



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

2020 INTERIM REPORT



先機為重 *Pioneering*  
鋒行天下 *Success*



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

Mr. Wu Mijia  
Mr. Hui Lap Keung

### Independent Non-executive Directors

Mr. Zhang Hong  
Mr. Xiao Guoguang  
Mr. Wong Chi Hung, Stanley

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

Mr. Zhang Hong (*Chairman*)  
Mr. Xiao Guoguang  
Mr. Wu Mijia

## NOMINATION COMMITTEE

Mr. Li Xinzhou (*Chairman*)  
Mr. Xiao Guoguang  
Mr. Zhang Hong

## AUTHORIZED REPRESENTATIVES

Mr. Luo Chunyi  
Ms. Ng Ka Man

## COMPANY SECRETARY

Ms. Ng Ka Man  
(Reporting to the office of Mr. Luo Chunyi,  
Chief Executive Officer of the Company)

## REGISTERED OFFICE

190 Elgin Avenue  
George Town  
Grand Cayman KY1-9005  
Cayman Islands

## CORPORATE HEADQUARTERS

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Putuo District  
Shanghai  
PRC  
Tel: (86) 021 50498986

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street  
Causeway Bay  
Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited  
190 Elgin Avenue, George Town  
Grand Cayman KY1-9005  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

**AUDITOR**

Deloitte Touche Tohmatsu  
*Registered Public Interest Entity Auditors*

**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 2020 was RMB622.5 million, which represents a 0.4% increase compared to RMB620.3 million for the same period last year.
- Gross profit of the Group for the six months ended 30 June 2020 was RMB251.7 million, which represents a 17.5% decrease compared to RMB305.1 million for the same period last year.
- Net profit of the Group for the six months ended 30 June 2020 was RMB30.4 million, which represents a 69.1% decrease compared to RMB98.2 million for the same period last year.
- Basic earnings per share of the Company was RMB0.03 for the six months ended 30 June 2020, which represents a 62.5% decrease compared to RMB0.08 for the same period last year.

	For the six months ended 30 June				
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
<b>Operating results</b>					
Revenue	<b>622,495</b>	620,253	951,622	1,028,182	806,029
Gross profit	<b>251,676</b>	305,051	331,703	326,823	251,310
Profit before tax	<b>60,097</b>	103,578	133,822	157,030	116,563
Profit for the period	<b>30,353</b>	98,151	120,943	142,674	100,015
Profit for the period, attributable to the owners of the Company	<b>30,767</b>	98,657	120,682	141,348	98,807

# Company Overview

China Pioneer Pharma Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is one of the largest comprehensive marketing, promotion and channel management service providers, dedicated to imported pharmaceutical products and medical devices in China. Founded in 1996, the Group has 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, organising academic conferences, seminars, symposiums and other promotional activities, and appointing and supervising third-party promotion partners (who are responsible for most of the day-to-day marketing and promotional activities of the Group). When requested 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 requirements 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 optimising 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 can fulfill the unmet medical needs in the market 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 2020 (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.

# Management Discussion And Analysis

## REVIEW OF BUSINESS

Since 2020, as China's medical reform continues to be deepened, new policies continue to be introduced, new regulations continue to be promulgated and new pilots continue to be implemented, the pharmaceutical industry is undergoing profound changes. Looking back on the overall situation of the industry, although the incremental improvement of the National Medical Security Administration system and the policy of medical insurance cost control continue to bring pressures 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 ageing population, and that the industry is still on a rise. Especially with the global outbreak of 2019 novel coronavirus, the development of the pharmaceutical industry has received great attention from society. 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, which also contribute to a stronger polarization of enterprises in the industry.

Specifically for the Group, 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 provinces strengthen the implementation of national policy requirements on medical insurance cost control, the Company will increase the fund utilization rate of medical insurance and compete favorably in the market with the clear efficacy and excellent quality in its drugs and medical equipment. The Group will leverage its advantages in product quality and brand image, and strengthen its academic promotion, so as to seize opportunities to further develop its business amidst a changing and challenging market environment.

In 2020, many regions of the world, including mainland China, where the Company operates its business, were affected by the 2019 novel coronavirus, and the economic activities in these regions have been severely impacted. To prevent the spread of infection in areas where the epidemic is growing, governments of various states promulgated policies of isolation and protection in different degrees to achieve purpose of restricting population movement gathering. The impact of these policies on the Company are as follow: the sales of the products of the Company decreased in the Mainland territory due to a significant decrease in the number of people seeking for medical services and hospitals halting admission during the outbreak; the manufacture of products by suppliers of the Company may be affected by the local epidemic situation; and constraints on the capacity of international transport industry increased the difficulty of the Company's procurement. For more specific impact of the influences mentioned above on the operation of the Company, please refer to the analysis as contained in the sections "*Product Development – 1.1 Products Sold via the Provision of Comprehensive Marketing, Promotion and Channel Management Service*" and "*Product Development – 1.2 Products Sold via the Provision of Channel Management Service*" in this report. Meanwhile, with the gradual stabilization of the epidemic situation in mainland China, its impact on the Company's operation gradually waned. Should no major outbreak happen in mainland China in the second half of the year, the Company expects to gradually resume normal operation in the second half of the year. In order to fight against the epidemic, the Company vigorously mobilized existing resources, made use of the Company's cooperation network of domestic and foreign distribution built over years, gave full play to the capabilities and advantages of pharmaceutical enterprises in special period, and provided human and material support for the fight against the epidemic. Meanwhile, the Company also discovered new business opportunities during the epidemic period. Taking advantage of the stable supply environment and good product quality in China, the Company vigorously developed overseas markets to export personal protective materials, including masks, protective gloves and protective suits to Europe, the United States, Australia and other regions. Please refer to the analysis as contained in the section "*Product Development – 1.3 Exports of Personal Protective Materials*" in this report for specific discussion.

For the Reporting Period, the Group actively organized the market potential and promotion strategies of its products. Although the frequency of academic promotion has been weakened by the epidemic, the Company continued to deepen academic promotion through the use of communication technology, delivering academic information, especially information on the Company's products which relate to epidemic treatment, to clinics as soon as possible.

Apart from the effects of the epidemic on Company's product promotion, as disclosed in the Company's announcement dated 28 December 2017, transitional arrangements relating to the sale of Alcon's 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 ending 31 December 2018. The transition period has concluded. According to the Distribution Agreement signed by the Group and Alcon, since 2019, the Group has been exclusively entitled to the sale of 8 types and 10 specifications of Alcon's pharmaceutical products for 3 years, which has had a relatively greater effect on the overall performance of the Group.

For the Reporting Period, the Group's revenue increased by 0.4% compared to the same period last year to RMB622.5 million. Net profit decreased by 69.1% compared to the same period last year to RMB30.4 million. Revenue generated from Alcon's pharmaceutical products sold via the provision of channel management services decreased by 16.4% compared to the same period last year to RMB126.7 million, representing 20.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 30.0% compared to the same period last year to RMB5.8 million, representing 2.3% 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 23.5% compared to the same period last year to RMB309.3 million, representing 49.7% of the Group's revenue for the Reporting Period. Gross profit decreased by 24.8% compared to the same period last year to RMB206.0 million, representing 81.9% 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 20.9% compared to the same period last year to RMB78.1 million, representing 12.5% of the Group's revenue for the Reporting Period. Gross profit decreased by 13.5% compared to the same period last year to RMB19.7 million, representing 7.8% of the Group's gross profit for the Reporting Period.



## 1. Product Development

As at 30 June 2020, the Group had a product portfolio of pharmaceutical products (mostly being prescription medical products) covering ophthalmology, pain management, cardiovascular disease, immunology, gynecology, gastroenterology and other treatment areas; and medical devices covering several medical specialties, including ophthalmology, orthopedics, odontology and wound care products.

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

Category	For the six months ended 30 June			
	2020	Percentage of the Group's	2019	Percentage of the Group's
	RMB'000 (unaudited)	Total Revenue/ Gross Profit (%)	RMB'000 (unaudited)	Total Revenue/ Gross Profit (%)
Revenue:				
Pharmaceutical Products	309,296	49.7	404,098	65.1
Medical Devices	78,092	12.5	64,567	10.4
Gross Profit:				
Pharmaceutical Products	206,039	81.9	273,967	89.8
Medical Devices	19,710	7.8	22,776	7.5

During the Reporting Period, as a result of various factors, such as continuous implementation of medical insurance cost control by provinces, the increasingly stringent management of drug's clinical pathway and the control of the percentage of drug sales in total revenue of public medical institutions, although drug price reduction in tender processes and drug consumption limitations in medical institutions have continued, the trend towards structural differentiation for clinical use of drugs was more obvious. The Group adopted a sensible promotion strategy, highlighting the products' superior quality and clear clinical effectiveness, resulting in the Group securing a stable market position for its products. However, meanwhile, due to the impacts of restrictions on medical services and isolation measures, especially the observable decrease in the number of people seeking medical treatment during the period from January to March 2020, the products sold by the Company in the mainland China territory decreased compared to the same period of 2019. During the Reporting Period, revenue generated from pharmaceutical products sold via the Provision of Comprehensive Marketing, Promotion and Channel Management Services decreased by 23.5% compared to the same period last year to RMB309.3 million, representing 49.7% of the Group's revenue for the Reporting Period. Gross profit decreased by 24.8% compared to the same period last year to RMB206.0 million, representing 81.9% 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 RMB86.3 million, representing a decrease of 0.3% compared to the same period last year. The Company effectively increased product coverage of market gaps through accelerating its coverage on primary medical institutions and furthering the penetration of its sales channels to more community hospitals, small medical institutions, clinics and health centers. The Group also proactively organized and participated in various academic conferences, seizing the opportunities for increasing brand publicity, refined its strategy of academic promotion. The Group focused on developing a more convenient pain management service for chronic patients, so 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. Benefiting from the Group's efforts and planning over the years, 20-pack specification achieved an increasing contribution to the Group's revenue. During the Reporting Period, due to the closures of community hospitals and clinics, the sales of Difene decreased compared to the same period last year. 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 issued in June 2019. Through increased marketing activities, such as education programs for doctors and patients on the product, the Group will further expand the market influence of the reference medicinal products, so as to highlight their market competitiveness and consistent good quality. Furthermore, since 2019, the two specifications of Difene successively have won favorably priced bids in more provinces in China, laying a solid foundation for the future development of the product.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB155.3 million, representing a decrease of 9.2% 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 sensible promotion strategy, Fluxum has maintained rapid growth over the past few years. During the Reporting Period, the Group constantly expanded Fluxum's brand recognition through in-depth exploration on the characteristics of product differentiation, furthering its sales channels, strict implementation of the strategy of professional academic promotion, as well as actively expanding and deepening the network of clinical experts. As an imported low molecular weight heparin product in the new National Drug Reimbursement Catalogue, the Group fully captured this opportunity for market expansion, has entered into a number of new markets through sensible bidding strategies, and continuously increased its market share by closely following and effectively participating in clinical promotions. Furthermore, with more doctors from the relevant departments paying attention to the prevention of venous thrombosis and with more recognition of management system for 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. During the Reporting Period, due to the closure of certain community hospitals and clinics during the epidemic period, the sales of Fluxum decreased for the first time compared to the same period last year. The Group believes that with its leading market position among similar products and more improved market layout, as well as the increasing recognition of anticoagulation in more hospitals and departments, Fluxum has a solid foundation for long-term growth.

For the Reporting Period, the Group's revenue generated from sales of Polimod was RMB18.2 million, representing a decrease of 47.3% compared to that of last year. Polimod is the originator of pidotimod. It is a synthetic oral immune stimulant that works by stimulating and regulating cell-mediated immune response, and is applied to patients with immune dysfunction, such as respiratory tract infections, otolaryngology infections, urinary tract infections and gynaecological infections. The decline in revenue during the Reporting Period was mainly due to the impact of the consistent 2019 novel coronavirus pandemic. The number of outpatient visits decreased significantly, among which, pediatrics experienced the sharpest fall of 80%. Therefore, the sales of pediatric respiratory-related pharmaceutical products decreased significantly. Polimod was greatly affected as it is one of the medicines used to treat respiratory tract infections in children. In addition, with the increase in public pandemic prevention measures, for example, rolling out measures, such as wearing facial masks, reducing gatherings and conducting remote education, the number of respiratory tract infections in children has dropped significantly. In view of the above situation, the Company has adopted the strategy of broadening sales channels to enhance the coverage of pharmacies, increasing the coverage of pharmaceutical products at grassroots level and in the communities. 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, all the pidotimod products sold in China were challenged by certain WeMedia, causing confusion to clinicians and patients. Later on, the China Food and Drug Administration (the "CFDA") required for the revision of drug instructions of all pidotimod products to identify that it could be used for chronic or recurrent respiratory tract infections and urinary tract infections of children over the age of three years old. The CFDA also required that the clinical trial of effectiveness for pidotimod products should be completed within three years. This event has a profound effect on the sales in certain areas, especially in first-tier and second-tier cities of the PRC which were widely influenced by WeMedia, and the negative impact of this incident continues. In response, the Group has taken a number of measures, such as inviting medical experts from the product's supplier to explain in details the mechanism and proof of evidence-based medicine of Polimod in China, as well as cooperating with marketing partners in delivering product information to clinicians in a professional manner, in order to further sales channels and significantly develop the primary market. Through a series of measures, the Group is trying to eliminate the negative impact of this incident as far as possible. Moreover, the supplier of the product has reported the plan of clinical trial for the product's effectiveness to the CFDA, and have since commenced such trials immediately following the CFDA's approval in February 2019. At present, the trial has entered the phase of test subject recruitment. Based on thousands of clinical research data of Polimod before and after it was launched in the market, the Group firmly believes that with the advancement of clinical effectiveness trial, Polimod will eliminate the concerns of clinicians and patients with scientific data and return to the track of rapid development.

The other products of the drugs business segment of the Group continue the good development trend of last year and has achieved further development. For the Reporting Period, due to the impact of the pandemic on the number of people seeking for medical attention, the Group's revenue generated from sales of these products was RMB49.5 million, representing a decrease of 55.8% compared to that of last year. Specifically, the Group's cardiovascular product Neoton, as the sole imported originator of creatine phosphate sodium for injection, seizing the opportunity of the new round of tender processes in various provinces in China and sensible bidding strategies, successfully entered a number of important new markets. In July 2019, the "National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products)" was published on the official website of the National Health Commission. Among them, 20 drug products, such as creatine phosphate were included in the close monitoring catalog, and were all removed from the national medical insurance catalog. The clinical use of creatine phosphate has been substantially restricted under the influence of the policy, resulting in a significant decline in the overall sales. So, the revenue of Neoton during the Reporting Period represented a decrease of 61.0% compared to that at last year, which is observably lower than similar products and the market share increased slightly. Through the international academic conference platform, the Group will continuously endeavor to promote clinicians' awareness of Neoton's therapeutic status in the field of myocardial protection, particularly in the field of myocardial damage. With the establishment of the national close monitoring and rational drug use management system and the strengthening of the management of clinical application of products in the catalog, the overall market size of creatine phosphate in the close monitoring catalog will further decline, but 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. During the Reporting Period, Wuhan Leishenshan Hospital (武漢雷神山醫院) and Wuhan Mobile Cabin Hospital (武漢方艙醫院) made purchases of Neoton respectively. The Group's gynecological product Macmiror Complex lays a solid ground for the academic promotion of the product. The Group strengthened its marketing and promotion activities targeted at hospitals and departments covered by its sales network, improved the product's coverage of hospitals by furthering its sales channels and endeavored to grow its share in the gynecology therapeutic market. In addition, the Group has stopped purchasing gynecological products Macmiror due to the closure of production announced by the manufacturer in 2019. Given the competitive pharmaceutical market and constant changes of policies, the Group will take full advantage of the competitive edge and market 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 20.9% compared to the same period last year to RMB78.1 million, representing 12.5% of the Group's revenue for the Reporting Period. Gross profit decreased by 13.5% compared to the same period last year to RMB19.7 million, representing 7.8% of the Group's gross profit for the Reporting Period. The Group's overall performance of the business segment of medical devices was still affected by the factors, such as the decrease in bidding prices of some medical device consumables and market competition. However, based on the features of its products, the Group organized its promotion strategy carefully, and accelerated the marketing campaigns of products launched for a shorter time, so as to lay the foundation for the future business development of medical device sector. Due to the closure of oral and ophthalmology departments in certain hospitals, the Company's medical device business sales have witnessed a relatively bigger impact during the Reporting Period.

## 1.2 Products Sold via the Provision of Channel Management Services

Category	For the six months ended 30 June			
	2020 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)	2019 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)
Revenue:				
Alcon series ophthalmic pharmaceutical products	126,693	20.4	151,597	24.4
Gross Profit:				
Alcon series ophthalmic pharmaceutical products	5,818	2.3	8,308	2.7

For the Reporting Period, the Group's revenue generated from this segment decreased by 16.4% compared to the same period last year to RMB126.7 million, representing 20.4% of the Group's revenue for the Reporting Period. Gross profit decreased by 30.0% compared to the same period last year to RMB5.8 million, representing 2.3% of the Group's gross profit for the Reporting Period. Due to the closure of ophthalmic clinics and a decrease in the number of people seeking medical attention, the sales of this business segment decreased during the Reporting Period.

### 1.3 Exports of Personal Protective Materials

Category	For the six months ended 30 June			
	2020 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)	2019 RMB'000 (unaudited)	Percentage of the Group's Total Revenue/ Gross Profit (%)
Revenue:				
Personal protective materials	108,414	17.4	–	–
Gross Profit:				
Personal protective materials	20,109	8.0	–	–

During the Reporting Period, due to the global outbreak of 2019 novel coronavirus, there has been a great demand for epidemic prevention materials across the globe. Focusing on the market trends, the Company gathered its human and material resources during the epidemic period to develop material export business in order to actively cooperate with the globe action against the epidemic. As mentioned in the announcement of the Company dated 4 June 2020, the Novel Coronavirus (SARS-CoV-2) IgG/IgM Combined Antibody Test Kit (Fluorescence Immunochromatography Method) produced by Shenzhen Microprofit Technology Ltd. (深圳邁科龍技術有限公司), of which the Company has obtained the right of exclusive promotion and distribution, is in the process of obtaining Pre-Emergency Use Authorization. Apart from related business sales situation as disclosed by the Company through published announcements, the products of the Company are currently mainly exported to Europe, the United States, Japan, Australia and other regions. During the Reporting Period, the Group's revenue generated therefrom was RMB108.4 million, representing 17.4% of the Group's revenue for the Reporting Period. Gross profit was RMB20.1 million, representing 8.0% of the Group's gross profit for the Reporting Period. The Company will continue to evaluate the development of the global epidemic and reasonably allocate resources to continuously seek out new sales opportunities for exporting related products. During the epidemic, the Company will continue to organize its human and material resources to develop related businesses and actively assist people in the epidemic areas to tide over the difficulties.

### 1.4 Product Pipeline

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

The Group is currently preparing for or making applications with the CFDA regarding several products. Specifically, the bioequivalence study for Mirtazapine Orodispersible Tablets (produced by Ehypharm of France, mainly used for the treatment of depression) has been completed successfully and IDL (Imported Drug License) filing for this drug is under preparation. The Group is also currently preparing for the clinical trial of DRL Night Rigid Gas Permeable Contact Orthokeratology-Lens (produced by Precilens of France, used for temporary vision correction). Meanwhile, at the end of 2019, the Group acquired the distribution agency rights for a Urofollitropin product for injection manufactured by IBSA Institut S.A., which has been re-registered and approved. Such products are expected to reach the market in the second half of 2020.

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

## 2. Marketing Network Development

As the sole importer of overseas medical products serviced by the Company into China, the Group is considered as the manufacturer of these imported medical products under the “Two-Invoice System”. The Group’s business system has been optimized and improved to adapt to the policy “Two-Invoice System” as implemented in 2018. During the Reporting Period, the Group has continually refined the network of distributors, and consolidated product distribution channels to meet the requirements of “Two-Invoice System”. Meanwhile, it also helps to enhance the Group’s operational efficiency and prevent operational risk.

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

During the Reporting Period, the Group continued to implement the operational mechanism of product business unit divided by products or product series, and conduct products’ promotion and sales work. In the environment of ever-changing policies and intense market competition within the pharmaceutical industry, the Group constantly adjusted and optimized all components within the marketing network, with the aim of strengthening rapid market responsiveness, as well as effective and professional product promotion activities. During the Reporting Period, with the more attention paid by the Group to the academic training of the in-house marketing teams, the Group strengthened the depth of the academic promotion activities involved by the in-house marketing teams, so as to raise the core driving force for the product promotion. According to the market situation, the Group has also increased its efforts in optimizing the network structure of the third-party promotion partners, and improved the understanding and knowledge for the products of the third-party promotion partners, including providing further large-scale and regular trainings, 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 shared 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 led to improvement to its market coverage. For instance, the number of hospitals and medical institutions using Difene has increased by over 1,700, and the number of hospitals using Fluxum has increased by over 280. In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group’s operation.

### 3. Equity Instruments and Financial Assets

Save for the equity investment in Paragon Care Limited (“**Paragon**”) as disclosed herein, the Group did not have any investment in an investee company with a value of 5% or more of the Group’s total assets as at 31 December 2019.

#### 3.1 Equity Investment

##### 3.1.1 Investment in NovaBay

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

The Group has made several rounds of investments in NovaBay since 2013. As at 30 June 2020, the Group held a total of 5,188,421 ordinary shares of NovaBay, representing approximately 14.97% of its equity interest, and did not hold any NovaBay warrants.

For the six months ended 30 June 2020, the Company recognized a reversal of impairment loss of RMB21.2 million in relation to the Group’s investment in NovaBay, due to the increase of share price. For further information of the business and financial performance and prospects of NovaBay, please refer to the 2020 quarterly reports of NovaBay published on its website.

##### 3.1.2 Investment in Paragon

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

As at 30 June 2020, the Group held a total of 59,730,378 ordinary shares of Paragon, representing 17.8% of the total issued shares of Paragon. The Company first invested in Paragon in 2018 and the accumulated total investment cost as of 30 June 2020 was RMB239.3 million, of which the fair value of RMB55.2 million was recognized, accounting for 4.4% of the Company’s total assets as at 30 June 2020. During the Reporting Period, the Group recorded unrealized loss of RMB65.6 million of its investment in Paragon. During the six months ended 30 June 2020, Paragon recorded a drop of approximately 56.82% in its quoted share prices on the Australian Securities Exchange. For further details of the performance of the stock price and business operation of Paragon, please refer to the disclosures and financial reports of Paragon published on the Australian Securities Exchange and its company website.

In respect of investment strategy, the Company considers that the investment in Paragon is in line with the principal business of the Group, enabling the Group to step up its presence in Australia and New Zealand, and forms the basis for further cooperation between the Group and Paragon. As such, this investment is not intended to be held for trading, and is, instead, held for long-term strategic purpose. In particular, the Group intends to explore opportunities in the sales of certain of the Group's products in Australia and New Zealand and the distribution of the certain products of Paragon or other suppliers (through the business network of Paragon) in the PRC.

### 3.1.3 Investment in Pioneer Huimei

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

Pioneer Huimei is committed to the development of biotechnology products and technologies, primarily focusing on medical aesthetics and health industry. With the Internet big data and artificial intelligence technology, it has been able to connect online and offline channels in order to provide consumers with integrated services. Pioneer Huimei has reached to a cooperation agreement of clinical observation with West China Hospital of Sichuan University in June 2019, which is aimed at researching on the clinical efficiency of Pioneer Huimei's hair growth products. The Group believes that the investment in Pioneer Huimei is a good attempt to make full use of modern technology and Internet platforms, and is conducive to further enriching the Group's products and innovation of sales channels.

### 3.1.4 Investment in DMAX Co

In January 2020, the Group, via Pioneer Pharma (Hong Kong) Co., Limited, a subsidiary of the Company, made an investment of US\$3,000,000 in DMAX Co., Ltd. ("**DMAX Co**"), a company established in the Republic of Korea ("**Korea**").

Pursuant to the subscription agreement entered into by the parties, DMAX Co shall issue and Pioneer Pharma (Hong Kong) Co., Limited shall subscribe for 8,906 shares in the capital of DMAX Co for a consideration of US\$3,000,000. Upon the completion of the issuance, the Company, through its subsidiary, held 25% of the issued share capital of DMAX Co, and has the right to appoint a person as a director of DMAX Co.

DMAX Co is a reputable manufacturer of zirconia products in Korea and is primarily engaged in producing zirconia-related dental products, including veneers, crowns and implants, etc. Since the Company's acting as the exclusive agent of the products of DMAX Co in China (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) from 2018, both parties have together dedicated themselves to the promotion of the products of DMAX Co in China. The zirconia-related dental products of DMAX Co have found popularity with its unique medical aesthetics techniques since the entry into the China market. The investment this time will further facilitate both parties to deepen cooperation and consolidate partnership in exploration of the market share of the products of DMAX Co in China.



### 3.1.5 Investment in Shanghai Yuhan fund (limited partnership)

As of 30 June 2020, the Group's investment in Shanghai Yuhan fund (limited partnership) (上海譽瀚股權投資基金合夥企業(有限合夥), the "**Fund**") was recognized as equity instruments at fair value through other comprehensive income ("**FVTOCI**"), representing an amount of RMB25.8 million or approximately 2.07% of the total assets of the Group as of 30 June 2020. The Fund, incorporated in the PRC, specializes in making equity investment in various targets within the pharmaceutical industry. As at 30 June 2020, the Group held 8% of the equity interest of the Fund. The Fund mainly engages in the investment in unlisted private entities and structured bank deposits. During the six months ended 30 June 2020, the Group recorded an unrealized loss of RMB4.5 million of its investment in the Fund, and has not received entitlement distribution therefrom. The Group's strategy of this investment is for long-term holding. The Group has no intention of realizing its interests in the Fund or speculating on its market performance in any short run, and intends to lever on its role in the Fund for exploring and ascertaining targets of growth potential in the pharmaceutical industry for business partnering and/or investment opportunities, for development goals in the long run.

### 3.2 Financial Investment in Wuxing Huixin Wealth Management Trust

During the Reporting Period, the Group's investment in Wuxing Huixin Wealth Management Trust (五行匯誠資產配置集合資金信託, the "**Trust**") was recognised as financial assets at fair value through profit or loss ("**FVTPL**"). The Trust, incorporated in the PRC, specializes in investing in fixed income products. As at 31 December 2019, the Group was interested in RMB32.0 million or approximately 0.7% of the Trust's total principal of RMB4,570.0 million. The principal of Group was not guaranteed by the Trust. The expected return of the Trust is 7.05% per annum. The Group redeemed the investment on 9 April 2020 with a redemption amount of RMB32.1 million.

### 3.3 Investment in Rongchang Manufacturing Base

In 2019, the Group, through a wholly-owned subsidiary, Chongqing Qianfeng Pharmaceutical Co., Ltd. (重慶乾鋒制藥有限公司, "**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 ("**Rongchang District Government**"). The land covers a total area of 38,972 m<sup>2</sup> and has a transfer price of RMB5,998,800. In March 2019, Chongqing Qianfeng entered into a state-owned construction land use right transfer contract with the local government and obtained the state-owned construction land use right of the land.

In June 2019, the foundation-stone laying ceremony of the Rongchang manufacturing base ("**Rongchang Manufacturing Base**") was held by Chongqing Qianfeng, and according to the investment agreement between the Group and Rongchang Government, the planned building area of this project shall be over 40,000 m<sup>2</sup>.

This project is a significant strategic plan of the Group, which will direct the Group's transformation from a sales-oriented company to a comprehensive pharmaceutical company integrating research and development, production and sales. Through such series of measures, the Group hopes to respond to the national policy of industry development by turning Rongchang Manufacturing Base into an open technology platform, introducing new technologies and new products, and realizing the localization of high-quality imported products, and give full play to the comprehensive advantage of manufacturing and sales integration of the Group, resulting in the ongoing improvement of the market competitiveness and revenue of the Group.

#### **4. Future and Outlook**

With the deepening of China's medical reform, the pharmaceutical industry is gradually forming a new ecosystem. As a result of profound changes having occurred in different areas such as traditional research and development, review and approval, as well as pricing systems, the pharmaceutical market is facing a significant structural adjustment. In general, the PRC pharmaceutical industry is trending towards diversification in the long run. There will be increasing development opportunities for products satisfying therapeutic needs and with clear clinical value. The Group will continuously focus on 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 (if any), responding proactively amidst the environment full of challenges and changes, and forging vigorously ahead, so as to achieve the new blueprint of the Group's future development.

### FINANCIAL REVIEW

#### Revenue

The Group's revenue in the Reporting Period was RMB622.5 million, representing a 0.4% increase from RMB620.3 million for the six months ended 30 June 2019. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB309.3 million, representing a 23.5% decrease from RMB404.1 million for the six months ended 30 June 2019, primarily due to the decrease in sales due to suspension of medical service in hospitals and fewer people seeking medical service under the 2019 novel coronavirus epidemic. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB78.1 million, representing a 20.9% increase from RMB64.6 million for the six months ended 30 June 2019, primarily due to some products achieved better growth during the Reporting Period. Revenue generated from products sold via the provision of channel management services in the Reporting Period was RMB126.7 million, representing a 16.4% decrease from RMB151.6 million for the six months ended 30 June 2019, primarily due to the decrease in sales due to suspension of medical service in hospitals and fewer people seeking medical service under the 2019 novel coronavirus epidemic.

#### Cost of sales

The Group's cost of sales in the Reporting Period was RMB370.8 million, representing a 17.6% increase from RMB315.2 million for the six months ended 30 June 2019, primarily due to increasing the sales of personal protective which results in an increase in cost during the Reporting Period. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB103.3 million, representing a 20.6% decrease from RMB130.1 million for the six months ended 30 June 2019. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services in the Reporting Period was RMB58.4 million, representing a 39.7% increase from RMB41.8 million for the six months ended 30 June 2019. Cost of sales in products sold via the provision of channel management services in the Reporting Period was RMB120.9 million, representing a 15.6% decrease from RMB143.3 million for the six months ended 30 June 2019.

#### Gross profit and gross profit margin

The Group's gross profit in the Reporting Period was RMB251.7 million, representing a 17.5% decrease from RMB305.1 million for the six months ended 30 June 2019. The Group's average gross profit margin in the Reporting Period was 40.4%, representing a decrease from 49.2% for the six months ended 30 June 2019, 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 66.6%, representing a decrease from 67.8% for the six months ended 30 June 2019, primarily due to the higher sales proportion of some products with lower gross profit margins during the Reporting Period. 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 25.2%, representing an decrease from 35.3% for the six months ended 30 June 2019, primarily due to the higher sales proportion of some products with lower gross profit margins during the Reporting Period. The Group's gross profit margin for products sold via the provision channel management services in the Reporting Period was 4.6%, representing a decrease from 5.5% for the six months ended 30 June 2019.

### Other income

The Group's other income in the Reporting Period was RMB11.6 million, representing a 39.7% decrease from RMB19.2 million for the six months ended 30 June 2019, primarily due to the reduction in service income during the Reporting Period.

### Distribution and selling expenses

The Group's distribution and selling expenses in the Reporting Period were RMB182.8 million, representing a 12.2% decrease from RMB208.1 million for the six months ended 30 June 2019, primarily due to the reduction of some marketing activities and expenses during the Reporting Period, as affected by the epidemic. Distribution and selling expenses in the Reporting Period were 29.4% of the revenue, representing a decrease from 33.6% for the six months ended 30 June 2019.

### Administrative expenses

The Group's administrative expenses in the Reporting Period were RMB31.3 million, representing a 17.5% decrease from RMB37.9 million for the six months ended 30 June 2019, primarily due to the decrease of office expenses and travel expenses of administrative personnel during the Reporting Period, as affected by the epidemic. Administrative expenses in the Reporting Period were 5.0% of the revenue, representing a decrease from 6.1% for the six months ended 30 June 2019.

### Finance costs

The Group's finance costs in the Reporting Period were RMB0.6 million, representing a 75.0% decrease from RMB2.5 million for the six months ended 30 June 2019, primarily due to part of the bank loans was settled during the Reporting Period, resulting in a decline in interest expenses.

### Income tax expense

The Group's income tax expense in the Reporting Period was RMB29.7 million, representing a 448.1% increase from RMB5.4 million for the six months ended 30 June 2019. The Group's effective income tax rate for the six months ended 30 June 2019 and the Reporting Period was 5.2% and 49.5%, respectively (effective income tax rate excluding dividend tax: 27.9%), mainly due to the preferential income tax rate of 9% that Naqu Pioneer, a subsidiary, was entitled to has expired during the Reporting Period, as well as the income tax withheld by the domestic subsidiary for dividend distribution (2019: Nil). Since the beginning of 2019, the Group has been conducting business primarily through Chongqing Pioneer Pharma Co., Ltd (重慶先鋒醫藥有限公司) and Naqu Area Pioneer Pharma Co., Ltd (那曲地區先鋒醫藥有限公司), and Chongqing Pioneer Pharma Co., Ltd was subject to Enterprise Income Tax rate of 25%.

### Profit for the period

As a result of the above factors, the Group's profit in the Reporting Period was RMB30.4 million, representing a 69.1% decrease from RMB98.2 million for the six months ended 30 June 2019, mainly due to the relatively lower gross profit margin of personal protective materials, a new business of the Company, which was insufficient to make up for the decrease in gross profit loss of pharmaceutical products due to 2019 novel coronavirus. Meanwhile, the income tax expense during the Reporting Period increased by RMB24.3 million as compared to the same period last year and the reversal of impairment (loss) on interest in associates also decreased by RMB26.7 million compared to the same period last year. The Group's net profit margin in the Reporting Period was 4.9%, representing a decrease from 15.8% for the six months ended 30 June 2019.

### 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 at 30 June 2020 were RMB165.7 million, representing a 38.7% decrease from RMB270.3 million as at 31 December 2019, primarily due to the payment of dividends during the Reporting Period.

### Inventories

The Group's inventory balance as at 30 June 2020 was RMB334.5 million, representing a 15.0% decrease from RMB393.4 million as at 31 December 2019, primarily due to enhancement of inventory management and a decrease in the inventory level of Alcon's products resulting from the decrease of sales during the Reporting Period.

### Trade and other receivables

The Group's trade and other receivables as at 30 June 2020 were RMB348.7 million, representing a 6.5% increase from RMB327.4 million as at 31 December 2019. Meanwhile, the trade receivables turnover as of 30 June 2020 was 81.4 days, representing an increase from 77.7 days as at 31 December 2019, primarily due to the Company temporarily extended the credit days for some customers as affected by the 2019 novel coronavirus epidemic.

### Trade and other payables

The Group's trade and other payables as at 30 June 2020 were RMB155.1 million, representing a 49.6% decrease from RMB307.7 million as at 31 December 2019. The Group's trade payables turnover as at 30 June 2020 was 95.0 days, representing a decrease from 109.2 days as at 31 December 2019, primarily due to the higher proportion of product purchases with relatively short payment cycles during the Reporting Period.

### Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB44.4 million as at 30 June 2020 as compared to RMB48.8 million as at 31 December 2019. On 30 June 2020, the effective interest rate of the Group's bank borrowings ranged from 2.8% to 4.4%. The bank borrowings were mainly denominated in AUD. As at 30 June 2020, bank borrowings of AUD3.0 million were secured by pledging of the Group's equity instrument at FVTOCI, as compared to 31 December 2019 during which bank borrowings of AUD20.0 million were secured by the Group's equity instrument at FVTOCI. The Group's gearing ratio, calculated as bank borrowings divided by total assets, was 3.6% as of 30 June 2020, as compared to 3.1% as at 31 December 2019.

### Indebtedness

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
<b>As at 30 June 2020</b>			
Bank borrowings	44,379	–	44,379
Trade payables	121,306	–	121,306
<b>As at 31 December 2019</b>			
Bank borrowings	48,843	–	48,843
Trade payables	263,402	130	263,532

### Market Risks

The Group is exposed to various types of market risks, including interest rate fluctuation risk, foreign exchange risk and credit risk in the normal course of business. The sales of the Group are denominated in RMB and the purchases, expenses and foreign investments of the Group are denominated in RMB, HKD, AUD, Euros and USD. 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.

### EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 283 employees. For the Reporting Period, staff costs of the Group were RMB27.6 million as compared to RMB29.6 million for the six months ended 30 June 2019. 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 performance appraisals once every year 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 PRC employees in accordance with the relevant PRC regulations. The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service quality. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labor 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 and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”). The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2020. 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 have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

## AUDIT COMMITTEE

The board of Directors of the Company (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 2020 have been reviewed by the Audit Committee.

## 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 ten years commencing from 10 April 2015 on which the Share Award Scheme was adopted by the Board. 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 resolved to grant a total of 25,060,000 awarded shares to 150 selected employees with the award price of HK\$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme during the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

## CHANGES IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, as at the date of this report, the information which is required to be and has been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules is listed as following:

Mr. Xiao Guoguang was appointed as the independent non-executive Director, which took effect on 20 March 2020.

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

As at 30 June 2020, 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")) which were required to be (i) 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 under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO to be entered into the register maintained by the Company, or (iii) 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 <sup>(1)</sup>	858,392,000 (L)	68.12%
	Interest of spouse <sup>(2)</sup>	1,403,000 (L)	0.11%
	Beneficial owner	34,714,000 (L)	2.75%



## Other Information

### 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.

Save as disclosed above, as at 30 June 2020, 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) which were required to be (i) notified to the Company and the Stock Exchange, or (ii) recorded in the register to be kept by the Company under section 352 of the SFO, or (iii) pursuant to the Model Code, 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 2020 were 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 spouse or children under 18 years of age, nor were 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 spouse or children under the age of 18, to acquire such rights in any other body corporate.

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

As at 30 June 2020, 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 <sup>(1)</sup>	858,392,000 (L)	68.12%
	Interest of spouse <sup>(2)</sup>	34,714,000 (L)	2.75%
	Beneficial owner	1,403,000 (L)	0.11%
Tian Tian Limited <sup>(4)</sup>	Interest of controlled corporation <sup>(3)</sup>	858,392,000 (L)	68.12%
Pioneer Pharma (BVI) Co., Ltd. <sup>(4)</sup>	Beneficial owner	858,392,000 (L)	68.12%

*Remark:*

The letter “L” denotes the long position in Shares.

*Notes:*

1. Ms. Wu Qian holds 50% equity interest in Tian Tian Limited, which is in turn 100% held by Pioneer Pharma (BVI) Co., Ltd. Accordingly, Ms. Wu Qian is deemed to be interested in 858,392,000 Shares held by Pioneer Pharma (BVI) Co., Ltd..
2. 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.
4. Mr. Li Xinzhou is a director of each of Pioneer Pharma (BVI) Co., Ltd. and Tian Tian Limited.

Save as disclosed above, as at 30 June 2020, 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.

## DIVIDEND

During the current interim period, a special dividend of HKD0.096 (equivalent to RMB0.086) per share and a final dividend of HKD0.035 (equivalent to RMB0.032) per share in respect of the year ended 31 December 2019 (2019: nil) were declared to shareholders of the Company (the “**Shareholders**”). The aggregate amount of the special dividends declared and paid in the interim period amounted to RMB105,784,000 (2019: nil). The aggregate amount of the final dividends declared in the interim period amounted to RMB38,710,000 (2019: nil).

The Board has declared an interim dividend of HK\$0.071 per ordinary share of Company, amounting to HK\$89.5 million for the six months ended 30 June 2020 (2019: Nil). The register of members of the Company will be closed on 25 September 2020 to determine the entitlement of the Shareholders to the interim dividend. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on 24 September 2020. The interim dividend will be paid on 20 October 2020.

# 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 set out on pages 27 to 56, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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

28 August 2020

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	622,495	620,253
Cost of sales		(370,819)	(315,202)
Gross profit		251,676	305,051
Other income	4	11,569	19,200
Other gains and losses	5	24,801	49,962
Impairment losses under expected credit loss model, net of reversal	16	(6,018)	(8,139)
Distribution and selling expenses		(182,832)	(208,126)
Administrative expenses		(31,306)	(37,928)
Finance costs		(616)	(2,463)
Share of loss of associates		(7,177)	(13,979)
Profit before tax		60,097	103,578
Income tax expense	6	(29,744)	(5,427)
Profit for the period	7	30,353	98,151
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
– Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)	13	(70,133)	(51,082)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		(2,470)	171
– Share of exchange difference of associates		590	(138)
Other comprehensive expense for the period		(72,013)	(51,049)
Total comprehensive (expense) income for the period		(41,660)	47,102
Profit (loss) for the period attributable to:			
Owners of the Company		30,767	98,657
Non-controlling interests		(414)	(506)
		30,353	98,151
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(41,246)	47,608
Non-controlling interests		(414)	(506)
		(41,660)	47,102
Earnings per share		RMB yuan	RMB yuan
Basic	9	0.03	0.08

# Condensed Consolidated Statement of Financial Position

At 30 June 2020

	<i>Notes</i>	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	<b>As at 31 December 2019 RMB'000 (Audited)</b>
<b>Non-current Assets</b>			
Property, plant and equipment	10	55,919	47,459
Right-of-use assets	10	7,602	7,747
Intangible assets		6,849	11,980
Interests in associates	12	60,138	24,535
Equity instruments at FVTOCI	13	80,958	150,096
Finance lease receivables		857	1,353
Deposits paid for acquisition of property, plant and equipment		4,086	2,200
Deferred tax assets	14	11,732	7,788
Amount due from a related party	18	63,343	63,343
		<b>291,484</b>	316,501
<b>Current Assets</b>			
Inventories		334,516	393,359
Finance lease receivables		4,335	8,038
Trade and other receivables	15	348,684	327,354
Amounts due from related parties	18	60,736	8,763
Financial assets at fair value through profit or loss ("FVTPL")	11	23,383	198,546
Tax recoverable		4,164	7,103
Loan to an associate	18	816	8,147
Pledged bank deposits		10,480	12,491
Bank balances and cash		165,699	270,284
		<b>952,813</b>	1,234,085

## Condensed Consolidated Statement of Financial Position

At 30 June 2020

	<i>Notes</i>	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
<b>Current Liabilities</b>			
Trade and other payables	17	155,098	307,694
Dividend payable		38,710	–
Amount due to an associate	18	1,700	1,700
Tax liabilities		28,941	29,959
Bank borrowings	19	44,379	48,843
Contract liabilities		12,296	10,816
Lease liabilities		121	118
		<b>281,245</b>	399,130
<b>Net Current Assets</b>			
		<b>671,568</b>	834,955
<b>Total Assets less Current Liabilities</b>			
		<b>963,052</b>	1,151,456
<b>Capital and Reserves</b>			
Share capital	20	77,566	77,566
Reserves		875,452	1,063,982
Equity attributable to owners of the Company			
		<b>953,018</b>	1,141,548
Non-controlling interests			
		<b>2,025</b>	2,439
<b>Total Equity</b>			
		<b>955,043</b>	1,143,987
<b>Non-current liabilities</b>			
Deferred tax liabilities	14	8,000	7,400
Lease liabilities		9	69
		<b>8,009</b>	7,469
		<b>963,052</b>	1,151,456

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Translation reserve	Statutory reserve	Treasury share reserve	Investments revaluation reserve	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 20)	(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
At 1 January 2020 (Audited)	77,566	843,697	(57,119)	8,746	18,005	(167,674)	(101,681)	520,008	1,141,548	2,439	1,143,987
Profit (loss) for the period	-	-	-	-	-	-	-	30,767	30,767	(414)	30,353
Other comprehensive expense	-	-	-	(1,880)	-	-	(70,133)	-	(72,013)	-	(72,013)
Total comprehensive (expense) income for the period	-	-	-	(1,880)	-	-	(70,133)	30,767	(41,246)	(414)	(41,660)
Dividends recognised as distribution (Note 8)	-	-	-	-	-	-	-	(144,494)	(144,494)	-	(144,494)
Purchase shares under share award scheme	-	-	-	-	-	(2,790)	-	-	(2,790)	-	(2,790)
At 30 June 2020 (Unaudited)	77,566	843,697	(57,119)	6,866	18,005	(170,464)	(171,814)	406,281	953,018	2,025	955,043

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Operating cash flows before movements in working capital	63,633	75,434
Decrease in inventories	48,146	96,648
(Increase) decrease in amounts due from related parties	(50,591)	729
Decrease in trade and other payables	(152,008)	(14,243)
Others changes in working capital and tax paid	(53,452)	(23,979)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(144,272)</b>	134,589
<b>INVESTING ACTIVITIES</b>		
Interest received	384	267
Dividend received from an equity instrument at FVTOCI	–	2,686
Acquisition of equity instruments at FVTOCI	(4,526)	–
Purchases of property, plant and equipment	(11,337)	(2,732)
Deposits paid for acquisition of property, plant and equipment	(1,886)	–
Proceed from disposals of intangible assets	2,066	–
Upfront payment for purchases of right-of-use asset	–	(6,181)
Purchases of intangible assets	–	(129)
Placement of pledged bank deposits	(39,207)	(9,189)
Withdrawal of pledged bank deposits	41,218	48,701
Placement of financial assets at FVTPL	(111,000)	(1,168,793)
Withdrawal of financial assets at FVTPL	289,235	1,015,159
Acquisition of an associate	(20,925)	–
Repayment from an associate	6,710	–
Loan to an associate	–	(6,710)
Proceed of disposal of partial interest in an associate	–	675
Repayment from related parties	326	137
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>151,058</b>	(126,109)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(105,784)	–
New bank borrowings raised	29,798	–
Repayments of bank borrowings	(32,357)	(33,742)
Payment for repurchase of ordinary shares under share award scheme	(2,790)	–
Acquisition of additional interest in a subsidiary	–	(6,400)
Repayment of lease liabilities	(63)	–
Shares repurchased and cancelled	–	(19,154)
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(111,196)</b>	(59,296)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(104,410)</b>	(50,816)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>270,284</b>	150,854
Effect of foreign exchange rate changes	(175)	266
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash</b>	<b>165,699</b>	100,304



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

## 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 Company and its subsidiaries (collectively referred to as the “**Group**”) are the marketing, promotion and sale of pharmaceutical products, medical devices and sale of personal protective materials.

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

## 1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. Even though the Group had resumed its trading activities since 3 February 2020, they were not operating at normal capacity as delivery of goods had been delayed and the Group’s business are all in various locations in the mainland where different precautionary measures were in place. On the other hand, as COVID-19 pandemic rampages through the world, there has been reported shortage of personal protective materials. The Group is keen to support people who are in need at this difficult time and has, as a measure, been exploring ways to help responding to the exigent demand for personal protective materials, including face masks. Hence, the Group has developed a new segment for the exports of personal protective materials (“**Exports of personal protective materials**”) as defined in note 3) during the current interim period. As such, the financial positions and performance of the Group were affected in different aspects, including write-down of inventories, reduction in revenue from sale of pharmaceutical products and medical devices and development of a new segment as disclosed in the relevant notes.

For the six months ended 30 June 2020

## 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.

Other than changes in accounting policies resulting from application of 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 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

### Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs 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.

### 2.1 Impacts of application on Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 3. SEGMENT INFORMATION

Revenue from sales of pharmaceutical products, medical devices and personal protective materials 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**”). Products sold via the provision of channel management services related solely to sale arrangements with Alcon.
- (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**”).
- (c) Different from the sales of “Products sold via the provision of channel management services” and “Products sold via the provision of comprehensive marketing, promotion and channel management services” which of the products are meant to be sold in the PRC, the Group’s personal protective materials products are focusing on the export market (“**Exports of personal protective materials**”). Exports of personal protective materials include masks, protective gloves and protective suits, which are exported to Europe, the United States, Australia and other regions.

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.

For the six months ended 30 June 2020

**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 2020 (Unaudited)**

	Exports of personal protective materials RMB'000	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
<b>Segment revenue</b>	<b>108,414</b>	<b>387,388</b>	<b>126,693</b>	<b>622,495</b>
Cost of sales	(88,305)	(161,639)	(120,875)	(370,819)
Gross profit & segment result	<b>20,109</b>	<b>225,749</b>	<b>5,818</b>	<b>251,676</b>
Other income				11,569
Other gains and losses				24,801
Impairment losses under expected credit loss model, net of reversal				(6,018)
Distribution and selling expenses				(182,832)
Administrative expenses				(31,306)
Finance costs				(616)
Share of loss of associates				(7,177)
<b>Profit before tax</b>				<b>60,097</b>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 3. SEGMENT INFORMATION (Continued)

#### Segment revenues and results (Continued)

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
<b>Segment revenue</b>	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)
<b>Profit before tax</b>			<b>103,578</b>

For the six months ended 30 June 2020

### 3. SEGMENT INFORMATION (Continued)

#### Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>Types of sales</b>		
Sales of pharmaceutical products	435,989	555,686
Sales of medical devices	78,092	64,567
Sales of personal protective materials	108,414	–
	<b>622,495</b>	<b>620,253</b>
<b>Types of major products</b>		
Products sold via the provision of channel management services:		
Alcon	126,693	151,597
Products sold via the provision of comprehensive marketing, promotion and channel management services:		
Fluxum	155,345	171,077
Difene	86,293	86,575
Neoton	22,943	58,825
Polimod	18,161	34,463
Macmiror complex and Macmiror	17,781	33,061
FLEET Phospho-Soda	5,343	6,566
Vinpocetine API	2,797	13,522
Others	633	–
Pharmaceutical products	309,296	404,089
Medical equipments and supplies	78,092	64,567
	<b>387,388</b>	<b>468,656</b>
Exports of personal protective materials	108,414	–
	<b>622,495</b>	<b>620,253</b>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 3. SEGMENT INFORMATION (Continued)

#### Geographical information

About 83% (2019: Over 99%) of the Group's revenue from external customers is attributed to the group entities' country of domicile (i.e. the PRC). During the current interim period, among the exports of personal protective materials, the Group has exported personal protective materials to Europe, the United States and Australia amounted to RMB59,870,000, RMB44,221,000 and RMB4,323,000, respectively.

### 4. OTHER INCOME

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Government grants ( <i>Note</i> )	7,949	4,561
Interest on bank deposits	384	267
Interest income on finance leases	724	3,245
Interest on amount due from a related party	1,708	2,819
Service income	171	5,112
Dividend received from an equity instrument at FVTOCI	–	2,686
Interest on loan to an associate	633	510
	<b>11,569</b>	<b>19,200</b>

*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.

For the six months ended 30 June 2020

**5. OTHER GAINS AND LOSSES**

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net foreign exchange gains	3,354	296
Loss on disposal of intangible assets	(2,890)	–
Gain on fair value change of financial assets at FVTPL	3,072	2,059
Reversal of impairment loss on interest in an associate (Note 12)	21,189	43,881
Impairment loss on interest in an associate (Note 12)	(4,000)	–
Gain on disposal on interest in an associate	–	544
Gain on dilution on interest in an associate (Note 12)	4,076	3,182
	<b>24,801</b>	<b>49,962</b>

**6. INCOME TAX EXPENSE**

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax	17,977	6,837
Hong Kong Profits Tax	–	347
PRC withholding tax on dividends distributed by subsidiaries	13,000	–
	<b>30,977</b>	<b>7,184</b>
Underprovision in prior period		
PRC Enterprise Income Tax	2,111	125
Deferred tax (Note 14)		
Current period	(3,344)	(1,882)
	<b>29,744</b>	<b>5,427</b>



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration	1,649	2,443
Other staff's retirement benefits scheme contributions	2,301	4,595
Other staff costs	23,682	22,551
<b>Total staff costs</b>	<b>27,632</b>	29,589
Write-down (reversal of write-down) of inventories	10,697	(570)
Depreciation of right-of-use assets	148	43
Depreciation for property, plant and equipment	2,877	3,279
Amortisation of intangible assets	175	778
Cost of inventories recognised as an expense	370,819	315,202

### 8. DIVIDENDS

During the current interim period, a special dividend of HKD0.096 (equivalent to RMB0.086) per share and a final dividend of HKD0.035 (equivalent to RMB0.032) per share in respect of the year ended 31 December 2019 (2019: nil) were declared to shareholders of the Company. The aggregate amount of the special dividends declared and paid in the interim period amounted to RMB105,784,000 (2019: nil). The aggregate amount of the final dividends declared in the interim period amounted to RMB38,710,000 (2019: nil).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.071 (equivalent to RMB0.064) per share amounting to HKD89,500,000 (equivalent to RMB81,000,000) (2019: nil) in aggregate will be paid to shareholders of the Company.

For the six months ended 30 June 2020

## 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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share	<b>30,767</b>	98,657
<b>Numbers of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>1,211,669,440</b>	1,225,956,398

For the six months ended 30 June 2020 and 2019, 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 RMB11,337,000 (2019: RMB2,732,000) for acquisition of furniture and equipment and construction of factory plant.

During the interim period ended 30 June 2019, the Group disposed of certain furniture and equipment with an aggregate carrying amount of RMB3,000, resulting in a loss on disposal of RMB3,000.

During the interim period ended 30 June 2019, 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 11. FINANCIAL ASSETS AT FVTPL

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Unlisted investments:		
– Structured bank deposits ( <i>Note a</i> )	23,383	166,546
– Trust ( <i>Note b</i> )	–	32,000
	<b>23,383</b>	<b>198,546</b>

Notes:

- (a) During the period ended 30 June 2020, the Group entered into several contracts of structured deposits with various banks in the PRC. The structured bank deposits earn minimum return of 1.1% to 2.8% per annum (31 December 2019: 0.3% to 2.85% per annum), while the total expected return is up to 3.3% to 3.65% per annum (31 December 2019: 3.46% to 4.00% per annum). The contracts are with maturity on or before 27 August 2020. The principal of RMB23,000,000 (31 December 2019: RMB166,546,000) was guaranteed by the relevant banks as at 30 June 2020. During the period ended 30 June 2020, a fair value gain of RMB2,392,000 (30 June 2019: RMB2,059,000) was recognised.
- (b) The balance as of 31 December 2019 represents the investment in Wuxing Huixin Wealth Management Trust (五行匯誠資產配置集合資金信託, the "Trust"), which is incorporated in the PRC. The Trust specialises in investing in fixed income products. During the period ended 30 June 2020, the Group has fully redeemed the Trust and a fair value gain of RMB680,000 (30 June 2019: nil) was recognised.

For the six months ended 30 June 2020

## 12. INTERESTS IN ASSOCIATES

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 2020	31 December 2019
NovaBay Pharmaceuticals, Inc. (" <b>NovaBay</b> ") (Note a)	Incorporated	Ordinary shares	Development and commercialisation of its non-antibiotic anti-infective products	United States	14.97%	18.57%
Chongqing Shushi Medical Facilities Company Limited (" <b>Shushi</b> ") 重慶舒視醫療器械有限公司 (Note b)	Incorporated	Registered capital	Sales of medical devices	PRC	34%	34%
DMAX Co., Ltd (" <b>DMAX</b> ") (Note c)	Incorporated	Ordinary shares	Production zirconia-related dental products	Republic of Korea	25%	-

## Notes:

- (a) During the six months ended 30 June 2020, NovaBay issued an aggregate of 6,711,000 shares to various investors. A gain on dilution of approximately RMB4,076,000 was recognised in profit or loss. As of 30 June 2020, the Group held a total of 5,188,421 ordinary shares representing approximately 14.97% (31 December 2019: 5,188,421 ordinary shares representing approximately 18.57%) of issued shares of NovaBay. The Group is able to exercise significant influence over NovaBay because it has the power to appoint one out of the eight directors under the Articles of Association of this company and has appointed one director to the board of NovaBay (31 December 2019: one director).
- (b) Shushi is engaged in sale of medical devices but yet to commence its operation at 30 June 2020 and 31 December 2019.
- (c) During the six months ended 30 June 2020, the Group acquired 25% equity interest of DMAX, which is primarily engaged in producing zirconia-related dental products, including veneers, crowns and implants, etc. The consideration was US\$3,000,000 (equivalent to RMB20,929,000).

For the six months ended 30 June 2020

### 12. INTERESTS IN ASSOCIATES (Continued)

Indicated by the financial performance of NovaBay and DMAX for the six months ended 30 June 2020, 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 2020 have been determined based on the quoted market price less cost of disposal. The recoverable amount of the investment is greater than the corresponding carrying amount, a reversal of impairment loss of approximately RMB21,189,000 is recognised (30 June 2019: RMB43,881,000) for the six months ended 30 June 2020 in relation to the interests in associates.

The recoverable amount of the investment in DMAX is determined based on value in use and it is lower than the corresponding carrying amount, an impairment loss of approximately RMB4,000,000 is recognised for the six months ended 30 June 2020 in relation to the interests in associates.

For the six months ended 30 June 2020

**13. EQUITY INSTRUMENTS AT FVTOCI**

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Listed investment:		
– Equity securities listed in Australia ( <i>Note a</i> )	55,158	119,796
Unlisted investments:		
– Equity securities ( <i>Note b</i> )	25,800	30,300
	<b>80,958</b>	150,096

*Notes:*

- (a) The listed equity investment represents 17.8% (31 December 2019: 16.5%) ordinary shares of an entity listed in Australian Securities Exchange, Paragon Care Limited (“**Paragon**”). During the six months ended 30 June 2020, the Group has acquired additional 1.3% of ordinary shares of Paragon with consideration of RMB4,526,000. 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 2020. Thus, it is not considered as an associate of the Group as at 30 June 2020 and 31 December 2019. 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 2020 and 31 December 2019 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 2020 and 31 December 2019, 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. 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 2020, the carrying amount of the listed equity investment at FVTOCI of RMB15,222,000 (31 December 2019: RMB35,425,000) has been pledged as security for the bank borrowing of RMB14,581,000 (31 December 2019: RMB48,843,000).

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 14. DEFERRED TAXATION

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Deferred tax assets	11,732	7,788
Deferred tax liabilities	(8,000)	(7,400)
	<b>3,732</b>	<b>388</b>

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

	Expected credit loss and inventories provision RMB'000	Unrealised profit on inventories RMB'000	Provision for replacement of goods sold RMB'000	Accrued expenses RMB'000	Undistributed profit of subsidiaries RMB'000	Total RMB'000
At 1 January 2019 (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
(Charge) credit to profit or loss	(1,138)	754	(282)	(2,006)	(7,400)	(10,072)
At 31 December 2019 (Audited)	4,168	2,990	–	630	(7,400)	388
Credit (charge) to profit or loss	1,372	807	–	1,765	(600)	3,344
At 30 June 2020 (Unaudited)	5,540	3,797	–	2,395	(8,000)	3,732

For the six months ended 30 June 2020

#### 14. DEFERRED TAXATION (continued)

As at the end of the current interim period, the Group has unused tax losses of approximately RMB24,237,000 (31 December 2019: RMB28,525,000) 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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
2020	–	11,424
2021	4,709	4,709
2022	1,267	1,267
2023	2,803	2,803
2024	8,322	8,322
2025	7,136	–
	<b>24,237</b>	<b>28,525</b>

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 RMB351,506,000 (31 December 2019: RMB561,550,000). Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of all these accumulated profits of the PRC subsidiaries amounting to RMB191,506,000 (2019: RMB413,550,000) as the Group has set aside such fund for the business development in the PRC and is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.



## Notes to the Condensed Consolidated Financial Statements

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### 15. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	283,834	269,641
Less: Allowance for credit losses	(12,750)	(8,070)
	<b>271,084</b>	261,571
Other receivables, prepayments and deposits	19,585	22,098
	<b>290,669</b>	283,669
Advance payment to suppliers	28,062	31,717
Other tax recoverable	29,953	11,968
	<b>348,684</b>	327,354

In relation to the sales of pharmaceutical products, the Group allows a credit period from 30 days to 180 days to its trade customers. In relation to the sales of personal protective materials, the Group allows a credit period from 15 days to 45 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, the remaining sales of medical devices involved immediate transfer of legal ownership with contract sums to be settled by instalments over a general period of 12 to 36 months as stated in contracts are included in trade receivables.

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0 to 60 days	175,989	189,194
61 days to 180 days	62,514	56,911
181 days to 1 year	23,720	11,188
1 year to 2 years	8,314	3,561
Over 2 years	547	717
	<b>271,084</b>	261,571

As at 30 June 2020, total bills received amounting to RMB19,764,000 (31 December 2019: RMB35,080,000) 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.

For the six months ended 30 June 2020

**16. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL**

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Impairment loss recognised in respects of		
– trade receivables	4,680	2,160
– finance lease receivables	1,338	5,979
	<b>6,018</b>	8,139

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 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

During the interim period ended 30 June 2019, 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. TRADE AND OTHER PAYABLES**

	As at	As at
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	121,306	263,532
Payroll and welfare payables	3,230	4,229
Other tax payables	508	1,321
Marketing service fee payables	9,656	12,175
Deposits received from distributors	19,542	19,946
Other payables and accrued charges	856	6,491
	<b>155,098</b>	307,694

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

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 17. TRADE AND OTHER PAYABLES (Continued)

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 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0 to 90 days	86,682	262,796
91 to 180 days	34,624	2
181 to 365 days	–	604
Over 365 days	–	130
	<b>121,306</b>	<b>263,532</b>

### 18. 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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Sale of personal protective materials to Angelina Environmental Spain SL (Note)	57,512	–
Sale of personal protective materials to NovaBay	12,365	–
Purchase of finished goods from Covex, S.A. (Note)	–	3,422
Purchase of finished goods from DMAX	146	–
Purchase of finished goods from NovaBay	1,299	–
Interest on amount due from a related party	1,708	2,819
Interest on loan to an associate	633	510

Note: Angelina Environmental Spain SL and Covex, S.A. are controlled and beneficially owned by Mr. Li.

For the six months ended 30 June 2020

**18. RELATED PARTIES DISCLOSURES (continued)****(b)** Balances with related parties at end of reporting period are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
<b>Name of the related parties</b>		
<b>Non-trade in nature</b>		
<i>Amounts due from related parties</i>		
Mr. Li – current (Note a)	9,930	8,520
PDH Dental Ltd. – current (Note d)	–	28
	<b>9,930</b>	8,548
Mr. Li – non-current (Note a)	<b>63,343</b>	63,343
	<b>73,273</b>	71,891
<b>Trade in nature</b>		
<i>Amounts due from related parties – current</i>		
Covex, S.A. (Note b)	213	215
DMAX (Note b)	5,854	–
NovaBay (Note f)	2,723	–
Angelina Environmental Spain SL (Note f)	42,016	–
	<b>50,806</b>	215
<i>Loan to an associate</i>		
NovaBay – current (Note c)	<b>816</b>	8,147
<i>Amount due to an associate</i>		
Shushi – current (Note e)	<b>1,700</b>	1,700

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

### 18. RELATED PARTIES DISCLOSURES (Continued)

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

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 (formerly known as Pioneer Pharma (Singapore) Ptd. Ltd) for the payment obligation of Mr. Li. Mr. Li has undertaken to Pioneer Pharma (Hong Kong) Co., Limited ("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 RMB63,343,000 will be due at 22 December 2021.
- (b) Amount represents prepayment for purchase of finished goods.
- (c) During the current interim period, NovaBay has fully settled a promissory note with a principal amount of US\$1,000,000 (equivalent to RMB6,710,000) to the Group and settled interest receivable of RMB621,000 with equivalent amount of finished goods to the Group. As of 30 June 2020, the Group has accrued interest receivable of RMB816,000 (2019: RMB1,437,000) in respect of the loan to an associate.
- (d) Amount represents amount due from PDH Dental Limited that is unsecured, interest-free, non-trade in nature and repayable on demand. PDH Dental Limited is controlled and beneficially owned by Mr. Li.
- (e) Amount represents amount due to an associate for capital injection with consideration of RMB1,700,000.
- (f) Amount represents trade receivables arising from sale of personal protective materials to NovaBay and Angelina Environmental Spain SL with credit term of 45 days. As at 30 June 2020, the amounts due from related parties are aged within 30 days based on invoice date.

### (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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short-term employee benefits	2,899	3,278
Post employee benefits	117	347
	<b>3,016</b>	3,625

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

For the six months ended 30 June 2020

## 19. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans to finance its business operation of approximately RMB29,798,000 (30 June 2019: nil) and settled outstanding bank loans amounted to approximately RMB32,357,000 (30 June 2019: RMB33,742,000). The amounts are due within one year. The effective interest on the Group's variable-rate borrowings are ranging from 2.79% to 4.37% per annum (31 December 2019: Australian Bank Bill Swap Bid Rate plus 2.75%).

## 20. SHARE CAPITAL OF THE COMPANY

	Number of shares	US\$	Equivalent to RMB'000
Ordinary share of US\$0.01 each			
Authorised			
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	3,000,000,000	30,000,000	82,096
Issued and fully paid			
At 1 January 2019 (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
Shares repurchased and cancelled	(3,141,000)	(31,410)	(195)
At 31 December 2019 (Audited) and 30 June 2020 (Unaudited)	1,260,167,000	12,601,670	77,566

Note:

During the period ended 30 June 2020, there is no repurchase of own shares by the Company through the Stock Exchange.

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

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HKD'000
		Highest HKD	Lowest HKD	
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

For the six months ended 30 June 2020

### 20. SHARE CAPITAL OF THE COMPANY (Continued)

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 were cancelled in October 2019.

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

### 21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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).

For the six months ended 30 June 2020

**21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)****Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)**

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30.6.2020	31.12.2019			
1) Equity instrument at FVTOCI	17.8% equity investment in Paragon – RMB55,158,000	16.5% equity investment in Paragon – RMB119,796,000	Level 1	Quoted bid prices in active market	Not applicable
2) Financial assets at FVTPL	Structured bank deposits – RMB23,383,000	Structured bank deposits – RMB166,546,000	Level 3	Discounted cash flows	Expected yields of money market instruments and debt instruments invested by bank and a discount rate that reflects the credit risk of the bank ( <i>Note a</i> )
3) Financial assets at FVTPL	N/A	Investment in the Trust – RMB32,000,000	Level 3	Discounted cash flows	Expected yields of fixed income products invested by Trust and a discount rate that reflects the credit risk of the Trust ( <i>Note a</i> )
4) Equity instrument at FVTOCI	8% equity investment in the Fund – RMB25,800,000	8% equity investment in the Fund – RMB30,300,000	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 ratio of market capital to net book value from comparable companies is determined by the mean of comparable companies as at the valuation date ( <i>Note b</i> )  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 20% ( <i>Note b</i> )

*Notes:*

- (a) No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.
- (b) The higher the ratio of market capital to net book value from 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. No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

There were no transfers between levels in the both periods.



## Notes to the Condensed Consolidated Financial Statements

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### 21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

#### Reconciliation of level 3 fair value measurements of financial assets

Unrealised fair value gain of RMB383,000 included in profit or loss related to financial assets at FVTPL held at the end of current reporting period (30 June 2019: nil). Such fair value are included in 'other gains and losses'.

Unrealised fair value loss of RMB4,500,000 (30 June 2019: unrealised fair value gain of RMB3,600,000) included 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	Financial assets at FVTPL RMB'000
At 1 January 2019	25,200	47,000
Total gains recognised in profit or loss	–	2,059
Total gains recognised in other comprehensive income	3,600	–
Placement of financial assets at FVTPL	–	1,168,793
Withdrawal of financial assets at FVTPL	–	(1,015,159)
At 30 June 2019	<u>28,800</u>	<u>202,693</u>
At 1 January 2020	30,300	198,546
Total gains recognised in profit or loss	–	3,072
Total losses recognised in other comprehensive income	(4,500)	–
Placement of financial assets at FVTPL	–	111,000
Withdrawal of financial assets at FVTPL	–	(289,235)
At 30 June 2020	<u>25,800</u>	<u>23,383</u>

Except as detailed in above table, the directors of the Company 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.