB620.3 million. Net profit decreased by 18.8% compared to the same period last year to RMB98.2 million. Revenue generated from Alcon's ophthalmic pharmaceutical products sold via the provision of channel management services decreased by 69.6% compared to the same period last year to RMB151.6 million, representing 24.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 80.7% compared to the same period last year to RMB8.3 million, representing 2.7% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 0.1% compared to the same period last year to RMB404.1 million, representing 65.1% of the Group's revenue for the Reporting Period. Gross profit increased by 5.3% compared to the same period last year to RMB274.0 million, representing 89.8% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 32.4% compared to the same period last year to RMB64.6 million, representing 10.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 20.0% compared to the same period last year to RMB22.8 million, representing 7.5% of the Group's gross profit for the Reporting Period.

1 Product Development

As of 30 June 2019, the Group had a product portfolio of pharmaceutical products (mostly prescription products) covering ophthalmology, pain management, cardiovascular, immunology, gynecology, gastroenterology and other therapeutic areas; and medical device products covering several therapeutic areas including ophthalmology, orthopedics, odontology and wound care products.

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

	For the six months ended 30 June			
Category	2019 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)	2018 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)
Revenue:				
Pharmaceutical Products	404,089	65.1	404,688	42.5
Medical Devices	64,567	10.4	48,757	5.1
Gross Profit:				
Pharmaceutical Products	273,967	89.8	260,146	78.4
Medical Devices	22,776	7.5	28,462	8.6

During the Reporting Period, as a result of various factors such as the continuous implementation of the medical insurance cost control policy, the increasingly stringent management of the clinical pathways of drugs and the control of the public medical institutions in the proportion of drug application, despite the continuous impacts of the lowered drug prices in tender processes and control of drug application in medical institutions, the trend of structural differentiation for the clinical use of drugs has grown even more obvious. The Group leveraged the quality and clear therapeutic effect, has adopted a rational promotion strategy to secure a stable market position for its products. The Group's business segment of provision of comprehensive marketing, promotion and channel management services for pharmaceutical products has maintained a stable development. During the Reporting Period, revenue generated from this segment decreased by 0.1% compared to the same period last year to RMB404.1 million, representing 65.1% of the Group's revenue for the Reporting Period. Gross profit increased by 5.3% compared to the same period last year to RMB274.0 million, representing 89.8% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from the sales of Difene was RMB86.6 million, representing an increase of 5.7% compared to the same period last year. Through the acceleration of coverage on the primary medical institutions, sales channels have penetrated to more community hospitals, small-scale medical institutions, clinics and health centres, thus effectively expanding where the market has not been taken up. Through proactively organizing and participating in various academic conferences, the Group seized the opportunities for increasing brand publicity and refined its strategy of academic promotion. The Group was devoted to develop a more convenient service of pain management for patients of chronic diseases, as well as to increase the sales of Difene at each target hospital. With the constant expansion of the coverage of medical institutions, the superior quality of Difene has gained recognition from more doctors and patients, and the brand recognition of the product has also been further strengthened. Difene comes in 10-pack and 20-pack packaging specifications. In the past, revenue from Difene mainly originated from sales of the 10-pack specification. Through the Group's introduction and deployment efforts throughout these years, witnessed an 53.1% increase in the products of 20-pack specification when compared to the same period last year, which therefore attained an increasingly significant contribution to the Group's revenue. Meanwhile, Difene is the sole dosage product of its type in the market and was admitted into the "Catalogue of Reference Preparations for Chemical Generic Drugs No. 22" published by the National Medical Products Administration in June 2019. Through increased marketing activities, such as education programmes for doctors and patients on the product, the Group will further expand the market influence of the reference medicinal products, so as to manifest their market competitiveness and consistent good quality. Furthermore, the two specifications of Difene successively won tenders in even more provinces at favourable prices, laying a solid basis for the future development of the products.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB171.1 million, representing an increase of 8.2% compared to the same period last year. As one of the Group's best-selling products, leveraging the advantages in the product's quality, sound market layout and rational promotion strategy, Fluxum has maintained a rapid growth over the past few years. During the Reporting Period, the Group constantly expanded Fluxum's brand recognition through in-depth exploration on the characteristics of product differentiation, strict implementation of the strategy of professional academic promotion, as well as actively expanding and deepening the network of clinical experts. Fluxum was listed as an imported low molecular weight heparin product in the new national drug reimbursement catalogue. Accordingly, to fully capture this opportunity for market expansion, the Group has entered into a number of new markets through rational bidding strategies and increased its market share by closely following and effectively participating in clinical promotions. Furthermore, with more doctors from the relevant departments paying attention to the prevention of venous thrombosis and with more recognition of management system for the prevention and treatment of internal thrombosis from medical practitioners, Fluxum not only continued to maintain its brand advantage in the field of traditional surgery, but also extended the scope of its application to other hospital departments, such as internal medicine. Due to Fluxum's leading market position among similar products in the market, the superior market deployment efforts and the increasing recognition of anticoagulation in more hospitals and units, the Group believes that Fluxum has a solid basis for long-term growth.

For the Reporting Period, the Group's revenue generated from sales of Polimod was RMB34.5 million, representing a decrease of 35.7% compared to the same period last year. Polimod is the originator of pidotimod. It is a synthetic oral immune stimulant that works by stimulating and regulating cell-mediated immune response, and is applied to patients with immunity disorders, such as respiratory tract infections, otolaryngology infections, urinary tract infections and gynecological infections. The Group's rights to market, promote and sell Polimod were extended from eight provinces to the whole country in March 2016, thereby improving the market potential of the product significantly. At the beginning of 2018, as the trial data on their safety and effectiveness were out-dated, the pidotimod products sold in China were challenged by certain self-media, causing confusion to the physicians and patients. Thereafter, the China Food and Drug Administration ("**CFDA**") ordered the revision of the instructions of all pidotimod products, which clarified that pidotimod products are applicable to chronic or recurrent respiratory tract infections and urinary tract infections of children over three years old. CFDA also required that the clinical trial of effectiveness for the Pidotimod products be completed within three years. This event has a profound effect on the sales of Polimod in certain areas, especially in first-tier and second-tier cities which are influenced widely by self-media, and the negative impact of this event still continues. In response, the Group has taken a series of measures, such as inviting medical experts from the product's suppliers to come to China to explain in details how do pidotimod products function and to present proof of medical evidence, as well as cooperating with marketing partners in meeting with primary medical institutions widely in order to penetrate into distribution channels and vigorously explore the primary market. Through a series of measures, the Group has been trying to erase the negative impact of this incident as much as possible. Moreover, the plan of clinical trial of the effectiveness of pidotimod has been reported to CFDA, and the trial commenced immediately after obtaining the approval in February 2019. Based on the clinical research data of Polimod obtained from several thousand cases before and after its launch in the market, the Group firmly believes that, with the advancement of clinical effectiveness trial, Polimod will eliminate the concerns of physicians and patients with scientific data and set the track back to rapid development again.

The business segment of drugs of the Group has continued last year's healthy trend and achieved further development. For the Reporting Period, the Group's revenue generated from sales of these products was RMB112.0 million, representing an increase of 0.8% compared to the same period last year. Specifically, the Group's cardiovascular product Neoton, as the sole imported originator of creatine phosphate sodium for injection, following the new round of tender processes in different provinces and rational bidding strategies, successfully entered a number of important new markets, and realized an increase of 11.2% compared to the same period last year and made significant contribution to the development of the business of the Group. Meanwhile, the Group will, by way of international academic conference platforms, carry on promoting the awareness of clinical doctors in the area of myocardial protection, myocardial damage in particular. Although Neoton was admitted into the first "National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products)", the Group believes that, through such measures as leveraging the international academic status of Neoton and constantly organizing academic and promotional activities in respect of the product, focusing on the field of cardiac therapy and promoting the popularization of reasonable dosage on clinical application, the Group may strengthen the recognition of the products among doctors and patients and increase its market share in the Neoton market. The Group's gynecological product Macmiror Complex lays a solid ground for the academic promotion of the product. With the inclusion of the product in the new, national drug reimbursement catalogue, the Group strengthened its marketing and promotion activities targeted at hospitals and departments covered by its network, improved the coverage of its distribution network by penetrating to more primary institutions and endeavoured to grow its share in the gynecology therapeutic market. Given the competitive pharmaceutical market and constant changes of policies, the Group will take full advantage of the competitive edge and development opportunities of these products, so as to continuously increase their contribution to the Group's revenue.

For the Reporting Period, the Group's revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 32.4% compared to the same period last year to RMB64.6 million, representing 10.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 20.0% compared to the same period last year to RMB22.8 million, representing 7.5% of the Group's gross profit for the Reporting Period. The Group's overall performance of the segment of medical devices was still affected by such factors as the decrease in bidding prices of some medical device consumables and market competition. However, taking into account the features of its products, the Group has reviewed its promotion strategy and accelerated the marketing campaigns of the products launched for a relatively short period of time, so as to lay the basis for the future business development of the sector of medical devices. Specifically, during the Reporting Period, the sales of ophthalmic surgical equipment and consumables and dental equipment and consumables have continued to gain solid growth. Moreover, the sales of NeutroPhase (wound cleansing liquid application product) has also shown a rapid growth trend following the adjustment of promotion direction and strategies. During the Reported Period, the Group signed an agreement with IMEDICOM, a South Korea company to achieve an exclusive right of comprehensive marketing, promotion and channel management services for its MEDINAUT Ballon System (working for percutaneous balloon vertebroplasty). The Group will continue to improve the market deployment of its medical device products, strengthen its promotion activities, and improve the contribution of this business segment to the Group's revenue.

1.2 Products Sold via the Provision of Channel Management Services:

	For the six months ended 30 June			
Category	**2019 RMB'000 (unaudited)**	**Percentage of the Group's Total Revenue/ Gross Profit (%)**	2018 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	**151,597**	**24.4**	498,177	52.4
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	**8,308**	**2.7**	43,095	13.0

The Group has been providing co-promotion and channel management services for all of Alcon's ophthalmic pharmaceutical products in China for over 20 years. Since 1 January 2019, the Group no longer provides co-promotion services for Alcon.

According to the relevant arrangements under the transitional agreement, the Group has completed the transition works with Beijing Novartis Pharmaceutical Co., Ltd. ("**Beijing Novartis**") as to the market of Alcon products.

A new agreement was entered into between the Group and Alcon on 1 January 2019, pursuant to which the Group was exclusively entitled to the import, storage, distribution and sale of 10 specifications in 8 types of Alcon's pharmaceutical products. This agreement runs for a term of 5 years from 1 January 2019. Moreover, the Group has been exclusively entitled to the distribution and sale of 13 types of the ophthalmological products of Novartis group to private hospitals in China for a term of one year since 1 January 2019.

The Group and Alcon have been cooperating with each other for over 20 years and have together witnessed the development and changes of the ophthalmic pharmaceutical market in China. The continuation of this cooperation will help to strengthen the Group's long-term partnership with Alcon as well as the Group's profitability.

For the Reporting Period, the Group's revenue generated from this segment decreased by 69.6% compared to the same period last year to RMB151.6 million, representing 24.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 80.7% compared to the same period last year to RMB8.3 million, representing 2.7% of the Group's gross profit for the Reporting Period.

1.3 Product Pipeline

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

The Group has several products in respect of which it is applying or ready to apply for registration with CFDA. For instance, the bioequivalence experiment of Mirtazapine Orodispersible Tablets (produced by Ehypharm of France, mainly used for the treatment of depressive episodes) has been completed smoothly and its Imported Drug License filing has been under preparation and is expected to be submitted to CFDA in the second half of 2019. The Group is also preparing for the clinical trial for DRL Night Rigid Gas Permeable Contact Orthokeratology-Lens (produced by Precilens of France, used for temporary correction of myopia) and the clinical trial is expected to be carried out in early 2020.

In 2019, in accordance with the requirement of "Reform Opinions on Deepening the Review and Approval System and Encouraging the Innovation of Medical Products" issued by General Office of the State Council, several reform measures in respect of Chinese pharmaceuticals and medical devices approval policies have continued their implementation. In particular, such measures as the optimization of clinical trial review and approval procedures and the acceptance of overseas clinical trial data will result in the acceleration of the launch of overseas high-quality pharmaceuticals and medical devices in China. The Group has proactively maintained close contact with various overseas pharmaceutical and medical device companies in order to introduce products with potential or market basis for marketing, promotion and sales in a timely manner.

2 Marketing Network Development

As the sole China importer of the medical products of the overseas enterprises that it served, the Group is considered equivalent to the manufacturer of these imported medical products under the “Two-invoice System”. To adapt to the “Two-invoice System” which has been in full implementation since 2018, the Group’s business system has been optimized and improved. During the Reporting Period, the Group has continuously refined the network of distributors, and consolidated product distribution channels to meet the requirements of “Two-invoice System”. These also help to enhance the Group’s operational efficiency and prevent operational risks.

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

The Group’s marketing and promotion model comprises both in-house and third-party marketing teams. During the Reporting Period, the Group continued its product promotion and sales work in accordance with the operational mechanism of dividing product business units by products or product series. In the environment of ever-changing policies and violent market competition of pharmaceutical industry, the Group constantly adjusted and optimized all components within the marketing network, with the aim of strengthening its response to the rapid market changes and attaining professionalism and effectiveness as to its product promotion activities. During the Reporting Period, the Group has placed even more emphasis on the academic training of the in-house marketing teams, and has strengthened the frequency and depth of the academic promotion activities in which the internal marketing teams took part, so as to raise the core driving force for product promotion. According to the market situation, the Group has also increased its efforts in optimizing the network structure of the third-party promotion partners, and improved the understanding and knowledge for the products of the third-party promotion partners, by providing further large-scale and standardized training, and assisting them in providing doctors with clinical solutions related to the products. Through close collaboration between in-house marketing teams and third-party promotion partners, the Group shares the pharmaceutical policy and market information all over the country, and improved the communication mechanism and platform with third-party promotion partners so as to improve the operation efficiency and continuously drive the Group’s product development. During the Reporting Period, the development of the Group’s marketing network has led to observable improvement of its market coverage. For instance, the number of hospitals and medical institutions using Difene has increased by over 2,296, the number of hospitals using Fluxum has increased by over 260. In the ever-changing environment of pharmaceutical industry, having a well-developed and robust marketing network is fundamental to the Group’s development.

3 Significant Investment

3.1 Investment in NovaBay

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

The Group has made several rounds of investments in NovaBay since 2013. As of 30 June 2019, the Group held a total of 5,188,421 ordinary shares of NovaBay, representing approximately 25.02% of its equity interest, and did not hold any warrants of NovaBay. The investment allows the Group to enhance its business relationship with NovaBay.

NovaBay focuses primarily on commercializing the Avenova® in the United States and has announced in June 2019 that costumers in the United States may purchase the products on Amazon without prescriptions. The share price of NovaBay has witnessed an observable rise thereafter.

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

For six months ended at 30 June 2019, the Company recognized a reversal of impairment loss of RMB43.9 million in relation to the Group's investment in NovaBay, due to the increase of the share price of NovaBay and the effective relief on the going concern issue. For further information of the business and financial performance and prospects of NovaBay, please refer to the 2019 quarterly report of NovaBay published on its website.

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

3.2 Investment in Paragon

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

In 2018, the Company entered into a subscription agreement with Paragon to subscribe for a total of 50,418,386 subscription shares, representing approximately 15% of the total issued shares of Paragon upon completion of the subscription. Further details of the subscription agreement are set out in the Company's announcement dated 26 August 2018.

The Company considered that the investment in Paragon is in line with the principal business of the Group, enabling the Group to expand its shares in Australia and New Zealand, and lays the basis for further cooperation between the Group and Paragon. In particular, the Group intends to explore opportunities in the sales of the Group's products in Australia and New Zealand and the distribution of the certain products of Paragon or other suppliers through the business network of Paragon in China.

As of 30 June 2019, as a result of the drop in share price of Paragon, the Company recognized a fair value loss in other comprehensive income in respect of its investment in Paragon. For further information of the business and financial performance and prospects of Paragon, please refer to the 2019 annual report of Paragon published on its website.

3.3 Investment in Pioneer Huimei

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

Pioneer Huimei is committed to the development of biotech products and technologies, primarily focusing on medical aesthetics and healthcare industry. With the big data and artificial intelligence technology, it has been able to connect online and offline channels in order to provide consumers with integrated services. Pioneer Huimei has entered into an cooperation agreement of clinical observation with West China Hospital of Sichuan University, with a view to researching on the efficiency of Pioneer Huimei's hair growth products. The Group believes that the investment in Pioneer Huimei is a promising attempt to make full use of modern technology and internet platforms, and is conducive to further enriching the Group's products and innovation of sales channels.

3.4 Investment in Rongchang Production Base

In 2019, the Group, through a wholly-owned subsidiary, Chongqing Qianfeng Pharmaceutical Co., Ltd. ("**Chongqing Qianfeng**"), obtained the state-owned construction land use right of land numbered as 2019-RC-1-03 transferred from Rongchang District Government of Chongqing Municipality. The land covers areas of 38,972m^2 at the transfer price of RMB6,182,000. In March 2019, Chongqing Qianfeng and the local government entered into an agreement of land use right transfer and obtained the right to use the state-owned construction land.

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

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

4 Future and Outlook

With the deepening of China's medical reform, a new ecosystem is taking shape in the pharmaceutical industry. As a result of profound changes in the customary systems of R&D, review and approval and pricing system, the pharmaceutical market is facing a significant structural adjustment. In general, polarization in interior development in the pharmaceutical industry will be a long-term trend. There will be increasing development opportunities for therapeutic products meeting clinical needs and with clear clinical value. The Group will continuously focus on introducing and developing new products, enhancing marketing and promotion capabilities, expanding market coverage through win-win cooperation, enriching the industrial chain through mergers and acquisitions, responding proactively amidst the changing environment of the pharmaceutical industry of China, and forging vigorously ahead, so as to put into practice the new blueprint of the Group's future development.

FINANCIAL REVIEW

Revenue

The Group's revenue in the Reporting Period was RMB620.3 million, representing a 34.8% decrease from RMB951.6 million for the six months ended 30 June 2018. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB404.1 million, representing a 0.1% decrease from RMB404.7 million for the six months ended 30 June 2018, primarily due to the decrease in sales of Polimod products as a result of the negative reportage by the media on the products. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB64.6 million, representing a 32.4% increase from RMB48.8 million for the six months ended 30 June 2018, primarily due to the increase of sales of certain products as a result of the enhancement on promotion activities. Revenue generated from products sold via the provision of channel management services in the Reporting Period was RMB151.6 million, representing a 69.6% decrease from RMB498.2 million for the six months ended 30 June 2018, primarily due to the transition of certain Alcon's products sold by the Group to Beijing Novartis during the Reporting Period.

Cost of sales

The Group's cost of sales in the Reporting Period was RMB315.2 million, representing a 49.2% decrease from RMB619.9 million for the six months ended 30 June 2018, primarily due to the decrease in sales of Alcon's products. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB130.1 million, representing a 10.0% decrease from RMB144.5 million for the six months ended 30 June 2018. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB41.8 million, representing a 105.9% increase from RMB20.3 million for the six months ended 30 June 2018. Cost of sales in products sold via channel management services in the Reporting Period was RMB143.3 million, representing a 68.5% decrease from RMB455.1 million for the six months ended 30 June 2018.

Gross profit and gross profit margin

The Group's gross profit in the Reporting Period was RMB305.1 million, representing a 8.0% decrease from RMB331.7 million for the six months ended 30 June 2018. The Group's average gross profit margin in the Reporting Period was 49.2%, representing an increase from 34.9% for the six months ended 30 June 2018. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was 67.8%, representing an increase from 64.3% for the six months ended 30 June 2018, primarily due to a higher proportion of the Group's revenue during the Reporting Period was derived from the sales of certain products which generally generated higher gross profit margins. The Group's gross profit margin for medical devices sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was 35.3%, representing a decrease from 58.4% for the six months ended 30 June 2018, primarily due to a decrease of price on certain products of medical devices as a result of the influence of a sustained market competition. The Group's gross profit margin for products sold via the provision of co-promotion and channel management services in the Reporting Period was 5.5%, representing a decrease from 8.7% for the six months ended 30 June 2018, primarily due to a decrease in the bidding price of certain Alcon's ophthalmic pharmaceutical products.

Other income

The Group's other income in the Reporting Period was RMB19.2 million, representing a 52.7% increase from RMB12.6 million for the six months ended 30 June 2018, primarily due to an increase in the amount of government grants received by the Group.

Distribution and sale expenses

The Group's distribution and sale expenses in the Reporting Period were RMB208.1 million, representing a 18.7% increase from RMB175.3 million for the six months ended 30 June 2018, primarily due to an increase of marketing and promotion expenses as an result of an increase of marketing and promotion activities for expanding the market shares of certain products. Distribution and sale expenses in the Reporting Period were 33.6% of the revenue, representing an increase from 18.4% for the six months ended 30 June 2018.

Administrative expenses

The Group's administrative expenses in the Reporting Period were RMB37.9 million, representing a 11.5% increase from RMB34.0 million for the six months ended 30 June 2018, primarily due to an increase of labor cost. Administrative expenses in the Reporting Period were 6.1% of the revenue, representing an increase from 3.6% for the six months ended 30 June 2018.

Finance costs

The Group's finance costs in the Reporting Period were RMB2.5 million, representing a 263.3% increase from RMB0.7 million for the six months ended 30 June 2018, primarily due to an increase of the amount of bank loans which contributes to a higher interest expense.

Income tax expense

The Group's income tax expense in the Reporting Period was RMB5.4 million, representing a 57.9% decrease from RMB12.9 million for the six months ended 30 June 2018. The Group's effective income tax rate for the six months ended 30 June 2018 and the Reporting Period was 9.6% and 5.2%, respectively. Since the beginning of 2012, the Group has been conducting business primarily through Naqu Area Pioneer Pharma Co., Ltd, which was subject to a reduced Enterprise Income Tax rate of 9%.

The effective income tax rate of the Group is 5.2%, representing an decrease from 9.6%, due to the Group recognised an reversal of impairment loss on interest in an associate of RMB43,881,000 during the Reporting Period.

Profit for the period

As a result of the above factors, the Group's profit in the Reporting Period was RMB98.2 million, representing a 18.8% decrease from RMB120.9 million for the six months ended 30 June 2018. The Group's net profit margin in the Reporting Period was 15.8%, representing an increase from 12.7% for the six months ended 30 June 2018.

Liquidity and capital resources

In the past, the Group's working capital and other capital needs were mainly funded by net cash flow from its operations, with supplementary financing from banks. The Group's cash and cash equivalents as of 30 June 2019 were RMB100.3 million, decreasing from RMB150.9 million as of 31 December 2018, primarily due to during the Reporting Period, the enhancement on the utilization of unused funds for the bank structured deposit during the Reporting Period, which increased the capital return.

Inventories

The Group's inventory balance as of 30 June 2019 was RMB321.3 million, representing a 23.0% decrease from RMB417.4 million as of 31 December 2018, primarily due to a decrease in the inventory level of Alcon's products resulting from the decrease of sales.

Trade and other receivables

The Group's trade and other receivables as of 30 June 2019 were RMB329.9 million, representing a 3.1% increase from RMB319.9 million as of 31 December 2018. The trade receivables turnover as of 30 June 2019 was 86.4 days, representing a decrease from 88.0 days as of 31 December 2018.

Trade and other payables

The Group's trade and other payables as of 30 June 2019 were RMB186.0 million, representing a 7.0% decrease from RMB200.1 million as of 31 December 2018. The Group's trade payables turnover as of 30 June 2019 was 82.5 days, representing a decrease from 131.0 days as of 31 December 2018, primarily due to an increase in the proportion of products purchased with a shorter payment term for the Reporting Period.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB62.6 million as of 30 June 2019 as compared to RMB96.5 million as of 31 December 2018. On 30 June 2019, the effective interest rate of the Group's bank borrowings was approximately 4.6%. As of 31 December 2018 and 30 June 2019, bank borrowings of AUD20.0 million and AUD13.0 million were secured by the Group's equity instrument at fair value through other comprehensive income. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 4.5% as of 30 June 2019, as compared to 6.7% as of 31 December 2018.

Indebtedness

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
As of 30 June 2019			
Bank borrowings	**62,603**	**–**	**62,603**
Trade payables	**138,634**	**2,202**	**140,836**
As of 30 June 2018			
Bank borrowings	–	–	–
Trade payables	287,398	271	287,669

Foreign Exchange Risk

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

EMPLOYEES AND REMUNERATION POLICY

As of 30 June 2019, the Group had a total of 262 employees. For the Reporting Period, staff costs of the Group were RMB29.6 million as compared to RMB26.2 million for the six months ended 30 June 2018. The Group's employee remuneration policy is determined by taking into account factors such as the remuneration level in the local market, the overall remuneration standard in the industry, the inflation level, the corporate operating efficiency and employees' performance. The Group conducts annual performance appraisals for its employees, the results of which are taken into consideration in annual salary review and promotion 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 employees in China in accordance with the relevant regulations of the PRC. The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the Reporting Period.

Other Information

CORPORATE GOVERNANCE PRACTICE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the **"CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2019 except for the following code provision:

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

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors of the Company (the "**Directors**") and each of the Directors has confirmed that he has complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**"), which comprises two independent non-executive Directors, namely Mr. Wong Chi Hung, Stanley (Chairman) and Mr. Zhang Hong; and one non-executive Director, namely Mr. Wu Mijia.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting, risk management and internal control systems, 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 group audit.

The unaudited interim results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee with no disagreement.

SHARE AWARD SCHEME

The Company adopted a share award scheme (the "**Share Award Scheme**") to recognize the contribution by certain employees including Directors and senior management of the Group, and to provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group. The Share Award Scheme has a term of 10 years commencing from 10 April 2015 on which the Share Award Scheme was adopted by the Board (the "**Adoption Date**"). The Share Award Scheme is administered by the Board and the trustee of the Share Award Scheme. For details of the Share Award Scheme, please refer to the announcement of the Company dated 10 April 2015. On 9 October 2015, the Board had resolved to grant a total of 25,060,000 awarded shares to 150 selected employees with the award price of HK$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme for the six months ended 30 June 2019.

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

The Company had bought back the following shares of the Company (the "**Shares**", and each a "**Share**") on the Stock Exchange during the six months ended 30 June 2019 with details as set out below:

Month of Purchase	Number of Shares Purchased	Highest Price Paid per Share HK$	Lowest Price Paid per Share HK$	Total Price Paid HK$
January 2019	4,000,000	0.98	0.95	3,917,330
February 2019	–	–	–	–
March 2019	6,048,000	1.00	0.93	6,017,590
April 2019	3,601,000	1.02	0.98	3,668,380
May 2019	9,689,000	0.85	0.63	7,705,130
June 2019	429,000	0.68	0.68	291,720
Total	23,767,000			21,600,150

All of the Shares bought back during the six months ended 30 June 2019 were subsequently cancelled or will be cancelled. The Board considers that the value of the Shares in the capital market was undervalued. The market value of the Shares was far below their intrinsic value, taking into account the Group's sufficient and strong financial resources. The Board believes that the Company's healthy financial position allows the Company to conduct the above buy-backs while maintaining sufficient financial resources for the continuous growth of the Group's operations. The Board also believes the share buy-backs and subsequent cancellation of the repurchased Shares can improve the return to the Shareholders. Save as disclosed above and the purchases of the Shares by the trustee pursuant to the Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

CHANGES IN RESPECT OF DIRECTORS

During the Reporting Period:

With effect from 1 January 2019, each of Mr. Zhu Mengjun, Mr. Xu Zhonghai and Mr. Lai Chanshu resigned from their respective offices of Directors and positions in the committees of the Board.

Mr. Zhang Hong was appointed as an independent non-executive Director and the chairman of the remuneration committee, as well as a member of each of the audit committee and the nomination committee of the Board, with effect from 1 January 2019.

Mr. Yan Guoxiang was appointed as an independent non-executive Director and a member of each of the remuneration committee and the nomination committee of the Board, with effect from 1 January 2019.

Mr. Luo Chunyi was appointed as an executive Director and the chief executive officer of the Company with effect from 22 January 2019.

Mr. Hui Lap Keung (also known as Patrick) was appointed as a non-executive Director with effect from 19 June 2019.

For details of the abovementioned changes, please refer to the announcements of the Company dated 1 January 2019, 22 January 2019 and 19 June 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in the shares of the Company

Name of Directors	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Li Xinzhou	Interest of controlled corporation[(1)]	858,392,000 (L)	67.95%
	Interest of spouse[(2)]	1,403,000 (L)	0.11%
	Beneficial owner	34,714,000 (L)	2.74%
Wang Yinping	Beneficial owner	1,300,000 (L)[(3)]	0.10%

Remark:

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

Notes:

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

2. Such 1,403,000 Shares are held by Ms. Wu Qian, the spouse of Mr. Li Xinzhou. Accordingly, Mr. Li Xinzhou is deemed to be interested in such 1,403,000 Shares.

3. Mr. Wang Yiping is interested in 1,300,000 Shares, all of which were awarded and granted to Mr. Wang Yiping under the Share Award Scheme on 9 October 2015.

Save as disclosed above, as of 30 June 2019, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (ii) which were required to be recorded in the register to be kept by the Company under section 352 of the SFO, or (iii) which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the six months ended 30 June 2019 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or children under 18 years of age, nor were there any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouses or children under 18 years of age, to acquire such rights in any other body corporate.

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

As of 30 June 2019, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Wu Qian	Interest of controlled corporation(1)	858,392,000 (L)	67.95%
	Interest of spouse(2)	34,714,000 (L)	2.74%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited(4)	Interest of controlled corporation(3)	858,392,000 (L)	67.95%
Pioneer Pharma (BVI) Co., Ltd.(4)	Beneficial owner	858,392,000 (L)	67.95%

Remark:

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

Notes:

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

2. Such 34,714,000 Shares are held by Mr. Li Xinzhou, the spouse of Ms. Wu Qian. Accordingly, Ms. Wu Qian is deemed to be interested in such 34,714,000 Shares.

3. Tian Tian Limited through its controlled corporation, Pioneer Pharma (BVI) Co., Ltd., is deemed to be interested in 858,392,000 Shares held by Pioneer Pharma (BVI) Co., Ltd. The total share capital of Tian Tian Limited, which used to be controlled by UBS Trustees (BVI) Limited as trustee of the discretionary trust, was transferred to Mr. Li Xinzhou and Ms. Wu Qian on 27 June 2019.

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

Save as disclosed above, as of 30 June 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERIM DIVIDEND

The Board did not recommend any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

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 26 to 60, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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 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 International Accounting Standard 34 'Interim Financial Reporting' ("**IAS 34**") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 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 IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	**620,253**	951,622
Cost of sales		**(315,202)**	(619,919)
Gross profit		**305,051**	331,703
Other income	4	**19,200**	12,570
Other gains and losses	5	**49,962**	8,263
Impairment losses under expected credit loss model, net of reversal	16	**(8,139)**	(716)
Distribution and selling expenses		**(208,126)**	(175,338)
Administrative expenses		**(37,928)**	(34,030)
Finance costs		**(2,463)**	(678)
Share of loss of an associate		**(13,979)**	(7,952)
Profit before tax		**103,578**	133,822
Income tax expense	6	**(5,427)**	(12,879)
Profit for the period	7	**98,151**	120,943
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
– Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income	12	**(51,082)**	980
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**171**	1,754
– Share of exchange difference of an associate		**(138)**	1,430
Other comprehensive (expense) income for the period		**(51,049)**	4,164
Total comprehensive income for the period		**47,102**	125,107
Profit (loss) for the period attributable to:			
Owners of the Company		**98,657**	120,682
Non-controlling interests		**(506)**	261
		98,151	120,943
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**47,608**	124,846
Non-controlling interests		**(506)**	261
		47,102	125,107
		RMB yuan	RMB yuan
Earnings per share			
Basic	9	**0.08**	0.10

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Non-current Assets			
Property, plant and equipment	*10*	45,594	46,144
Right-of-use assets	*10*	8,253	–
Prepaid lease payments		–	2,063
Intangible assets		13,457	14,106
Interest in an associate	*11*	60,414	27,599
Equity instruments at fair value through other comprehensive income	*12*	129,560	180,892
Finance lease receivables		3,823	4,072
Deposit paid for interest in an associate	*13*	7,981	7,981
Loan to an associate	*19*	7,220	–
Deferred tax assets	*14*	10,460	8,578
Amount due from a related party	*19*	65,998	63,178
		352,760	354,613
Current Assets			
Inventories		321,309	417,387
Finance lease receivables		29,429	40,268
Trade and other receivables	*15*	329,904	319,874
Amounts due from related parties	*19*	58,014	58,881
Financial assets at fair value through profit or loss	*17*	202,693	47,000
Tax recoverable		343	231
Prepaid lease payments		–	52
Pledged bank deposits		9,172	48,684
Bank balances and cash		100,304	150,854
		1,051,168	1,083,231

At 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Current Liabilities			
Trade and other payables	*18*	186,016	200,097
Tax liabilities		13,131	14,489
Bank borrowings	*20*	62,603	96,500
Provision	*21*	1,886	1,886
Contract liabilities		8,388	12,364
Obligations under finance leases		–	4,637
Lease liabilities		2,647	–
		274,671	329,973
Net Current Assets		776,497	753,258
Total Assets less Current Liabilities		1,129,257	1,107,871
Capital and Reserves			
Share capital	*22*	77,761	79,071
Reserves		1,050,442	1,025,505
Equity attributable to owners of the Company		1,128,203	1,104,576
Non-controlling interests		(763)	1,316
Total Equity		1,127,440	1,105,892
Non-current liability			
Long-term liabilities	*18*	1,817	1,979
		1,129,257	1,107,871

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Treasury share reserve RMB'000	Investments revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018 (Audited)	81,391	932,343	(52,292)	1,513	12,643	(165,803)	1,520	336,146	1,147,461	942	1,148,403
Profit for the period	–	–	–	–	–	–	–	120,682	120,682	261	120,943
Other comprehensive income	–	–	–	3,184	–	–	980	–	4,164	–	4,164
Total comprehensive income for the period	–	–	–	3,184	–	–	980	120,682	124,846	261	125,107
Shares repurchased and cancelled *(Note 22)*	(1,600)	(51,085)	–	–	–	–	–	–	(52,685)	–	(52,685)
Repurchase of ordinary shares under Share Award Scheme	–	–	–	–	–	(1,871)	–	–	(1,871)	–	(1,871)
At 30 June 2018 (Unaudited)	79,791	881,258	(52,292)	4,697	12,643	(167,674)	2,500	456,828	1,217,751	1,203	1,218,954
At 1 January 2019 (Audited)	**79,071**	**861,629**	**(52,292)**	**9,320**	**12,643**	**(167,674)**	**(58,864)**	**420,743**	**1,104,576**	**1,316**	**1,105,892**
Profit (loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**98,657**	**98,657**	**(506)**	**98,151**
Other comprehensive income (expense)	**-**	**-**	**-**	**33**	**-**	**-**	**(51,082)**	**-**	**(51,049)**	**-**	**(51,049)**
Total comprehensive income (expense) for the period	**-**	**-**	**-**	**33**	**-**	**-**	**(51,082)**	**98,657**	**47,608**	**(506)**	**47,102**
Appropriation to reserve	**-**	**-**	**-**	**-**	**327**	**-**	**-**	**(327)**	**-**	**-**	**-**
Shares repurchased and cancelled *(Note 22)*	**(1,310)**	**(16,183)**	**-**	**-**	**-**	**(1,661)**	**-**	**-**	**(19,154)**	**-**	**(19,154)**
Acquisition of additional interest in a subsidiary	**-**	**-**	**(4,827)**	**-**	**-**	**-**	**-**	**-**	**(4,827)**	**(1,573)**	**(6,400)**
At 30 June 2019 (Unaudited)	**77,761**	**845,446**	**(57,119)**	**9,353**	**12,970**	**(169,335)**	**(109,946)**	**519,073**	**1,128,203**	**(763)**	**1,127,440**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**75,434**	150,796
Decrease in inventories	**96,648**	107,488
Decrease in trade and other payables	**(14,243)**	(262,852)
(Increase)/decrease in other assets and liabilities, net	**(23,250)**	56,046
NET CASH FROM OPERATING ACTIVITIES	**134,589**	51,478
INVESTING ACTIVITIES		
Interest received	**267**	825
Dividend received from an equity instrument at fair value through other comprehensive income	**2,686**	–
Purchases of property, plant and equipment	**(2,732)**	(108)
Upfront payment for purchases of right-of-use asset	**(6,181)**	–
Purchases of intangible assets	**(129)**	(299)
Placement of pledged bank deposits	**(9,189)**	(230,212)
Withdrawal of pledged bank deposits	**48,701**	161,249
Withdrawal of certificate of deposits	**–**	30,000
Placement of structured bank deposits	**(1,168,793)**	–
Withdrawal of structured bank deposits	**1,015,159**	–
Loan to an associate	**(6,710)**	–
Proceed of disposal of partial interest in an associate	**675**	–
Repayment from a related party	**137**	750
NET CASH USED IN INVESTING ACTIVITIES	**(126,109)**	(37,795)
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(33,742)**	(29,000)
Payment for repurchase of ordinary shares under Share Award Scheme	**–**	(1,871)
Acquisition of additional interest in a subsidiary	**(6,400)**	–
Shares repurchased and cancelled/to be cancelled	**(19,154)**	(52,685)
CASH USED IN FINANCING ACTIVITIES	**(59,296)**	(83,556)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(50,816)**	(69,873)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**150,854**	226,154
Effect of foreign exchange rate changes	**266**	(490)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**100,304**	155,791

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

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

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**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.

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.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs and an interpretation issued by the IASB which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

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

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

As a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets include:

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

2.1.1 *Key changes in accounting policies resulting from application of IFRS 16 (Continued)*

As a lessee (Continued)

Taxation

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sublease

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

2.1.2 *Transition and summary of effects arising initial application of IFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

2.1.2 *Transition and summary of effects arising initial application of IFRS 16 (Continued)*

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

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

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

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

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB4,637,000 and right-of-use assets of RMB2,115,000 at 1 January 2019.

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

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

2.1.2 *Transition and summary of effects arising initial application of IFRS 16 (Continued)*

As a lessee (Continued)

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

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

Notes:

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

2.1.2 *Transition and summary of effects arising initial application of IFRS 16 (Continued)*

As a lessee (Continued)

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

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

Note: For the purpose of reporting cash flows for the six months ended 30 June 2019, movements have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. The directors of the Company considered that there is no material impact on the condensed consolidated statement of financial position as at 30 June 2019, its condensed consolidated statement of profit or loss and other comprehensive income and statement of cash flows from the application of IFRS 16 on the Group as a lessor.

3. SEGMENT INFORMATION

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

Information reported to the executive directors, being the chief operating decision maker ("**CODM**"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered. Segment profit represents the gross profit earned by each segment.

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

(a) Ophthalmic pharmaceutical products – sales of the Group's ophthalmic pharmaceutical products to the customers under the channel management arrangement ("**Products sold via the provision of channel management services**") (2018: Ophthalmic pharmaceutical products – sales of the Group's ophthalmic pharmaceutical products to the customers under the co-promotion and channel management arrangement ("**Products sold via the provision of co-promotion and channel management services**")). Both Products sold via the provision of channel management services and Products sold via the provision of co-promotion and channel management services related solely to sale arrangements with Alcon.

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

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

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

3. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the six months ended 30 June 2019 (Unaudited)

	Products sold via the provision of comprehensive marketing, promotion and channel management services RMB'000	Products sold via the provision of channel management services RMB'000	Consolidated RMB'000
Segment revenue	468,656	151,597	620,253
Cost of sales	(171,913)	(143,289)	(315,202)
Gross profit & segment result	296,743	8,308	305,051
Other income			19,200
Other gains and losses			49,962
Impairment losses under expected credit loss model, net of reversal			(8,139)
Distribution and selling expenses			(208,126)
Administrative expenses			(37,928)
Finance costs			(2,463)
Share of loss of an associate			(13,979)
Profit before tax			103,578

For the six months ended 30 June 2019

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2018 (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	453,445	498,177	951,622
Cost of sales	(164,837)	(455,082)	(619,919)
Gross profit & segment result	288,608	43,095	331,703
Other income			12,570
Other gains and losses			8,263
Impairment losses under expected credit loss model, net of reversal			(716)
Distribution and selling expenses			(175,338)
Administrative expenses			(34,030)
Finance costs			(678)
Share of loss of an associate			(7,952)
Profit before tax			133,822

For the six months ended 30 June 2019

3. SEGMENT INFORMATION (Continued)

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Types of sales		
Sales of pharmaceutical products	**555,686**	902,865
Sales of medical devices	**64,567**	48,757
	620,253	951,622
Types of major products		
Products sold via the provision of channel management services:		
Alcon	**151,597**	–
Products sold via the provision of co-promotion and channel management services:		
Alcon	**–**	498,177
Products sold via the provision of comprehensive marketing, promotion and channel management services:		
Difene	**86,575**	81,869
Fluxum	**171,077**	158,100
Polimod	**34,463**	53,600
Macmiror complex and Macmiror	**33,061**	29,683
Vinpocetine API	**13,522**	18,935
Neoton	**58,825**	52,922
Budesonide Easyhaler and Salbutamol Easyhaler	**–**	16
FLEET Phospho-Soda	**6,566**	6,626
Medical equipments and supplies	**64,567**	48,757
Others	**–**	2,937
Total	**468,656**	453,445
	620,253	951,622

For the six months ended 30 June 2019

4. OTHER INCOME

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants *(Note)*	**4,561**	–
Interest on bank deposits	**267**	694
Interest income on finance leases	**3,245**	4,661
Interest on amount due from a related party	**2,819**	2,714
Service income	**5,112**	4,501
Dividend received from an equity instrument at fair value through other comprehensive income ("**FVTOCI**")	**2,686**	–
Interest on loan to an associate	**510**	–
	19,200	12,570

Note: The amount represented cash received from unconditional grants from 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange gains	**296**	493
Gain on fair value change of structured bank deposits	**2,059**	–
Reversal of impairment loss on interest in an associate	**43,881**	–
Gain on disposal on interest in an associate	**544**	–
Gain on dilution on interest in an associate	**3,182**	7,770
	49,962	8,263

For the six months ended 30 June 2019

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax	**6,837**	15,035
Hong Kong Profits Tax	**347**	1,117
Underprovision (overprovision) in prior period		
PRC Enterprise Income Tax	**125**	(1,215)
	7,309	14,937
Deferred tax *(note 14)*		
Current period	**(1,882)**	(2,058)
	5,427	12,879

7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration	**2,443**	2,887
Other staff's retirement benefits scheme contributions	**4,595**	4,676
Other staff costs	**22,551**	18,678
Total staff costs	**29,589**	26,241
Auditors' remuneration	**2,071**	1,795
(Reversal of) write-down of inventories	**(570)**	12,400
Release of prepaid lease payments	**–**	26
Depreciation of right-of-use assets	**43**	–
Depreciation for property, plant and equipment	**3,279**	3,353
Amortisation of intangible assets	**778**	778
Loss on disposal property, plant and equipment	**3**	–
Cost of inventories recognised as an expense	**315,202**	619,919
Minimum lease payment under operating lease in respect of premises	**–**	49

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors have determined that no dividend will be paid in respect of the interim period.

9. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	**98,657**	120,682
Numbers of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,225,956,398**	1,258,216,481

For the six months ended 30 June 2019 and 2018, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been taken into account the ordinary shares purchased by Bank of Communications Trustee Limited from the market pursuant to the Share Award Scheme and the ordinary shares repurchased and cancelled by the Company.

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group paid approximately RMB2,732,000 (2018: RMB108,000) for acquisition of furniture and equipment.

During the current interim period, the Group disposed of certain furniture and equipment with an aggregate carrying amount of RMB3,000 (2018: nil), resulting in a loss on disposal of RMB3,000 (2018: nil).

During the current interim period, the Group entered into a new lease agreement for the use of a leasehold land in PRC for 50 years with consideration paid of RMB6,181,000. On lease commencement, the Group recognised RMB6,181,000 of right-of-use asset.

11. INTEREST IN AN ASSOCIATE

Name of associate	Form of entity	Classes of shares held	Principal activity	Place of incorporation and operation	Proportion of ownership interest (ordinary share) and voting power held by the Group	
					30 June 2019	31 December 2018
NovaBay Pharmaceuticals, Inc. ("**NovaBay**")	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	United States	**25.02%**	30.50%

During the six months ended 30 June 2019, NovaBay issued an aggregate of 3,644,000 shares to various investors. A gain on dilution of approximately RMB3,182,000 was recognised in profit or loss. As of 30 June 2019, the Group held a total of 5,188,421 ordinary shares representing approximately 25.02% (31 December 2018: 5,212,747 ordinary shares representing approximately 30.50%) of issued shares of NovaBay.

During the six months ended 30 June 2019, the Group sold a total of 24,326 ordinary shares of NovaBay at consideration of US$98,000 (equivalent to RMB675,000). A gain on disposal of approximately RMB544,000 was recognised in profit or loss.

Indicated by the financial performance of NovaBay for the six months ended 30 June 2019, the Group performed impairment assessment for its recoverable amount in accordance with IAS 36 'Impairment of Assets' as a single asset.

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

The recoverable amount of the investment in NovaBay as at 30 June 2019 has been determined based on the quoted market price less cost of disposal. As the recoverable amount of the investment is greater than the corresponding carrying amount, a reversal of impairment loss of approximately RMB43,881,000 is recognised (2018: nil) for the six months ended 30 June 2019 in relation to the interest in an associate.

For the six months ended 30 June 2019

12. EQUITY INSTRUMENTS AT FVTOCI

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Listed investment:		
– Equity securities listed in Australia *(Note a)*	**100,760**	155,692
Unlisted investment:		
– Equity securities *(Note b)*	**28,800**	25,200
	129,560	180,892

Notes:

(a) The listed equity investment represents 15% ordinary shares of an entity listed in Australian Securities Exchange, Paragon Care Limited ("**Paragon**"). This investment is not held for trading, instead, it is held for long-term strategic purpose. The Group waived its ability to nominate a director to the board of Paragon from 20 November 2018 to 31 December 2019. Thus, it is not considered as an associate of the Group as at 30 June 2019 and 31 December 2018. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that recognising short-term fluctuations in this investment's fair value in profit or loss would be inconsistent with the Group's strategy of holding this investment for long-term purpose and realising its performance potential in the long run.

(b) The balances as of 30 June 2019 and 31 December 2018 represent an investment in Shanghai Yuhan fund (上海譽瀚股權投資基金合夥企業(有限合夥), the "**Fund**"), which is incorporated in the PRC. The Fund specialises in making equity investments in various targets within the pharmaceutical industry. As at 30 June 2019 and 31 December 2018, the Fund received contributions from shareholders of RMB250 million, among which the Group injected RMB20 million which accounted for 8% of the equity interest of the Fund. The Fund represents an investment in unlisted private entities and structured deposits. It was accounted for as equity instrument at FVTOCI under IFRS 9. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that recognising short-term fluctuations in this investment's fair value in profit or loss would be inconsistent with the Group's strategy of holding this investment for long-term purpose and realising its performance potential in the long run.

As at 30 June 2019, the carrying amount of the listed equity investment at FVTOCI of RMB100,760,000 (31 December 2018: RMB155,692,000) has been pledged as security for the bank borrowing of RMB62,603,000 (31 December 2018: RMB96,500,000).

For the six months ended 30 June 2019

13. DEPOSIT PAID FOR INTEREST IN AN ASSOCIATE

On 28 November 2018, a wholly-owned subsidiary of the Group entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with an independent third party. Pursuant to the Sale and Purchase Agreement, the Group will acquire 34% equity interest of a company, which principally engaged in research and development, manufacture, distribution and wholesale of biotechnological products in veterinary vaccinology, aesthetic medicine, intelligent cosmetics and high-tech nutraceuticals in Spain, at a fixed consideration of EUR3,000,000 (equivalent to RMB23,080,000). As at 30 June 2019, the Group has paid RMB7,981,000 as deposit for the transaction. The expected completion date will be in September 2019 and the Group will recognise the investment as interest in an associate.

14. DEFERRED TAX ASSETS

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

	Allowances RMB'000	Unrealised profit on inventories RMB'000	Provision for replacement of goods sold RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2018 (Audited)	1,838	1,926	169	1,440	5,373
Credit to profit or loss	1,180	693	–	185	2,058
At 30 June 2018 (Unaudited)	3,018	2,619	169	1,625	7,431
Credit to profit or loss	256	436	–	455	1,147
At 31 December 2018 (Audited)	3,274	3,055	169	2,080	8,578
Credit (Charge) to profit or loss	2,032	(819)	113	556	1,882
At 30 June 2019 (Unaudited)	5,306	2,236	282	2,636	10,460

14. DEFERRED TAX ASSETS (Continued)

As at the end of the current interim period, the Group has unused tax losses of approximately RMB58,071,000 (31 December 2018: RMB45,483,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
2019	**25,280**	25,280
2020	**11,424**	11,424
2021	**4,709**	4,709
2022	**1,267**	1,267
2023	**2,803**	2,803
2024	**12,588**	–
	58,071	45,483

As at the end of the current interim period, the aggregate amount of temporary differences associated with undistributable earnings of the PRC subsidiaries amounted to RMB540,047,000 (31 December 2018: RMB492,118,000). Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of all these accumulated profits of the PRC subsidiaries (31 December 2018: all) 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.

15. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables	295,060	290,638
Less: Allowance for credit losses	(19,147)	(20,637)
	275,913	270,001
Other receivables, prepayments and deposits	37,362	15,054
	313,275	285,055
Advance payment to suppliers	15,231	22,792
Other tax recoverable	1,398	12,027
Total trade and other receivables	329,904	319,874

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

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

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15. TRADE AND OTHER RECEIVABLES (Continued)

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
0 to 60 days	**149,696**	162,345
61 days to 180 days	**82,225**	72,104
181 days to 1 year	**25,446**	19,182
1 year to 2 years	**16,840**	12,783
Over 2 years	**1,706**	3,587
	275,913	270,001

As at 30 June 2019, total bills received amounting to RMB36,157,000 (31 December 2018: RMB42,647,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than 180 days.

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16. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respects of		
– trade receivables	**2,160**	637
– finance lease receivables	**5,979**	79
	8,139	716

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the current interim period, the Group wrote-off the impairment allowance of trade receivables of RMB3,650,000, in particular to an individual debtor due to long outstanding balance for over 3 years and impairment allowance of finance lease receivables of RMB3,824,000, in particular to an early termination of a lease agreement.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 30 June 2019, the Group entered into several contracts of structured deposits with banks in the PRC. The structured bank deposits earn minimum return of 1.35% to 3.40% per annum (31 December 2018: 1.35% per annum), while the total expected return is up to 2.60% to 3.90% per annum (31 December 2018: 2.60% per annum). All contracts are with maturity date on or before 30 December 2020 or can be redeemable on demand. The principal of RMB202,693,000 (31 December 2018: RMB47,000,000) was guaranteed by the relevant banks as at 30 June 2019.

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18. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade payables	**140,836**	143,259
Payroll and welfare payables	**4,171**	4,340
Other tax payables	**1,175**	829
Marketing service fee payables	**16,568**	23,647
Deposits received from distributors	**20,033**	21,995
Accrued purchase	**1,817**	1,979
Other payables and accrued charges	**3,233**	6,027
	187,833	202,076
Less: Amounts due after one year shown under long-term liabilities *(Note)*	**(1,817)**	(1,979)
Amounts shown under current liabilities	**186,016**	200,097

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

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

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
0 to 90 days	**111,741**	139,040
91 days to 180 days	**26,093**	4,089
181 days to 1 year	**800**	–
Over 1 year	**2,202**	130
	140,836	143,259

19. RELATED PARTIES DISCLOSURES

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Purchase of finished goods from Covex, S.A. *(Note)*	**3,422**	–
Interest on amount due from a related party	**2,819**	2,714
Interest on loan to an associate	**510**	–

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

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Name of the related parties		
Amounts due from related parties		
Mr. Li – current *(Note a)*	**56,386**	56,524
Covex, S.A. – current *(Note b)*	**1,628**	2,357
Mr. Li – non-current *(Note a)*	**65,998**	63,178
Loan to an associate – non-current *(Note c)*	**7,220**	–
	131,232	122,059

Notes:

(a) The amounts carry a fixed interest of 4.75% per annum which is due according to the payment schedule. The amounts are secured by the share charge of Striker Pharma (Singapore) Ptd. Ltd ("**Striker Singapore**") (formerly known as Pioneer Pharma (Singapore) Ptd. Ltd) for the payment obligation of Mr. Li. Mr. Li has undertaken to Pioneer HK, a wholly-owned subsidiary of the Company, and the Company that he will settle the amount due to Pioneer HK not less than 20% of any dividend payments in respect of the shares that he and Pioneer BVI may receive from the Company during the 5-year payment schedule, in which RMB56,386,000 and RMB65,998,000 will be due at 22 December 2019 and 22 December 2021, respectively.

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

(c) During the current interim period, the Group granted a promissory note with a principal amount of US$1,000,000 (equivalent to RMB6,710,000) to NovaBay, which is secured by all of the assets of NovaBay. The promissory note was fully drawn down on 27 February 2019 and to be repaid on or before 1 July 2020.

As of 30 June 2019, the Group has accrued interest receivable of RMB510,000 in respect of the loan to an associate.

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19. RELATED PARTIES DISCLOSURES (Continued)

(c) Compensation of key management personnel

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**3,278**	4,775
Post employee benefits	**347**	409
	3,625	5,184

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

20. BANK BORROWINGS

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

During the current interim period, the Group had not obtained any new bank loans and repaid bank borrowing of RMB33,742,000 (30 June 2018: RMB29,000,000).

21. PROVISION

	Provision for replacement of goods RMB'000
COST	
At 1 January 2018 (Audited)	1,886
Additions	222
Utilisations	(222)
At 30 June 2018 (Unaudited)	1,886
Additions	423
Utilisations	(423)
At 31 December 2018 and 1 January 2019 (Audited)	**1,886**
Additions	**377**
Utilisations	**(377)**
At 30 June 2019 (Unaudited)	**1,886**

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

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22. SHARE CAPITAL OF THE COMPANY

	Number of shares	US$	Equivalent to RMB'000
Ordinary share of US$0.01 each			
Authorised			
At 1 January 2018, 30 June 2018, 31 December 2018 and 30 June 2019	3,000,000,000	30,000,000	82,096
Issued and fully paid			
At 1 January 2018 (Audited)	1,321,934,000	13,219,340	81,391
Shares repurchased and cancelled *(Note)*	(25,842,000)	(258,420)	(1,600)
At 30 June 2018 (Unaudited)	1,296,092,000	12,960,920	79,791
Shares repurchased and cancelled	(11,615,000)	(116,150)	(720)
At 31 December 2018 (Audited)	1,284,477,000	12,844,770	79,071
Shares repurchased and cancelled *(Note)*	(21,169,000)	(211,690)	(1,310)
At 30 June 2019 (Unaudited)	1,263,308,000	12,633,080	77,761

22. SHARE CAPITAL OF THE COMPANY (Continued)

Note:

During the period ended 30 June 2019, the Company repurchased its own shares with considerations of RMB19,154,000 (equivalent to HKD21,600,000) (30 June 2018: RMB52,685,000 (equivalent to HKD66,252,000)) through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest HKD	Price per share Lowest HKD	Aggregate consideration paid HKD'000
January 2019	4,000,000	0.98	0.95	3,917
March 2019	6,048,000	1.00	0.93	6,018
April 2019	3,601,000	1.02	0.98	3,668
May 2019	9,689,000	0.85	0.63	7,705
June 2019	429,000	0.68	0.68	292
Total	23,767,000			21,600
January 2018	6,400,000	2.66	2.34	16,271
February 2018	1,500,000	2.58	2.48	3,829
March 2018	11,000,000	2.62	2.37	27,655
April 2018	6,335,000	2.85	2.49	17,173
June 2018	607,000	2.24	2.10	1,324
Total	25,842,000			66,252

The above ordinary shares were cancelled upon repurchase, except for the 2,169,000 and 429,000 ordinary shares repurchased in May and June 2019, respectively, which will be cancelled in October 2019 (2018: 607,000 ordinary shares repurchased in June 2018 which were cancelled in September 2018).

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the reporting period.

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23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Certain of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of financial assets 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 categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those based on 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); and
- 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 asset	Fair value as at 30.6.2019	Fair value as at 31.12.2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
1) Equity instrument at FVTOCI	15% equity investment in Paragon – RMB100,760,000	15% equity investment in Paragon – RMB155,692,000	Level 1	Quoted bid prices in active market	Not applicable
2) Financial assets at FVTPL	Structured bank deposits – RMB202,693,000	Structured bank deposits – RMB47,000,000	Level 3	Discounted cash flows	Expected yields of money market instruments and debt instruments invested by the bank and a discount rate that reflects the credit risk of the bank

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (Continued)

Financial asset	Fair value as at 30.6.2019	Fair value as at 31.12.2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
3) Equity instrument at FVTOCI	8% equity investment in the Fund – RMB28,800,000	8% equity investment in the Fund – RMB25,200,000	Level 3	Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies and adjusted by discount on lack of marketability	The price to earning ratio, enterprise value to sales and enterprise value to earnings before interest, taxes, depreciation and amortisation are determined by the mean or median of comparable companies as at the valuation date Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 15% to 35% *(Note)*

Note: The higher the price to earning ratio, enterprise value to sales and enterprise value to earnings before interest, taxes, depreciation and amortisation of the comparable companies, the higher the fair value of the equity instrument, and vice versa. The higher of the discount for lack of marketability, the lower the fair value of the equity instrument, and vice versa.

There were no transfers between levels in the both periods.

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of level 3 fair value measurements of a financial asset

Unrealised fair value gain of RMB3,600,000 (30 June 2018: unrealised fair value gain of RMB980,000) included in other comprehensive income related to equity instrument at FVTOCI held at the end of the reporting period and is reported as changes of 'investments revaluation reserve'.

	Unlisted equity instrument RMB'000	Structured bank deposits RMB'000
At 1 January 2018	21,520	–
Total gains to other comprehensive income	980	–
At 30 June 2018	22,500	–
At 1 January 2019	25,200	47,000
Total gains recognised		
in profit or loss	–	2,059
in other comprehensive income	3,600	–
Placement of structured bank deposits	–	1,168,793
Withdrawal of structured bank deposits	–	(1,015,159)
At 30 June 2019	28,800	202,693

Except as detailed in above table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.