CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 867)

Voluntary and Business Update Announcement
Signing of a License, Collaboration and Distribution Agreement with Midatech Pharma and Making Equity Investment in It

China Medical System Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce that the Group through its wholly-owned subsidiary signed a License, Collaboration and Distribution Agreement (the "**License Agreement**") with Midatech Pharma PLC ("**Midatech Pharma**") dated 29 January 2019. According to the License Agreement, the Group through its wholly-owned subsidiary will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize Midatech Pharma's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech Pharma controls and which Midatech Pharma or its affiliates have given a codename within three years of the effective date of the License Agreement (the "**Products**", MTD201 and MTX110, the "**Main Products**") in China (including Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) and certain Southeast Asian countries selected by the Company (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Company once a regulatory approval is granted by the US Food and Drug Administration (FDA), the European Medicines Agency or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland) (the "**Territory**"). At the same time, the Group through its wholly-owned subsidiary signed a Subscription Agreement with Midatech Pharma pursuant to which the Group has agreed to make an equity investment

* *For identification purpose only*

in Midatech Pharma (the "Subscription Transaction"). The Subscription Transaction is subject to the approval of Midatech Pharma's shareholders and the admission of the Midatech Pharma shares to be allotted and issued under the Subscription Transaction to trading on London's Alternative Investment Market. The License Agreement shall take effect upon completion of the Subscription Transaction.

This cooperation will further enrich the Group's patented innovative products pipeline and the Company believes that the Products will have broad market prospects after being commercialized in the Territory. At the same time, Midatech Pharma is focusing on the research and development of a pipeline of medicines for oncology and immunotherapy, and it has three innovative technology platforms - Q-Sphera™, MidaSolve™ and MidaCore™. The Group contributes to Midatech Pharma's professional research through participating in the equity investment in it and shares the extraordinary achievements transformed by its technology platforms.

About the Main Products

MTD201 (The clinical equivalence study has been completed, a follow-on pivotal registration study is being planned)

MTD201 is an intramuscular Q-Sphera™ polymer microsphere formulation of octreotide that releases drug over an extended period to enable a monthly injection regimen. MTD201 is being developed for the treatment of acromegaly and management of neuroendocrine cancer. Octreotide is a somatostatin analogue recommended to manage conditions associated with excessive growth hormone secretion, and hormonal tumours by guidelines in various countries. MTD201 is Midatech Pharma's lead pipeline candidate. The clinical equivalence study between MTD201 and Sandostatin LAR (Octreotide Acetate Injection, SLAR) has been completed in Europe. Currently a follow-on pivotal registration study is being planned. Various production process patents of MTD201 have been granted in China, which are valid up to 2032.

MTD201 is based on the Q-Sphera™ Microsphere Technology, which enables a no-burst and sustained drug release over an extended period. Q-Sphera™ is a patented PLGA (D,L-lactic and glycolic acids copolymer) polymer microsphere technology that enables sustained drug delivery from tissue depots over periods of a few weeks to more than 6 months. Q-Sphera™ technology is unique in utilizing piezo-electronics technology to individually print microspheres, enabling precise control of particle size, predictable pharmacokinetics with low variability in blood drug concentrations. Potential advantages of microsphere products obtained through the technology platform over traditional sustained-release products include: improving patient experience (reduced pain on injection), predictable and less variable blood

drug levels, more efficient administration (fewer reconstitution difficulties and needle blockages), and improving manufacturing efficiency (avoids losses to control particle size and improves cost of goods sold).

The results from the clinical equivalence study between MTD201 and SLAR were presented in August 2018. Results from the study indicate that MTD201 produces a safe and effective sustained-release profile of octreotide, supporting a once-monthly treatment interval, as is indicated for SLAR. Therapeutic octreotide concentrations were achieved, and growth hormone levels were suppressed in this trial by an average of 25%, comparable with SLAR. MTD201 treatment was well-tolerated. Pain at the injection site was reported in 8% (MTD201) and 25% (SLAR) of subjects, and injection site tenderness in 8% (MTD201) and 83% (SLAR) of subjects. The release profile of MTD201 was consistent in all subjects and showed no measurable burst release or dose-dumping.

MTD201 is mainly indicated for neuroendocrine tumors (NETs) and acromegaly. The incidence of NETs is just behind colorectal cancer among all the gastrointestinal cancers. Somatostatin analogs are recommended by guidelines as bio-therapeutic drugs, which have been demonstrated to be effective in controlling related clinical syndromes caused by excessive hormone secretion. Acromegaly is caused by prolonged overproduction of GH by the pituitary gland. Controlling acromegaly usually requires multiple treatments to reduce excess hormone production, lowering insulin-like growth factor I levels, and control tumor growth, thereby reducing associated clinical symptoms and complications. Octreotide is the most recommended medication for patients undergoing surgery while it is the preferred treatment for patients without surgery.

MTX110 (Phase I/II clinical trial is ongoing)

MTX110 takes the known active histone deacetylase inhibitor (HDACi) panobinostat, and solubilizes it into liquid form using Midatech Pharma's nano-inclusion technology. MTX110 is mainly being developed for the treatment of diffuse intrinsic pontine glioma (DIPG). Panobinostat oral solid formulation has been approved by FDA for the treatment of multiple myeloma in February 2015. MTX110 increases available routes of administration for panobinosta, which is essential because the drug does not cross the blood-brain barrier effectively when given orally. MTX110 can therefore be delivered directly to a patient's tumor via convection enhanced delivery (CED), bypassing the blood-brain barrier.

MTX110 is based on MidaSolve Nano Inclusion technology, which is capable of forming host-guest complexes between host ring and drugs. The host ring comprises a hydrophobic inner surface and a hydrophilic outer surface. A poorly water-soluble drug can associate with

the inner hydrophobic surface of the host ring, while the larger hydrophilic outer surface can associate, and solvate, with surrounding water molecules in the liquid form. Such complexes can be particularly stable with a key advantage of significant increasing the water solubility of the active compound at biological pH. This technique increases the aqueous solubility of panobinostat and allows for high drug concentrations to be delivered directly to the tumor while simultaneously minimizing systemic toxicity and other side effects.

In May 2018, Midatech Pharma launched an open label, single group assignment Phase I/II clinical trial for DIPG to evaluate the safety, tolerability as well as efficacy of MTX110 given by intratumoral convection enhanced delivery (CED) in children with newly diagnosed DIPG. Currently, the study is recruiting.

DIPG is a type of brain stem gliomas. DIPG is characterized with high grade, local invasion and poor prognosis and is common in children between the ages of 5 to 9 years. Unfortunately, the survival rate for DIPG remains very low with overall median survival of approximately nine months and less than 1% surviving within 5 years. At the present there is no drug for this tumor. The only standard of care is palliative focal radiotherapy, but this has minimal effect on survival. On the basis of generally accepted prevalence statistics, the incidence of brainstem glioma is 0.60 per 100,000 children annually, 80% of which are diffuse intrinsic type.

Risk Warning

There are risks that such Products in the pipeline could not be launched in the market due to the failure of the clinical trials. Accordingly, shareholders and investors are advised to exercise caution in dealing in the shares and other securities of the Company.

About Midatech Pharma

Midatech Pharma is an international specialty pharmaceutical company focused on the research and development of a pipeline of medicines for oncology and immunotherapy. Midatech Pharma's R&D activities focus on three innovative platform technologies to deliver drugs at the "right time, right place": gold nanoparticles (GNPs) to enable targeted delivery; Q-Sphera polymer microspheres to enable sustained release (SR) delivery; and Nano Inclusion (NI) to provide local delivery of therapeutics, initially to the brain. The shares of Midatech Pharma are listed on London's Alternative Investment Market. For more information, please visit http://www.midatechpharma.com/.

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 29 January 2019

As at the date of the announcement, the directors of the Company comprise (i) Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling as executive directors; and (ii) Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun as independent non-executive directors.