CHINA PIONEER PHARMA HOLDINGS LIMITED
中国先锋医药控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01345)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Pioneer Pharma Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**") together with comparative figures for the corresponding period in 2018, as follows:

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2019 was RMB620.3 million, which represents a 34.8% decrease compared to RMB951.6 million for the same period last year.

- Gross profit of the Group for the six months ended 30 June 2019 was RMB305.1 million, which represents a 8.0% decrease compared to RMB331.7 million for the same period last year.

- Net profit of the Group for the six months ended 30 June 2019 was RMB98.2 million, which represents a 18.8% decrease compared to RMB120.9 million for the same period last year.

- Basic earnings per share of the Company was RMB0.080 for the six months ended 30 June 2019, which represents a 16.7% decrease compared to RMB0.096 for the same period last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	**620,253**	951,622
Cost of sales		**(315,202)**	(619,919)
Gross profit		**305,051**	331,703
Other income	4	**19,200**	12,570
Other gains and losses	5	**49,962**	8,263
Impairment losses under expected credit loss model, net of reversal		**(8,139)**	(716)
Distribution and selling expenses		**(208,126)**	(175,338)
Administrative expenses		**(37,928)**	(34,030)
Finance costs		**(2,463)**	(678)
Share of loss of an associate		**(13,979)**	(7,952)
Profit before tax		**103,578**	133,822
Income tax expense	6	**(5,427)**	(12,879)
Profit for the period	7	**98,151**	120,943
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
– Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income	11	**(51,082)**	980
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**171**	1,754
– Share of exchange difference of an associate		**(138)**	1,430
Other comprehensive (expense) income for the period		**(51,049)**	4,164
Total comprehensive income for the period		**47,102**	125,107
Profit (loss) for the period attributable to:			
Owners of the Company		**98,657**	120,682
Non-controlling interests		**(506)**	261
		98,151	120,943
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**47,608**	124,846
Non-controlling interests		**(506)**	261
		47,102	125,107
		RMB yuan	RMB yuan
Earnings per share			
Basic	9	**0.08**	0.10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**As at 30 June 2019** *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Non-current Assets			
Property, plant and equipment		**45,594**	46,144
Right-of-use assets		**8,253**	–
Prepaid lease payments		**–**	2,063
Intangible assets		**13,457**	14,106
Interest in an associate	*10*	**60,414**	27,599
Equity instruments at fair value through other comprehensive income	*11*	**129,560**	180,892
Finance lease receivables		**3,823**	4,072
Deposit paid for interest in an associate	*12*	**7,981**	7,981
Loan to an associate		**7,220**	–
Deferred tax assets		**10,460**	8,578
Amount due from a related party		**65,998**	63,178
		352,760	354,613
Current Assets			
Inventories		**321,309**	417,387
Finance lease receivables		**29,429**	40,268
Trade and other receivables	*13*	**329,904**	319,874
Amounts due from related parties		**58,014**	58,881
Financial assets at fair value through profit or loss	*14*	**202,693**	47,000
Tax recoverable		**343**	231
Prepaid lease payments		**–**	52
Pledged bank deposits		**9,172**	48,684
Bank balances and cash		**100,304**	150,854
		1,051,168	1,083,231
Current Liabilities			
Trade and other payables	*15*	**186,016**	200,097
Tax liabilities		**13,131**	14,489
Bank borrowings	*16*	**62,603**	96,500
Provision		**1,886**	1,886
Contract liabilities		**8,388**	12,364
Obligations under finance leases		**–**	4,637
Lease liabilities		**2,647**	–
		274,671	329,973
Net Current Assets		**776,497**	753,258
Total Assets less Current Liabilities		**1,129,257**	1,107,871

	Notes	**As at 30 June 2019** *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Capital and Reserves			
Share capital		**77,761**	79,071
Reserves		**1,050,442**	1,025,505
Equity attributable to owners of the Company		**1,128,203**	1,104,576
Non-controlling interests		**(763)**	1,316
Total Equity		**1,127,440**	1,105,892
Non-current liability			
Long-term liabilities	*15*	**1,817**	1,979
		1,129,257	1,107,871

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six months ended 30 June 2019

1. BASIS OF PREPARATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and amendments to IFRSs

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

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

3. SEGMENT INFORMATION

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

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

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

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

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

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

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

Segment revenues and results

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

For the six months ended 30 June 2019 (Unaudited)

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

For the six months ended 30 June 2018 (Unaudited)

	Products sold via the provision of comprehensive marketing, promotion and channel management services *RMB'000*	Products sold via the provision of co-promotion and channel management services *RMB'000*	Consolidated *RMB'000*
Segment revenue	453,445	498,177	951,622
Cost of sales	(164,837)	(455,082)	(619,919)
Gross profit & segment result	288,608	43,095	331,703
Other income			12,570
Other gains and losses			8,263
Impairment losses under expected credit loss model, net of reversal			(716)
Distribution and selling expenses			(175,338)
Administrative expenses			(34,030)
Finance costs			(678)
Share of loss of an associate			(7,952)
Profit before tax			133,822

Disaggregation of revenue from contracts with customers

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

4. OTHER INCOME

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

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

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net foreign exchange gains	**296**	493
Gain on fair value change of structured bank deposits	**2,059**	–
Reversal of impairment loss on interest in an associate	**43,881**	–
Gain on disposal on interest in an associate	**544**	–
Gain on dilution on interest in an associate	**3,182**	7,770
	49,962	8,263

6. INCOME TAX EXPENSE

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

7. PROFIT FOR THE PERIOD

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

8. DIVIDEND

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

9. EARNINGS PER SHARE

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

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

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

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

10. INTEREST IN AN ASSOCIATE

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

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

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

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

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

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

11. EQUITY INSTRUMENTS AT FVTOCI

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

Notes:

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

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

As at 30 June 2019, the carrying amount of the listed equity investment at FVTOCI of RMB100,760,000 (31 December 2018: RMB155,692,000) has been pledged as security for the bank borrowing of RMB62,603,000 (31 December 2018: 96,500,000).

12. DEPOSIT PAID FOR INTEREST IN AN ASSOCIATE

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

13. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

15. TRADE AND OTHER PAYABLES AND LONG-TERM LIABILITIES

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

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

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

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

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

16. BANK BORROWINGS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

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

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

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

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

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

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

1 Product Development

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

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

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

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

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

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

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

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

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

1.2 Products Sold via the Provision of Channel Management Services:

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

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

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

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

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

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

1.3 Product Pipeline

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

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

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

2 Marketing Network Development

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

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

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

3 Significant Investment

3.1 Investment in NovaBay

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

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

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

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

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

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

3.2 Investment in Paragon

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

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

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

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

3.3 Investment in Pioneer Huimei

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

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

3.4 Investment in Rongchang Production Base

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

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

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

4 Future and Outlook

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income

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

Distribution and sale expenses

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

Administrative expenses

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

Finance costs

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

Income tax expense

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

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

Profit for the period

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

Liquidity and capital resources

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

Inventories

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

Trade and other receivables

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

Trade and other payables

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

Bank borrowings and gearing ratio

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

Indebtedness

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

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

Foreign Exchange Risk

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

EMPLOYEES AND REMUNERATION POLICY

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

INTERIM DIVIDEND

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

CORPORATE GOVERNANCE PRACTICE

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

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

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

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

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

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

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

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

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

SHARE AWARD SCHEME

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

AUDIT COMMITTEE

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

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting, risk management and internal control systems, preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of group audit.

The unaudited interim results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The interim report of the Company for the six months ended 30 June 2019 will be dispatched to Shareholders of the Company and available on the websites of the Company (http://www.pioneer-pharma.com) and the Stock Exchange (http://www.hkexnews.hk) in due course.

By order of the Board
China Pioneer Pharma Holdings Limited
Li Xinzhou
Chairman

Hong Kong, 30 August 2019

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