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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01345)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

**FINANCIAL HIGHLIGHTS**

- Revenue of the Group increased by 1.2% to RMB1,332.0 million in 2020 from RMB1,316.0 million in 2019.
- Gross profit of the Group decreased by 10.6% to RMB608.0 million in 2020 from RMB679.8 million in 2019.
- Net profit of the Group decreased by 50.4% to RMB51.5 million in 2020 from RMB103.8 million in 2019.
- Basic earnings per share of the Company was RMB0.04 in 2020, which represents a 55.6% decrease compared to RMB0.09 in 2019.

**RESULTS**

The board (the "**Board**") of directors (the "**Directors**") of China Pioneer Pharma Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2019 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2020*

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Revenue | 3 | **1,332,037** | 1,315,978 |
| Cost of sales | | **(724,071)** | (636,182) |
| Gross profit | | **607,966** | 679,796 |
| Other income | 4 | **18,736** | 37,710 |
| Other gains and losses | 5 | **15,487** | 12,010 |
| Impairment losses under expected credit loss model, net of reversal | | **(23,492)** | (28,157) |
| Distribution and selling expenses | | **(443,739)** | (446,803) |
| Administrative expenses | | **(65,463)** | (84,184) |
| Finance costs | 6 | **(1,093)** | (3,988) |
| Share of loss of associates | | **(13,060)** | (17,915) |
| Profit before tax | | **95,342** | 148,469 |
| Income tax expense | 7 | **(43,852)** | (44,646) |
| Profit for the year | 8 | **51,490** | 103,823 |
| 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**") | | **(53,406)** | (42,817) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Exchange difference on translation of a foreign operation | | **(6,402)** | (1,592) |
| – Share of exchange difference of associates | | **(4,305)** | 1,018 |
| Other comprehensive expense for the year | | **(64,113)** | (43,391) |
| Total comprehensive (expense) income for the year | | **(12,623)** | 60,432 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **52,448** | 104,627 |
| Non-controlling interests | | **(958)** | (804) |
| | | **51,490** | 103,823 |
| Total comprehensive (expense) income for the year attributable to: | | | |
| Owners of the Company | | **(11,665)** | 61,236 |
| Non-controlling interests | | **(958)** | (804) |
| | | **(12,623)** | 60,432 |
| | | ***RMB yuan*** | *RMB yuan* |
| Earnings per share | | | |
| Basic | 9 | **0.04** | 0.09 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2020*

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **73,452** | 47,459 |
| Right-of-use assets | | **7,393** | 7,747 |
| Intangible assets | | **47,031** | 11,980 |
| Interests in associates | | **36,213** | 24,535 |
| Equity instruments at FVTOCI | *11* | **101,530** | 150,096 |
| Finance lease receivables | | **–** | 1,353 |
| Deposits paid for acquisition of property, plant and equipment | | **5,235** | 2,200 |
| Deposits paid for acquisition of intangible assets | | **10,926** | – |
| Deferred tax assets | | **19,524** | 7,788 |
| Amount due from a related party | | **–** | 63,343 |
| | | **301,304** | 316,501 |
| **Current Assets** | | | |
| Inventories | *12* | **448,730** | 393,359 |
| Finance lease receivables | | **3,322** | 8,038 |
| Trade and other receivables | *13* | **367,686** | 327,354 |
| Amounts due from related parties | | **43,073** | 8,763 |
| Financial assets at fair value through profit or loss ("**FVTPL**") | *14* | **139,600** | 198,546 |
| Tax recoverable | | **1,644** | 7,103 |
| Loan to an associate | | **–** | 8,147 |
| Pledged bank deposits | | **8,074** | 12,491 |
| Bank balances and cash | | **115,009** | 270,284 |
| | | **1,127,138** | 1,234,085 |
| **Current Liabilities** | | | |
| Trade and other payables | *15* | **430,361** | 307,694 |
| Amount due to an associate | | **–** | 1,700 |
| Tax liabilities | | **30,181** | 29,959 |
| Bank borrowings | *16* | **15,097** | 48,843 |
| Contract liabilities | | **8,817** | 10,816 |
| Lease liabilities | | **7** | 118 |
| | | **484,463** | 399,130 |
| **Net Current Assets** | | **642,675** | 834,955 |
| **Total Assets less Current Liabilities** | | **943,979** | 1,151,456 |

| | 2020 | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Capital and Reserves** | | |
| Share capital | **77,566** | 77,566 |
| Reserves | **831,868** | 1,063,982 |
| Equity attributable to owners of the Company | **909,434** | 1,141,548 |
| Non-controlling interests | **2,281** | 2,439 |
| **Total Equity** | **911,715** | 1,143,987 |
| **Non-current Liabilities** | | |
| Deferred tax liabilities | **12,853** | 7,400 |
| Lease liabilities | **–** | 69 |
| Deferred income | **19,411** | – |
| | **32,264** | 7,469 |
| | **943,979** | 1,151,456 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 31 DECEMBER 2020*

## 1. GENERAL

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

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

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

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

***Amendments to IFRSs that are mandatorily effective for the current year***

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to International Accounting Standard ("**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 year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. 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 year had no impact on the consolidated financial statements.

## 2.2 Impacts on application of Amendments to IFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The Group has elected to apply the optional concentration test on the acquisition of subsidiaries and concluded that such acquisition does not constitute a business.

***New and amendments to IFRSs in issue but not yet effective***

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

| | |
|---|---|
| IFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendment to IFRS 16 | Covid-19-Related Rent Concessions[4] |
| Amendments to IFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2[5] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current[1] |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to IAS 8 | Definition of Accounting Estimates[1] |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use[2] |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to IFRS Standards | Annual Improvements to IFRS Standards 2018–2020[2] |

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

The directors of the Company anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from sales of pharmaceutical products, medical devices and personal protective materials in the PRC, the United States, Europe and Australia. An analysis of the Group's revenue by category is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | RMB'000 |
| Sales of pharmaceutical products | **1,097,794** | 1,187,010 |
| Sales of medical devices | **166,010** | 128,968 |
| Sales of personal protective materials | **68,233** | – |
| | **1,332,037** | 1,315,978 |

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.

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

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

Information reported to the executive directors, being the chief operating decision maker ("**CODM**") for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered. The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administrative expenses, certain distribution and selling expenses, finance costs, certain impairment losses under expected credit loss model, net of reversal, other income and other gains and losses.

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" of which the products are targeted at the PRC market, the Group's personal protective materials products are mainly focusing on the export market ("**Sales of personal protective materials**"). Sales of personal protective materials include masks, protective gloves and protective suits, which are mainly exported to Europe, the United States and Australia.

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

**Segment revenues and results**

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

***For the year ended 31 December 2020***

| | **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* | **Sales of personal protective materials** *RMB'000* | **Consolidated** *RMB'000* |
|---|---|---|---|---|
| **Segment revenue** | **981,556** | **282,248** | **68,233** | **1,332,037** |
| **Segment result** | **612,096** | **8,287** | **(47,232)** | **573,151** |
| Other income | | | | **18,736** |
| Other gains and losses | | | | **15,487** |
| Unallocated impairment losses under expected credit loss model, net of reversal | | | | **(7,411)** |
| Unallocated distribution and selling expenses | | | | **(425,005)** |
| Administrative expenses | | | | **(65,463)** |
| Finance costs | | | | **(1,093)** |
| Share of loss of associates | | | | **(13,060)** |
| **Profit before tax** | | | | **95,342** |

*For the year ended 31 December 2019*

| | 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** | 987,030 | 328,948 | 1,315,978 |
| **Segment result** | 666,111 | 13,685 | 679,796 |
| Other income | | | 37,710 |
| Other gains and losses | | | 12,010 |
| Impairment losses under expected credit loss model, net of reversal | | | (28,157) |
| Distribution and selling expenses | | | (446,803) |
| Administrative expenses | | | (84,184) |
| Finance costs | | | (3,988) |
| Share of loss of an associate | | | (17,915) |
| **Profit before tax** | | | 148,469 |

During the year ended 31 December 2020, RMB16,081,000 (2019: Nil) of impairment losses under expected credit loss model are allocated to Sales of personal protective materials segment. The remaining amount is unallocated.

**Disaggregation of revenue from contracts with customers by major products**

| | **2020** *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| Products sold via the provision of channel management services: | | |
| Alcon | **282,248** | 328,948 |
| Products sold via the provision of comprehensive marketing, promotion and channel management services: | | |
| Fluxum | **379,960** | 364,530 |
| Difene | **191,559** | 180,913 |
| Neoton | **63,139** | 112,125 |
| Polimod | **75,763** | 98,466 |
| Macmiror complex and Macmiror | **49,139** | 69,386 |
| Vinpocetine API | **6,370** | 17,882 |
| FLEET Phospho-Soda | **13,717** | 14,229 |
| Zanidip | **23,239** | – |
| Other | **12,660** | 531 |
| Pharmaceutical products | **815,546** | 858,062 |
| Medical equipments and supplies | **166,010** | 128,968 |
| | **981,556** | 987,030 |
| Sales of personal protective materials *(Note)* | **68,233** | – |
| | **1,332,037** | 1,315,978 |

*Note:* During the year ended 31 December 2020, the Group has sales of personal protective materials of RMB58,697,000 to Angelina Environmental Spain SL ("**Angelina Environmental**"), a related party controlled and beneficially owned by Mr. Li. Due to quality issue of some of the personal protective materials sold, personal protective materials sold amounting to RMB35,001,000 were returned to the Group and the Group fully returned those personal protective materials to the supplier and received full refund from the supplier during the year.

**Geographical information**

The Group principally operates in the PRC (country of domicile of major operating subsidiaries). 80% (2019: 76%) of non-current assets excluding equity instruments at FVTOCI, deferred tax assets, finance lease receivables and amount due from a related party of the Group are located in the PRC, and the remaining 20% (2019: 24%) are located in the United States and Republic of Korea in relation to the interests in associates. 95% (2019: Over 99%) of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC) and the remaining 5% (2019: Less than 1%) is contributed from customers mainly located in the United States, Europe and Australia.

**Information about major customers**

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

## 4. OTHER INCOME

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grants *(Note)* | **8,381** | 13,172 |
| Interest income on bank deposits | **934** | 972 |
| Interest income on amount due from a related party | **3,203** | 5,723 |
| Interest income on finance leases | **2,670** | 5,192 |
| Interest income on loan to an associate | **633** | 1,437 |
| Service income | **2,442** | 7,447 |
| Dividends received from an equity instrument at FVTOCI | **–** | 2,676 |
| Others | **473** | 1,091 |
| | **18,736** | 37,710 |

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

## 5. OTHER GAINS AND LOSSES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange gains (losses) | **8,526** | (3,238) |
| Loss on disposal of property, plant and equipment | **(306)** | (99) |
| Loss on disposal of intangible assets | **(5,763)** | – |
| Impairment loss recognised on intangible assets | **–** | (4,426) |
| Gain on fair value change of financial assets at FVTPL | **3,209** | 6,965 |
| (Loss)/gain on dilution on interest in an associate | **(9,779)** | 1,458 |
| Reversal of impairment loss on interests in associates, net | **19,597** | 10,806 |
| Gain on disposal on interest in an associate | **–** | 544 |
| Gain on early termination of leases | **3** | – |
| | **15,487** | 12,010 |

## 6. FINANCE COSTS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank borrowings | **1,088** | 3,983 |
| Interest on lease liabilities | **5** | 5 |
| | **1,093** | 3,988 |

## 7. INCOME TAX EXPENSE

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax | | |
| PRC Enterprise Income Tax ("**EIT**") | **31,261** | 23,714 |
| Hong Kong Profits Tax | **2,463** | 2,614 |
| PRC withholding tax on dividends distributed by subsidiaries | **13,000** | 10,000 |
| | **46,724** | 36,328 |
| Underprovision in prior year | | |
| EIT | **3,411** | 128 |
| Deferred tax | | |
| Current year | **(6,283)** | 10,048 |
| Effect at change in tax rate | **–** | (1,858) |
| | **(6,283)** | 8,190 |
| | **43,852** | 44,646 |

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

Pioneer Pharma (Hong Kong) Co., Limited ("**Pioneer HK**") is incorporated in Hong Kong. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

According to Circular Zangzhengfa 2011 No. 14, enterprises located in Tibet are subject to a reduced EIT rate of 15% for the period from 2011 to 2020. Moreover, according to Circular Zangzhengfa 2008 No. 62 and Zangzhengbanfa 2011 No. 52, enterprises that are located in Naqu Logistics Center Tibet and engaged in specific encouraged industries enjoy a 40% exemption of the EIT for a period from 8 to 10 years. As approved by the in-charge tax bureau, Naqu Area Pioneer Pharma Co., Ltd ("**Naqu Pioneer**"), which is located in Naqu, Tibet, is subject to a reduced EIT rate of 9% from 2010 to 2019. According to Circular 2020 No. 23 of the Ministry of Finance, the period of reduced EIT rate of 15% for enterprises located in Tibet has been extended to 31 December 2030. Starting from 1 January 2020, EIT for Naqu Pioneer is 15%.

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **95,342** | 148,469 |
| Tax at the applicable income tax rate of 25% | **23,836** | 37,117 |
| Tax effect of expenses not deductible for tax purpose | **8,056** | 11,028 |
| Tax effect of income not taxable for tax purpose | **(5,069)** | (3,513) |
| Tax effect of tax losses not recognised | **1,633** | 2,081 |
| Tax effect of concessionary tax rate | **(6,468)** | (17,737) |
| Underprovision in prior year | **3,411** | 128 |
| PRC withholding tax on dividends distributed by subsidiaries | **5,600** | 10,000 |
| Adjustment to deferred tax attributable to change in tax rate | **–** | (1,858) |
| Deferred tax liabilities arising on undistributed profit of the PRC subsidiaries | **8,000** | 7,400 |
| Deferred tax liabilities arising on deferred income | **4,853** | – |
| | **43,852** | 44,646 |

## 8. PROFIT FOR THE YEAR

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' remuneration | **2,895** | 5,056 |
| Other staff's retirement benefits scheme contributions | **5,046** | 9,534 |
| Other staff costs | **44,749** | 44,697 |
| Total staff costs | **52,690** | 59,287 |
| Auditors' remuneration | **1,691** | 1,890 |
| Write-down (reversal of write-down) of inventories | **28,909** | (830) |
| Depreciation for property, plant and equipment | **5,855** | 7,472 |
| Depreciation of right-of-use assets | **260** | 185 |
| Amortisation of intangible assets | **2,236** | 1,200 |
| Cost of inventories recognised as an expense | **724,071** | 636,182 |

## 9. EARNINGS PER SHARE

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

| | **2020** | 2019 |
|---|---|---|
| **Earnings:** | | |
| Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company) | **RMB** **52,448,000** | RMB 104,627,000 |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,210,673,809** | 1,219,280,296 |

For the years ended 31 December 2020 and 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the Scheme and the ordinary shares repurchased and cancelled by the Company.

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

The effect of assumed exercise of share options and warrants granted by an associate of the Company are excluded in calculating the diluted earnings per share for years of 2020 and 2019 because they are antidilutive in calculating the diluted earnings per share.

## 10. DIVIDENDS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2020 Interim – RMB0.064 cents per share (2019: nil) | **73,165** | – |
| 2019 Final – RMB0.032 cents per share (2019: nil) | **38,710** | – |
| 2019 Special – RMB0.086 cents per share (2019: nil) | **105,784** | – |
| | **217,659** | – |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HKD0.075 (equivalent to RMB0.063) (2019: HKD0.032 final dividend in respect of the year ended 31 December 2019) per share, in an aggregate amount of approximately HKD94,512,000 (equivalent to RMB79,712,000) (2019: HKD44,653,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 11. EQUITY INSTRUMENTS AT FVTOCI

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Listed investment: | | |
| – Equity securities listed in Australia *(Note a)* | **67,630** | 119,796 |
| Unlisted investments: | | |
| – Equity securities *(Note b)* | **33,900** | 30,300 |
| | **101,530** | 150,096 |

*Notes:*

(a) The listed equity investment represents 17.7% (2019: 16.5%) ordinary shares of an entity listed in Australian Securities Exchange, Paragon Care Limited ("**Paragon**"). During the year ended 31 December 2020, the Group has acquired additional 1.2% (2019: 1.5%) of ordinary shares of Paragon with consideration of RMB4,526,000 (2019: RMB10,935,000). This investment is not held for trading, instead, it is held for long-term strategic purpose. The Group waived the ability to nominate a director to the board of Paragon from 20 November 2018 to 31 December 2020. Thus, it is not considered as an associate of the Group as at 31 December 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.

Subsequent to 31 December 2020, the Group has not extended to waive the ability to nominate a director to the board of Paragon. Thus, it is considered as an associate of the Group from 1 January 2021 as the Group has significant influence over Paragon. On 27 January 2021, Paragon has appointed Mr. Li as non-executive director of Paragon.

(b) The balances as of 31 December 2020 and 31 December 2019 represent the investment in Shanghai Yuhan fund (上海譽瀚股權投資基金合夥企業(有限合夥), the "**Fund**"), which is incorporated in the PRC. The Fund specialises in making equity investment in various targets within the pharmaceutical industry. As at 31 December 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 bank 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 31 December 2020, certain percentage of carrying amount of the listed equity investment at FVTOCI of RMB57,086,000 (2019: RMB35,425,000) has been pledged as security for the bank borrowings of RMB15,097,000 (2019: RMB48,843,000).

## 12. INVENTORIES

All inventories represented finished goods of pharmaceutical products, medical devices and personal protective materials. As at 31 December 2020, inventories included goods in transit of RMB35,648,000 (2019: RMB49,005,000).

During the year ended 31 December 2020, write-down of inventories of RMB28,909,000 (2019: a reversal of write-down of RMB830,000) has been recognised by the Group mainly due to the drop in market price of personal protective materials.

## 13. TRADE AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **314,816** | 269,641 |
| Less: Allowance for credit losses | **(31,474)** | (8,070) |
| | **283,342** | 261,571 |
| Other receivables, prepayments and deposits | **23,803** | 22,098 |
| | **307,145** | 283,669 |
| Advance payment to suppliers | **19,349** | 31,717 |
| Advance payment to related parties | **5,023** | – |
| Other tax recoverable | **36,169** | 11,968 |
| Total trade and other receivables | **367,686** | 327,354 |

As at 1 January 2019, the gross amount of trade receivables amounted to RMB290,638,000.

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

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

For sale of personal protective materials, the Group allows a credit period from 30 days to 45 days to its trade customers.

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:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 60 days | **175,608** | 189,194 |
| 61 days to 180 days | **87,018** | 56,911 |
| 181 days to 1 year | **16,930** | 11,188 |
| 1 year to 2 years | **3,786** | 3,561 |
| Over 2 years | **–** | 717 |
| | **283,342** | 261,571 |

As at 31 December 2020, total bills received amounting to RMB36,911,000 (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 one year.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB73,114,000 (2019: RMB68,040,000) which are past due as at the reporting date. Out of the past due balances, RMB16,299,000 (2019: RMB15,466,000) has been past due 90 days or more and is not considered as in default due to the long term relationship, good repayment record and there had not been significant change in credit quality and the amounts are still considered recoverable. Other than bills received amounting to RMB36,911,000 (2019: RMB35,080,000), the Group does not hold any collateral over these balances.

## 14. FINANCIAL ASSETS AT FVTPL

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments: | | |
| – Structured bank deposits *(Note a)* | **139,600** | 166,546 |
| – Trust *(Note b)* | **–** | 32,000 |
| | **139,600** | 198,546 |

*Notes:*

(a) During the year ended 31 December 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 3.2% per annum (31 December 2019: 0.3% to 2.85% per annum), while the total expected return is up to 3.3% to 4.75% per annum (31 December 2019: 3.46% to 4.00% per annum). The contracts are with maturity on or before 31 March 2021 or are redeemable on demand (2019: on or before 27 August 2020 or are redeemable on demand).

(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 year ended 31 December 2020, the Group has fully redeemed the Trust and a fair value gain of RMB680,000 (2019: nil) was recognised.

## 15. TRADE AND OTHER PAYABLES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **360,718** | 263,532 |
| Payroll and welfare payables | **3,849** | 4,229 |
| Other tax payables | **1,626** | 1,321 |
| Marketing service fee payables | **19,529** | 12,175 |
| Deposits received from distributors | **26,536** | 19,946 |
| Other payables and accrued charges*(Note)* | **18,103** | 6,491 |
| | **430,361** | 307,694 |

*Note:* As at 31 December 2020, other payables of RMB9,300,000 (2019: Nil) related to amount due to a former shareholder of a subsidiary arising from the acquisition of a subsidiary during the year.

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

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 days to 90 days | **245,778** | 262,796 |
| 91 days to 180 days | **94,280** | 2 |
| 181 days to 365 days | **20,660** | 604 |
| Over 365 days | **–** | 130 |
| | **360,718** | 263,532 |

## 16. BANK BORROWINGS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount of bank borrowings repayable within one year and shown under current portion | **15,097** | 48,843 |
| Analysed as: | | |
| Secured | **15,097** | 48,843 |

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Pledge of assets** | | |
| Equity instrument at FVTOCI for bank borrowing *(Note)* | **57,086** | 35,425 |
| Pledged bank deposits for letter of credit | **8,074** | 12,491 |
| | **65,160** | 47,916 |

*Note:* Certain percentage of equity instrument at FVTOCI amounting to RMB57,086,000 (2019: RMB35,425,000) has been pledged for the bank borrowing of RMB15,097,000 (2019: RMB48,843,000) that is denominated in Australian Dollar ("**AUD**").

The effective interest rate on the Group's fixed rate borrowings are ranging from 2.71% to 3.55% per annum (2019: variable-rate borrowings: Australian Bank Bill Swap Bid Rate plus 2.75%, with effective interest rate at 3.65%).

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONAL REVIEW

In 2020, a sudden outbreak of the COVID-19 in the world will bring great changes and influences to the development of the whole society and economy as well as people's way of life. Under the influence of the epidemic, China's healthcare reform are also being adjusted and deepened. 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 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.

Specifically for the Group, the government's support and preferential policies on innovative drugs and medical devices, such as optimization of the approval process and accreditation of international clinical trial data, will help to expand the range of products for the Group's selection. Along with the more refined and structured measures of medical insurance cost control, drugs and medical devices conforming to the values of medical insurance and increasing the efficiency of medical insurance funds application, will compete favourably in the market. The Group will leverage on its advantages in product quality and brand image, and strengthen its academic promotion, in addition to constantly through the agency of new subdivision of specialized fields of products, as well as the production base in Rongchang, Chongqing to expand the group business into the field of medical device production.

In 2020, many parts of the world, including Mainland China, where the Company operates its business, were affected by the COVID-19, and economic activities in these regions have been severely impacted. To prevent the spread of infection, in areas where the epidemic is growing, governments of different states promulgated policies of isolation and protection in different degrees to achieve the purpose of restricting population movement gathering. The impact of these polices on the Company are as following: the sales of the products of the Company decreased in the Mainland territory due to a significant decrease in the number of people seeking 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 then difficulty of the Company's procurement. For more specific impact of the influences 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 Services" and "Product Development – 1.2 Products Sold via the Provision of Co-Promotion and Channel Management Services". Meanwhile, with the gradual stabilization of the epidemic in mainland China, the impact of the epidemic on the Company's business has been gradually weakened 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 times, and provided human and material support for the fight against the epidemic.

For the Reporting Period, the Group's revenue increased by 1.2% year-on-year to RMB1,332.0 million (2019: RMB1,316.0 million), gross profit decreased by 10.6% year-on-year to RMB608.0 million (2019: RMB679.8 million) and net profit for the year decreased by 50.4% year-on-year to RMB51.5 million (2019: RMB103.8 million).

For the Reporting Period, the Group's revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 5.0% compared to last year to RMB815.5 million, representing 61.2% of the Group's revenue for the Reporting Period. Gross profit decreased by 7.0% compared to last year to RMB538.1 million, representing 88.5% 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 28.7% compared to last year to RMB166.0 million, representing 12.5% of the Group's revenue for the Reporting Period. Gross profit decreased by 15.4% compared to last year to RMB74.0 million, representing 12.2% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from Alcon's products sold via the provision of co-promotion and channel management services decreased by 14.2% compared to last year to RMB282.2 million, representing 21.2% of the Group's revenue for the Reporting Period. Gross profit decreased by 39.4% compared to last year to RMB8.3 million, representing 1.4% of the Group's gross profit for the Reporting Period.

For the Reporting Period, the Group's revenue generated from personal protective materials is RMB68.2 million, representing 5.1% of the Group's revenue. Segment result was RMB47.2 million loss, representing -8.2% of the Group's segment results.

## 1. Product Development

As of 31 December 2020, the Group had a product portfolio of pharmaceutical products (mostly being prescription products) covering ophthalmology, pain management, cardiovascular, immunology, gynecology, gastroenterology and other therapeutic areas. The 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 | **2020**<br>***RMB'000*** | **Percentage of the Group's total revenue/ gross profit**<br>***(%)*** | 2019<br>*RMB'000* | Percentage of the Group's total revenue/ gross profit<br>*(%)* |
|---|---|---|---|---|
| Revenue: | | | | |
| Pharmaceutical Products | 815,546 | 61.2 | 858,062 | 65.2 |
| Medical Devices | 166,010 | 12.5 | 128,968 | 9.8 |
| Gross Profit: | | | | |
| Pharmaceutical Products | 538,093 | 88.5 | 578,587 | 85.1 |
| Medical Devices | 74,003 | 12.2 | 87,524 | 12.9 |

During the Reporting Period, as a result of many factors such as the trend towards refined medical insurance cost control, the increasingly stringent management of drug's clinical pathway and the control of the percentage of drug sales in total revenue of public medical institutions, although drug prices reduction in tender processes and drug consumption limitations in medical institutions have continued, the trend towards structural differentiation for clinical use of drugs became more obvious. By virtue of the product's quality advantage and definite curative effect, the Group reasonably implements the promotion strategy to ensure the stable market layout of the products. However, meanwhile, due to the impacts of restrictions on medical service and isolation measures, especially the observable decrease in the number of people seeking medical treatment, the products sold by the Company in the Mainland territory decreased compared to the same period of 2019. During the Reporting Period, revenue generated from this segment slightly decreased by 5.0% compared to last year to RMB815.5 million, representing 61.2% of the Group's revenue for the Reporting Period. Gross profit decreased by 7.0% compared to last year to RMB538.1 million, representing 88.5% 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 RMB191.6 million, representing an increase of 5.9% compared to last year. Sales decreased by 0.3% in the first half of the year due to hospital and clinic closures caused by the sudden outbreak of the COVID-19, but through proactively organizing and participating in various academic conferences, the Group seized the opportunities for increasing brand publicity, and refined its strategy of academic promotion, so as to expand market coverage through accelerating its penetration into more hospitals and small-sized medical institutions, as well as increasing the sales of Difene at each target hospital. With the constant expansion of the coverage of medical institutions, the superior quality of Difene has gained recognition from more doctors and patients, and the brand recognition of the products has also been further strengthened, which has effectively alleviated the adverse impact of COVID-19 on the sales of Difene. Difene is the sole dosage product of its type in the market and comes in 10-pack, 14-pack and 20-pack packaging specifications. In the past, revenue from Difene mainly originated from sales of the 10-pack specification. The newly launched 14-pack is expected to replace the 10-pack as the new growth point of the market sales of Difene. Compared with the 10-pack, the 14-pack has the advantages of more consistent with the prescription habits of clinicians and more scientific from the perspective of treatment cycle. Benefiting from the Group's overall layout in the past year, as well as the official execution of new tender results in more provinces, 14-pack specification has become a significant supplement to the market, achieving an increasing contribution to the Group's revenue. Through increased marketing activities, such as education programmes for doctors and patients on the product, the Group will further expand the market influence of the reference medicinal products, so as to manifest their market competitiveness and consistent good quality.

For the Reporting Period, the Group's revenue generated from sales of Fluxum was RMB380.0 million, representing an increase of 4.2% compared to last year. As one of the Group's best-selling products, leveraging the advantages in the product's quality, sound market layout and sensible promotion strategy, Fluxum has maintained rapid growth over the past few years. During the Reporting Period, due to the impact of the COVID-19, the number of routine outpatient visits and operations in the hospital during the epidemic period decreased, and the development of the blank market was delayed. The sales volume decreased by 9.2% in the first half of the year compared with the same period. But after the impact of the COVID-19 weakened in the second half of the year, 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 so that the sales revenue has completed a positive growth. Fluxum was listed as an imported low molecular weight heparin product in the new national drug reimbursement catalogue. Accordingly, to fully capture this opportunity for market expansion, the Group has entered into a number of new markets through sensible bidding strategies, and continuously increased its market share by closely following and effectively participating in clinical promotions. Furthermore, with more doctors from the relevant departments paying attention to the prevention of venous thrombosis, Fluxum not only continued to maintain its brand advantage in the field of traditional surgery, but also extended the scope of its application to other hospital departments, such as internal medicine. Due to its leading market position among similar products and more improved market layout, as well as the increasing awareness of anticoagulation in more hospitals and departments, the Group believes that Fluxum has a solid foundation for long-term growth after the impact of COVID-19 had diminished.

For the Reporting Period, the Group's revenue generated from sales of Polimod was RMB75.8 million, representing a decrease of 23.1% compared to last year. Polimod is the originator of pidotimod. It is a synthetic oral immune stimulant that works by stimulating and regulating cell-mediated immune response, and is applied to patients with immune dysfunction, such as respiratory tract infections, otolaryngology infections, urinary tract infections and gynaecological infections. The Group's rights to market, promote and sell Polimod were extended from eight provinces to the whole territory of China in March 2016, thereby improving the market potential of the product significantly. At the beginning of 2018, as the trial data on their safety and effectiveness were out-dated, all the pidotimod products sold in China were challenged by certain we-media, causing confusion to the physicians and patients. Later on, the China Food and Drug Administration ("**CFDA**") required the revision of drug instructions of all the pidotimod products, to identify that it could be used for chronic or recurrent respiratory tract infections and urinary tract infections of children over three years old. CFDA also required that the clinical trial of effectiveness for the Pidotimod products should be completed within three years. The sales of Polimod in certain areas, especially in markets where physicians and patients are not very familiar with the product, decreased significantly due to the impact of this event. In response, the Group has taken a number of measures, such as inviting medical experts from the product's supplier to explain to them, in detail, the mechanism and proof of evidence-based medicine of Polimod in China, as well as cooperating with marketing partners in delivering product information to physicians in a professional manner. Through a series of measures, the sales of Polimod appears to have stabilized and its performance is now trending upwards. Moreover, the supplier of the product has reported the plan of clinical trial of its effectiveness to CFDA, and related work on the trial is progressing in an orderly manner. Due to the outbreak of the COVID-19 this year, the area has been closed for a long time and the hospital has been controlled. The impact of these measures on the pediatric respiratory department is particularly severe. As a drug whose core market is children's respiratory, the sales of Polimod has also encountered severe tests this year. But after a long time to build the brand, the Polimod in the same product decline is the lowest. 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 and the impact of the COVID-19 recede, Polimod will eliminate the concerns of physicians and patients with scientific data and return to the track of rapid development.

Due to the adverse impact brought by the COVID-19, The business segment of other drugs of the Group has slowed down or even decreased compared with the past few years. For the Reporting Period, the Group's revenue generated from sales of these products was RMB145.0 million, representing a decrease of 32.3% compared to last year.

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 28.7% compared to last year to RMB166.0 million, representing 12.5% of the Group's revenue for the Reporting Period. Gross profit decreased by 15.4% compared to last year to RMB74.0 million, representing 12.2% 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 impact brought by the COVID-19 and the decrease in bidding prices of some medical device consumables and market competition. However, based on the features of its products, the Group organized its promotion strategy carefully, and accelerated the marketing campaigns of products launched for a shorter time, so as to lay the foundation for the future business development of medical device sector. Specifically, during the Reporting Period, the sales of ophthalmic surgical equipment and consumables and dental equipment and consumables still achieved solid growth. Moreover, under the influence of favorable factors such as the tightening of category III medical device registration in China, and the increase of medical insurance in some provinces, the sales of NeutroPhase (a wound cleanser) has also appeared a rapid growth trend following the adjustment of promotion direction and strategies. The Group will gradually enhance the market position of medical devices products, strengthen its promotion activities, and improve the contribution of this business segment to the Group's revenue.

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

| Category | **2020** *RMB'000* | **Percentage of the Group's total revenue/ gross profit** *(%)* | 2019 *RMB'000* | Percentage of the Group's total revenue/ gross profit *(%)* |
|---|---|---|---|---|
| Revenue: | | | | |
| Alcon series ophthalmic pharmaceutical products | 282,248 | 21.2 | 328,948 | 25.0 |
| Gross Profit: | | | | |
| Alcon series ophthalmic pharmaceutical products | 8,287 | 1.4 | 13,685 | 2.0 |

A new agreement was entered into between the Group and Alcon on 1 January 2019, pursuant to which the Group was exclusively entitled to the import, storage, distribution and sale of 10 specifications in 8 types of Alcon's pharmaceutical products. This agreement runs for a term of 3 years from 1 January 2019.

For the Reporting Period, due to the closure of ophthalmic clinics and a decrease in number of people seeking medical attention, the Group's revenue generated from this segment decreased by 14.2% compared to last year to RMB282.2 million, representing 21.2% of the Group's revenue for the Reporting Period. Gross profit decreased by 39.4% compared to last year to RMB8.3 million, representing 1.4% of the Group's gross profit for the Reporting Period.

### *1.3 Exports of Personal Protective Materials*

| Category | **2020** *RMB'000* | **Percentage of the Group's total revenue/ gross profit** *(%)* | 2019 *RMB'000* | Percentage of the Group's total revenue/ gross profit *(%)* |
|---|---|---|---|---|
| Revenue: | | | | |
| Personal protective materials | 68,233 | 5.1 | – | – |
| Segment result: | | | | |
| Personal protective materials | (47,232) | (2.1) | – | – |

During the Reporting Period, due to the global outbreak of COVID-19, there has been a great demand for epidemic prevention materials across the global. 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. The Company currently exports products including masks, protective gloves, protective suits and hand sanitizer, which are exported to Europe, the United States, Japan, Australia and other regions. However, due to the impact of products that need to meet the quality standards of different sales locations and changes in market conditions, the sales during the Reporting Period were not as good as expected. Inventories of certain personal protective materials and receivables have been provided for impairment. During the Reporting Period, the Group's revenue generated there from was RMB68.2 million, representing 5.1% of the Group's revenue for the Reporting Period. Segment result was RMB47.2 million loss, accounting for -8.2% of the Group's segment result for the Reporting Period.

### *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 takes into consideration factors such as clinical effectiveness, competitive environment, product registration and regulatory regime and reputation of suppliers.

The Group has several products have been completed applying for registration. For instance, the Zanidip (produced by Recordati Ireland Limited, an antihypertensive calcium channel blocker,mainly used to treat hypertension and other cardiovascular diseases, the "Zanidip Products"), the Group is being granted, among others, the exclusive marketing, promotion, distribution and selling rights with respect to the Zanidip Products in mainland China in August 2020. At present, the product has completed the outer packaging change and registration work, and is expected to achieve a rapid growth in sales revenue in 2021. The Group achieved an authority of distribution for the Urofollitropin for injection produced by IBSA Institut S.A., which is approved for re-registration. At present, the products have been imported, and it is estimated that the products will achieve sales revenue in 2021.

The Group is also conducting for the clinical trial for DRL Night Rigid Gas Permeable Contact Orthokeratology-Lens which are expected to continue through the middle of 2022. (produced by Precilens of France, used for temporary correction of myopia).

In 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 pushed forward. In particular, the optimization of clinical trial review and approval procedures, as well as the acceptance of overseas clinical trial data, will result in accelerating the launched process in China for overseas high-quality pharmaceuticals and medical devices. The Group proactively maintains close liaison with a number of overseas pharmaceutical and medical device companies in order to timely introduce their products with potentials or market foundations for marketing, promotion and sales.

## 2. Marketing Network Development

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

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

During the Reporting Period, the Group continued to implement the operational mechanism of product business unit divided by products or product series, and conduct products' promotion and sales work. The Group has established a sales and product manager team for each product business unit, to manage and support their third-party promotion partners. In the environment of ever-changing policies and violent market competition of pharmaceutical industry, the Group constantly adjusted and optimized all components within the marketing network, with the aim of strengthening rapid market responsiveness, as well as effective and professional product promotion activities. During the Reporting Period, with the more attention paid by the Group to the academic training of the in-house marketing team, the Group strengthened the frequency and depth of the marketing activities for product academic promotion involved by the internal marketing team, so as to raise the internal core driving force for the product promotion. According to the market situation, the Group has also increased its efforts in optimizing the network structure of the third-party promotion partners, and improved the understanding and knowledge for the products of the third-party promotion partners, including providing further large-scale and normalized training, and assisting them in providing doctors with clinical solutions related to the products. Through the close collaboration between in-house teams and third-party promotion partners, the Group shared the pharmaceutical policies and market information all over the country, and improved the communication mechanism and platform with third-party promotion partners so as to improve the operation efficiency and continuously drive the Group's products development. During the Reporting Period, the development of the Group's marketing network led to significant improvement to its market coverage. For instance, number of hospitals and medical institutions using Difene has increased by 5,332, the number of hospitals using Fluxum has increased by 583. In the constantly changing pharmaceutical sector, having a well-developed and robust marketing network is fundamental to the Group's operation.

## 3. Significant Investment

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 2020.

### *3.1 Investment in NovaBay*

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

The Group has made several rounds of investments in NovaBay since 2013. As of 31 December 2020, the Group held a total of 5,188,421 ordinary shares of NovaBay, representing approximately 12.42% of its equity interest, and did not hold any NovaBay warrants.

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

For further information of the business and financial performance and prospects of NovaBay, please refer to the 2020 annual and quarterly reports of NovaBay published on its website.

### *3.2 Investment in Paragon*

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

As of 31 December 2020, the Group held a total of 59,370,738 ordinary shares of Paragon, representing 17.7% of the total issued shares of Paragon.

For the year ended 31 December 2020, as a result of the drop in share price of Paragon, the Company recognised a fair value loss in other comprehensive income in respect of its investment in Paragon. For further information of the business and financial performance and prospects of Paragon, please refer to the 2020 annual report of Paragon published on its website.

Paragon has become an associate of the Group since 1 January, 2021, and its relevant information will be disclosed in Subsequent Events in the audited consolidated financial statements.

### *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. 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 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.

### *3.5 Investment in Shanghai Yuhan fund (limited partnership)*

As of 31 December 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 RMB33.9 million. The Fund, incorporated in the PRC, specializes in making equity investment in various targets within the pharmaceutical industry. As at 31 December 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 12 months ended 31 December 2020, the Group recorded an unrealized gain RMB3.6 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 investment opportunities, for development goals in the long run.

### *3.6 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 38,972 $m^2$ at the transfer price of RMB5,581,000. 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 40,000 $m^2$.

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.

### *3.7 Structured Bank Deposits*

During the year ended 31 December 2020, the Group has taken out several structured bank deposits (the "**Deposits**") with a number of banks in the PRC. The Deposits provided a minimum deposit income ranging from 1.1% to 3.2% per annum, and a maximum deposit income up to 3.3% to 4.75% per annum. The majority of the Deposits were short-term deposits or are redeemable on demand. As of 31 December 2020, the Group recorded a total of RMB139,600,000 for all of these Deposits, representing approximately 9.77% of the total assets of the Group as at the end of the Reporting Period. As of 31 December 2020, none of these Deposits represented 5% of above of the total assets of the Group.

These Deposits were entered into with various sizeable licensed banks of long-established banking businesses in the PRC, and were guaranteed as to all principals. During the year ended 31 December 2020, the total deposit income generated from the Deposits were RMB3.3 million, and the Group has managed to withdraw the principals upon maturity without difficulty.

The risk profiles of the Deposits as exhibited by the relatively low income generated therefrom were far from any speculative activities, and the range of the variable interests on the Deposits was typically narrow. The intention of entering into the Deposits was not for investment but for managing funds not immediately in use on a principal-guaranteed basis and for a moderate return. Structured bank deposits without a definite fixed interest rate were not measured at amortised cost and classified as financial assets at FVTPL under IFRS 9. In view of this classification and its impact on the balance sheet, the Group has reviewed its management of unused funds, resulting in certain Deposits not renewed upon maturity, and a decrease of the amount of Deposits as of the end of the Reporting Period to approximately RMB139,600,000 from RMB166,546,000 as of the end of the reporting period of 31 December 2019.

## 4. Future and Outlook

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

Meanwhile, the Group has been actively exploring opportunities to identify markets with growth potential for future development and business expansion, as well as creating values and increasing returns for shareholders. In this regard, the Group has been in the process of seeking and exploring business fields with broad prospects and opportunities, including the commencement of environmental protection industry in China, while adhering to the existing principal activities and taking the comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices as its core business. As of the date of this announcement, the Group is still in the development stage of potential new business development strategies. It has not formed any specific plans or specified any specific targets for related mergers and acquisitions, nor has it entered into any agreement on potential new business with any joint ventures or business parties.

## FINANCIAL REVIEW

### Revenue

Revenue increased by 1.2% from RMB1,316.0 million in 2019 to RMB1,322.0 million in 2020. Revenue generated from pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 5.0% from RMB858.1 million in 2019 to RMB815.5 million in 2020, primarily due to the impact of COVID-19 on the Company's sales during the first half of the Reporting Period and the inclusion of individual products of the Company in the "National Catalog of the First Batch of Drugs under Close Monitoring of Rational Drug Use (for Chemical Medicines and Biological Products)" which has caused substantial impacts on the market sales. Revenue generated from medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 28.7% from RMB129.0 million in 2019 to RMB166.0 million in 2020, primarily due to the increase in sales as a result of the Company continuing to increase the promotion of some products. Revenue generated from products sold via the provision of co-promotion and channel management services decreased by 14.2% from RMB328.9 million in 2019 to RMB282.2 million in 2020.

### Cost of sales

Cost of sales increased by 13.8% from RMB636.2 million in 2019 to RMB724.0 million in 2020, primarily due to the increase in cost of sales for personal protective materials during the Reporting Period. Cost of sales for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased by 0.7% from RMB279.5 million in 2019 to RMB277.5 million in 2020. Cost of sales for medical devices sold via the provision of comprehensive marketing, promotion and channel management services increased by 122.0% from RMB41.4 million in 2019 to RMB92.0 million in 2020. Cost of sales for products sold via the provision of co-promotion and channel management service decreased by 13.1% from RMB315.3 million in 2019 to RMB274.0 million in 2020.

### Gross profit and gross profit margin

Gross profit decreased by 10.6% from RMB679.8 million in 2019 to RMB608.0 million in 2020. The Group's average gross profit margin decreased from 51.7% in 2019 to 45.6% in 2020. The Group's gross profit margin for pharmaceutical products sold via the provision of comprehensive marketing, promotion and channel management services decreased from 67.4% in 2019 to 66.0% in 2020 primarily because 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 decreased from 67.9% in 2019 to 44.6% in 2020, 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 of co-promotion and provision of channel management services decreased from 4.2% in 2019 to 2.9% in 2020.

**Other income**

Other income decreased by 50.3% from RMB37.7 million in 2019 to RMB18.7 million in 2020, primarily due to the reduction in government grants income and service income during the Reporting Period.

**Distribution and selling expenses**

Distribution and selling expenses decreased by 0.7% from RMB446.8 million in 2019 to RMB443.7 million in 2020, primarily due to the decrease in marketing activities and expenses during the first half of the Reporting Period as compared with the same period last year, as affected by COVID-19. Distribution and selling expenses as a percentage of revenue decreased from 34.0% in 2019 to 33.3% in 2020.

**Administrative expenses**

Administrative expenses decreased by 22.2% from RMB84.2 million in 2019 to RMB65.5 million in 2020 primarily due to strengthening cost control and decreasing office expenses and travel expenses of administrative personnel during the Reporting Period. Administrative expenses as a percentage of revenue decreased from 6.4% in 2019 to 4.9% in 2020.

**Finance costs**

Finance costs decreased by 72.6% from RMB4.0 million in 2019 to RMB1.1 million in 2020 primarily due to part of the bank loans was settled during the Reporting Period, resulting in a decline in interest expenses.

**Write-down of inventories and Impairment assessment of trade receivables**

Write-down of inventories increased from RMB-0.8 million in 2019 to RMB29.0 million in 2020, primarily due to the provision for impairment on protective materials inventory during the Reporting Period. Impairment assessment of trade receivable increased from RMB8.1 million in 2019 to RMB31.5 million in 2020, primarily due to the provision for impairment on the amount of protective materials due from overseas customers during the Reporting Period.

**Other gains and losses**

The Group's other gains and losses increased by 29.0% from RMB12.0 million in 2019 to RMB15.5 million in 2020, primarily due to the increase in the gain on dilution on interest in associates and foreign exchange gains during the Reporting Period.

### Income tax expense

Income tax expense decreased by 1.8% from RMB44.6 million in 2019 to RMB43.9 million in 2020. The Group's effective income tax rate in 2020 and 2019 was 46.0% and 30.1%, respectively. Since the beginning of 2019, the Group has been conducting business primarily through Naqu Area Pioneer Pharma Co., Ltd (那曲先鋒醫藥有限公司) and Chongqing Pioneer Pharma Co., Ltd (重慶先鋒醫藥有限公司) and Chongqing Pioneer Pharma Co., Ltd was subjected to Enterprise Income Tax rate of 25%.

### Profit for the year

As a result of the above factors, the Group's profit decreased by 50.4% from RMB103.8 million in 2019 to RMB51.5 million in 2020. The Group's net profit margin decreased from 7.9% in 2019 to 3.9% in 2020.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Position

The Group has historically met its working capital and other capital requirements principally from net cash flow supplemented by bank borrowings. The Group's cash and cash equivalents decreased from RMB270.3 million as of 31 December 2019 to RMB115.0 million as of 31 December 2020.

The following table is a condensed summary of combined statements of cash flows for the year ended 31 December 2020:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Net cash from operating activities | 74,239 | 280,642 |
| Net cash from investing activities | 23,928 | (82,643) |
| Net cash used in financing activities | (253,041) | (78,545) |
| Net decrease in cash and cash equivalents | (154,874) | 119,454 |
| Cash and cash equivalents at beginning of the year | 270,284 | 150,854 |
| Effect of foreign exchange rate changes | (401) | (24) |
| Cash and cash equivalents at end of the year | **115,009** | **270,284** |

***Net cash from operating activities***

In 2020, the Group's net cash from operating activities was RMB74.2 million compared to net cash from operating activities of RMB280.6 million in 2019. This was mainly due to the increase in the inventory purchases and income tax during the Reporting Period.

***Net cash from investing activities***

In 2020, the Group's net from in investing activities was RMB23.9 million compared to net cash used in investing activities of RMB82.6 million in 2019. This was mainly due to the decrease in bank's structured deposits purchased with temporarily idle funds during the Reporting Period as compared with the same period last year.

***Net cash used in financing activities***

In 2020, the Group's net cash used in financing activities was RMB253.0 million compared to net cash used in financing activities of RMB78.5 million in 2019. This was mainly because the payment of dividends and repayments of bank borrowings during the Reporting Period.

***Bank borrowings and gearing ratio***

The Group had total bank borrowings of RMB15.1 million as at 31 December 2020 compared to RMB48.8 million as at 31 December 2019. On 31 December 2020, the effective interest rate of the Group's bank borrowings was from 2.71% to 4.01%. All bank borrowings were denominated in Australian dollars. The bank borrowings of RMB15.1 million were secured by the Group's equity instrument at FVTOCI. On 31 December 2019, bank borrowings of RMB48.8 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 1.1% as at 31 December 2020 compared to 3.1% as at 31 December 2019.

**Net Current Assets**

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **Current Assets** | | |
| Inventories | 448,730 | 393,359 |
| Finance lease receivables | 3,322 | 8,038 |
| Trade and other receivables | 367,686 | 327,354 |
| Amounts due from related parties | 43,073 | 8,763 |
| Financial asset at fair value through profit or loss | 139,600 | 198,546 |
| Tax recoverable | 1,644 | 7,103 |
| Loan to an associate | – | 8,147 |
| Pledged bank deposits | 8,074 | 12,491 |
| Bank balances and cash | 115,009 | 270,284 |
| | **1,127,138** | **1,234,085** |
| **Current Liabilities** | | |
| Trade and other payables | 430,361 | 307,694 |
| Amount due to an associate | – | 1,700 |
| Tax liabilities | 30,181 | 29,959 |
| Bank borrowings | 15,097 | 48,843 |
| Contract liabilities | 8,817 | 10,816 |
| Lease liabilities | 7 | 118 |
| | **484,463** | **399,130** |
| Net Current Assets | **642,675** | **834,955** |

As of 31 December 2020, the Group has sufficient working capital and financial resources for daily operations.

**Inventories**

The Group's inventory balances increased/decreased by 14.1% from RMB393.4 million as at 31 December 2019 to RMB448.7 million as at 31 December 2020, primarily due to the increased inventory reserves by the Company resulting from application for renewal of due registration approvals of some products.

**Trade and other receivables**

The Group's trade and other receivables increased by 12.3% from RMB327.4 million as at 31 December 2019 to RMB367.7 million as at 31 December 2020. Trade receivables turnover days increased from 77.7 days as at 31 December 2019 to 80.1 days as at 31 December 2020, primarily due to the temporary extension of the credit days for some customers by the Company as affected by COVID-19.

**Trade and other payables**

The Group's trade and other payables increased by 39.9% from RMB307.7 million as at 31 December 2019 to RMB430.4 million as at 31 December 2020. The Group's trade payables turnover days increased from 116.7 days as at 31 December 2019 to 150.1 days as at 31 December 2020, primarily due to the higher proportion of product purchases with longer payment term during the Reporting Period.

**Capital Expenditure**

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

| | **For the year ended 31 December** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Purchases of property, plant and equipment | 28,781 | 6,686 |
| Purchases of intangible assets | 45,891 | – |
| Total | **74,672** | **6,686** |

**Indebtedness**

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

| | **Less than 1 year** | **Between 1 and 2 years** | **Total** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **As of 31 December 2020** | | | |
| Bank borrowings | 15,097 | – | **15,097** |
| Trade payables | 360,718 | – | **360,718** |
| **As of 31 December 2019** | | | |
| Bank borrowings | 48,843 | – | **48,843** |
| Trade payables | 263,402 | 130 | **263,532** |

## Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2020.

## 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 Group's sales are denominated in Renminbi, while the Group's purchases, expenses and foreign investments are denominated in Renminbi, Hong Kong dollars, Australian dollars, Euro and U.S. dollars. The Group currently does not have any foreign currency hedging policy, but the management continues to monitor foreign exchange exposure of the Group and will consider hedging significant foreign currency exposure should the need arises.

## Dividend

For the dividends paid during the year ended 31 December 2020, the aggregate amount of the special dividend,the interim dividend and the final dividend of year ended 31 December 2019 was respectively HKD0.096 per share, HKD0.035 per share and HKD0.071 per share. The Board proposes a final dividend of HKD0.075, amount to HKD94,512,000 for the year ended 31 December 2020.

## EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2020, the Group had a total of 235 employees. For the year ended 31 December 2020, the staff costs of the Group was RMB52.7 million as compared to RMB59.3 million for the year ended 31 December 2019.

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

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

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

## ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") will be held on Monday,17 May 2021. A notice convening the Annual General Meeting will be published and dispatched to the Shareholders in the manner required by the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 7 May 2021 to Monday, 17 May 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming AGM. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 6 May 2021.

The register of members of the Company will also be closed on Monday, 24 May 2021, in order to determine the entitlement of the Shareholders to the final dividend (if approved by the Shareholders). 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 Friday, 21 May 2021.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with the code provisions as set out in the CG Code for the year ended 31 December 2020. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct for the year ended 31 December 2020.

## DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the "**Dividend Policy**"). Under such Dividend Policy, it is anticipated that, subject to compliance with the applicable laws and regulations, the Company will declare dividends semi-annually following the announcement of the half-year results and following the announcement of the annual results respectively. Dividends will be declared and paid in Hong Kong dollars.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## SHARE AWARD SCHEME

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

On 9 October 2015, the Board had resolved to grant a total of 25,060,000 awarded shares to 150 selected employees with the award price of HK$5.076 for each awarded share. For details of the grant of such awarded shares, please refer to the announcement of the Company dated 9 October 2015. No awarded share had been granted by the Company and no granted awarded share had been vested under the Share Award Scheme during the year ended 31 December 2020.

## AUDIT COMMITTEE

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

The annual results for the year ended 31 December 2020 of the Group have been reviewed by the Audit Committee and this annual results announcement is based on the Group's audited consolidated financial statements for the year ended 31 December 2020.

## AUDITOR

The Company appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2020. The Company will submit a resolution in the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

## PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.pioneer-pharma.com/), and the 2020 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 31 March 2021

*As at the date of this announcement, the Directors are Mr. Li Xinzhou, Mr. Luo Chunyi and Mr. Xiao Guoguang as executive Directors, Mr. Wu Mijia and Ms. Hu Mingfei as non-executive Directors and Mr. Zhang Hong, Mr. Wang Yongli and Mr. Wong Chi Hung, Stanley as independent non-executive Directors.*