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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE, 2019

The Board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 (the "Reporting Period").

Financial Highlights

- Turnover up 11.7% to RMB2,964.4 million (H1 2018: RMB2,655.0 million); excluding the effect of the "two-invoice system", turnover up 14.4% to RMB3,401.5 million (H1 2018: RMB2,974.3 million)
- Gross profit up 17.7% to RMB2,217.5 million (H1 2018: RMB1,883.7 million); excluding the effect of the "two-invoice system", gross profit up 16.0% to RMB2,023.2 million (H1 2018: RMB1,744.9 million)
- Profit for the period up 22.2% to RMB1,167.5 million (H1 2018: RMB955.1 million)
- Basic earnings per share up 22.5% to RMB0.4717 (H1 2018: RMB0.3850)
- As at 30 June 2019, the Group's bank balances and cash amounted to RMB1,638.4 million while readily realizable bank acceptance bills amounted to RMB274.7 million
- Declared interim dividend up 22.6% compared with the same period last year to RMB0.1883 per share (H1 2018: RMB0.1536)

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	Six months ended 30 June 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Turnover	3	2,964,360	2,655,007
Cost of goods sold		(746,881)	(771,293)
Gross profit		2,217,479	1,883,714
Other gains and losses		46,673	(9,179)
Selling expenses		(882,982)	(735,167)
Administrative expenses		(110,325)	(98,530)
Finance costs		(29,065)	(42,310)
Share of results of associates		56,773	46,602
Profit before tax		1,298,553	1,045,130
Income tax expense	4	(131,033)	(89,988)
Profit for the period	5	1,167,520	955,142
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		780	6,614
Exchange differences arising from translation of foreign operations		(987)	-
Change in fair value on cash flow hedges			
- fair value (loss) gain		(14,368)	10,251
- deferred tax relating to change in fair value		2,371	(1,691)
Item that will not be reclassified to profit or loss:			
Fair value gain (loss) on equity instrument at fair value through other comprehensive income		15,101	(5,183)
Other comprehensive income for the period, net of income tax		2,897	9,991
Total comprehensive income for the period		1,170,417	965,133
Profit (loss) for the period attributable to:			
Owners of the Company		1,169,896	957,544
Non-controlling interests		(2,376)	(2,402)
		1,167,520	955,142
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		1,172,793	967,535
Non-controlling interests		(2,376)	(2,402)
		1,170,417	965,133
		RMB	RMB
Earnings per share	7		
Basic		0.4717	0.3850

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

	NOTES	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		487,366	478,268
Prepaid lease payments		-	61,667
Right-of-use assets		55,845	-
Interest in associates		2,524,553	2,491,478
Intangible assets		2,545,017	2,554,075
Goodwill		1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income		291,083	241,232
Deposits paid for acquisition of intangible assets		126,306	95,262
Derivative financial instruments		30,480	32,866
Deferred tax assets		20,577	20,712
		7,465,762	7,360,095
Current assets			
Inventories		429,811	434,661
Trade and other receivables	8	1,542,438	1,718,754
Tax recoverable		9,185	8,296
Amount due from an associate	9	218,137	169,565
Bank balances and cash		1,638,444	815,081
		3,838,015	3,146,357
Current liabilities			
Trade and other payables	10	382,751	382,215
Contract liabilities		4,164	5,469
Bank borrowings		1,436,874	25,000
Deferred consideration payables		8,817	8,847
Tax payable		150,233	129,314
		1,982,839	550,845
Net current assets		1,855,176	2,595,512
Total assets less current liabilities		9,320,938	9,955,607

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Capital and reserves		
Share capital	84,963	84,963
Reserves	9,087,925	8,270,823
Equity attributable to owners of the Company	9,172,888	8,355,786
Non-controlling interests	45,913	48,289
	9,218,801	8,404,075
Non-current liabilities		
Bank borrowings	-	1,440,195
Deferred tax liabilities	93,108	101,411
Lease liabilities	6,404	-
Deferred consideration payables	2,625	9,926
	102,137	1,551,532
	9,320,938	9,955,607

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, certain new or revised International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatorily effective for the current interim period. The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on IFRS16 *Leases*

The Group has applied IFRS 16 on 1 January 2019 for the first time. IFRS 16 introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 has superseded IAS 17 Leases and the related interpretations. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group did not reassess whether the contracts were, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of IFRS 16 as lessee without restating comparative information. The Group has reclassified prepaid lease payments previously recognised in accordance with IAS 17 into right-of-use assets. The Group has elected to present right-of-use assets separately in the statement of financial position.

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2018 RMB'000 (Audited)	IFRS 16 RMB'000	1 January 2019 RMB'000 (Restated)
Assets			
Prepaid lease payments	61,667	(61,667)	-
Right-of-use assets	-	72,108	72,108
Liabilities			
Lease liabilities	-	6,289	6,289
Trade and other payables	382,215	4,152	386,367

The application of other new and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

The Group sells and promotes pharmaceutical products to hospital and medical institutions throughout the PRC through distributors.

For sales of pharmaceutical products to customers, revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers, i.e. when the products are delivered and titles have passed to customers upon receipt by customers. For promotion of pharmaceutical products, revenue is recognised at a point in time when the Group satisfies its obligation to arrange for the pharmaceutical products to be provided by suppliers to distributors.

The following is an analysis of the Group's revenue from its major products and services:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Sales of pharmaceutical products	2,290,560	2,162,231
Promotion income	673,800	492,776
	2,964,360	2,655,007

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue from external customers is attributed to the PRC and the majority of non-current assets of the Group are located in the PRC.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	114,599	84,880
Hong Kong Profits Tax	1,736	2,455
Malaysia Corporate Income Tax	20,495	16
	136,830	87,351
Deferred taxation:		
Current period	(5,797)	2,637
Income tax expense for the period	131,033	89,988

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	17,311	17,318
Amortisation of intangible assets (included in cost of goods sold)	81,158	81,370
Cost of inventories recognised as an expense	660,082	685,234
Interest income	(17,521)	(14,431)
Net exchange (gain) loss	(4,280)	16,083

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.1434 per share in respect of the year ended 31 December 2018 (six months ended 30 June 2018: RMB0.1393 per share in respect of the year ended 31 December 2017) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid during the Reporting Period amounted to RMB355,691,000 (six months ended 30 June 2018: RMB346,474,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.1883 per share and amounting to RMB467,061,000 (six months ended 30 June 2018: RMB0.1536 per share and amounting to RMB382,041,000) will be paid to the owners of the Company whose names appear in the Register of Members on 3 September 2019.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	1,169,896	957,544

	Number of ordinary shares	
	As at 30 June	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,480,408,512	2,487,247,512

The Group has no outstanding potential ordinary shares as at 30 June 2019 and 2018 and during the periods ended 30 June 2019 and 2018. Therefore, no diluted earnings per share is presented.

8. TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade receivables	1,117,543	1,290,530
Less: Allowance for credit losses	(9,642)	(9,828)
	1,107,901	1,280,702
Bills receivables	274,720	291,621
Purchase prepayment	83,348	70,978
Value added tax receivable	16,527	-
Prepaid lease payments	-	1,878
Deposits paid for acquisition of intangible assets	126,306	95,262
Other receivables and deposits	59,942	73,575
	1,668,744	1,814,016
Current portion	1,542,438	1,718,754
Non-current portion	126,306	95,262
	1,668,744	1,814,016

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of the trade receivables (net of allowance for credit losses) presented based on the invoice date at the respective reporting dates, which approximated the respective revenue recognition date, is as follows:

	30 June 2019	31 December 2018
	RMB'000	RMB'000
0 - 90 days	983,418	1,008,465
91 - 365 days	119,987	272,237
Over 365 days	4,496	-
	1,107,901	1,280,702

The bills receivables of the Group are of the age within six months at the end of the Reporting Period.

The Group applies the IFRS 9 simplified approach to measure expected credit loss ("ECL") which uses a lifetime ECL, trade receivables have been grouped based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. As at 30 June 2019, the majority balances of trade receivables were within the credit period, the directors of the Company considered that the lifetime ECL allowance is insignificant as at 30 June 2019.

9. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate mainly represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 30 June 2019 was aged within three months (31 December 2018: within three months) based on the invoice date.

10. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the Reporting Period is as follows:

	30 June 2019	31 December 2018
	RMB'000	RMB'000
0 - 90 days	106,159	104,724
91 - 365 days	4,561	5
Over 365 days	1,385	1,405
Trade payables	112,105	106,134
Payroll and welfare payables	73,600	100,679
Other tax payables	17,421	51,252
Accrued promotion expenses	67,190	41,254
Accruals	50,089	35,072
Other payables	44,804	32,206
Payables for acquisition of property, plant and equipment	17,542	15,618
	382,751	382,215

The credit period on purchases of goods ranges from 0 to 120 days.

Management Discussion and Analysis

Business Review

The Company is pleased to announce that for the Reporting Period, the Group recorded a turnover of RMB2,964.4 million (H1 2018: RMB2,655.0 million), representing an increase of 11.7% over the same period last year; if excluding the effect of the "two-invoice system", turnover would have been up 14.4% to RMB3,401.5 million (H1 2018: RMB2,974.3 million). Profit for the Reporting Period reached RMB1,167.5 million (H1 2018: RMB955.1 million), up 22.2% compared with the corresponding period last year. The basic earnings per share was RMB0.4717 (H1 2018: RMB0.3850), representing an increase of 22.5% over the same period last year.

In the first half of 2019, various policies have been fully implemented and progressed, such as the implementation of the Policy of Centralized Drug Procurement in "4+7" Cities, the announcement of the Work Plan for the Adjustment of Reimbursement Drug List, the start of the Inspection on the Quality of Accounting Information for Pharmaceutical Industry, and the release of the First Batch of Key Monitored Drugs, etc. Facing the reshaping period of the pharmaceutical industry, the Group has never forgotten its original aspiration. On the one hand, with an international vision, the Group has actively made arrangement of innovative products that can provide new treatment options for Chinese patients, in order to consolidate and enhance its product advantages and competitiveness. On the other hand, the Group deepened national academic network to solidify the academic-oriented differentiation of its existing products while further expanding their academic influence, which helped the Group to achieve a sound growth during the Reporting Period.

I. Driving Force for the Development

The soul of a pharmaceutical company for its survival and development is its products. A product portfolio with differentiated competitive advantages is the most important strength for the Group to become a global innovative specialty pharmaceutical company. With innovative research and development as its core strategy, the Group has concentrated on the arrangement of innovative patented products. At the same time, the Group has actively made arrangement of complex generic drugs with high imitation barriers, and carried out the strategic collaboration with leading generic drug company on complex generic drugs. Both the innovative patented products and complex generic drugs are expected to enhance the key competitive advantage of the Group. In addition, the Group carried out the strategic arrangement of generic drugs with sufficient market competitiveness. By taking advantages of advanced pharmaceutical techniques, high quality standards and guaranteed supply capabilities of overseas mature pharmaceutical companies, the Group expected to directly introduce the overseas-launched generic drugs portfolio with proven quality and affordable price to domestic market under a relatively light-asset model. The Group is going to build the sustainable development driving

force with the comprehensive arrangement of innovative patented products, complex generic drugs with high imitation barriers and generic drugs clusters with sufficient market competitiveness.

Innovative Research and Development

The Group mainly made equity investment in the overseas R&D companies or reached strategic collaboration with them to arrange various innovative products at different innovation levels and development stages, ensuring that the Group can constantly launch innovative products to the market in short, mid- and long-term. During the Reporting Period, the Group acquired four innovative products with sufficient competitive edges and fulfillment of the unmet clinical needs in Chinese market. Among them, two have been launched in the U.S., the E.U. and other regions, and the other two are at the clinical stage, which expanded the number of the Group's innovative products to thirteen.

In-licensing

Cyclosporine A, 0.09% Eye Drops

In June 2019, the Group through its wholly-owned subsidiary signed a License Agreement with a wholly-owned subsidiary of Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), a global pharmaceutical company focusing on branded innovative products and complex generics, and gained an exclusive license with the right to grant sublicenses under Sun Pharma's intellectual property rights and regulatory documentation to develop and commercialize its product Cyclosporine A, 0.09% Eye Drops in Greater China (the Hong Kong Special Administrative Region ("HK SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan ("TWN") included). The initial term of the agreement shall be 15 years from the first commercial sale of the product, and may be extended for additional 3 years increments repeatedly if the certain conditions defined in the agreement are met.

Cyclosporine A, 0.09% Eye Drops is a nanotechnology enabled-formulation in a clear, preservative-free, aqueous solution. Clinically developed by Sun Pharma, it is the globally first patent protected innovative 0.09% cyclosporine ophthalmic solution using nanotechnology for the treatment of increasing tear production in patients with keratoconjunctivitis sicca (dry eye). In August 2018, the drug was approved by the U.S. Food and Drug Administration (FDA) under CEQUA^{TM} brand name for commercialization in the U.S. market. Currently, although various symptom alleviating agents are available in the market, such as artificial tears, few satisfactory treatment options are in practice. In addition, due to the historic challenges of making a topic formulation of this agent at a suitable concentration without increasing side effects, the clinical treatment options of ophthalmic cyclosporine are still limited. Cyclosporine A, 0.09% Eye Drops uses a unique, first-in-class vehicle in which the cyclosporine molecules are surrounded by tiny structures called "micelles", which allows for greater tissue penetration and gentle side effect profile in a high concentration. In recent years, due to the aging of the population and multiple factors related to

environmental and lifestyle changes, the prevalence of dry eye has escalated globally. Among this, the incidence of dry eye in China is 21%-30%, of which moderate-to-severe patients account for 40%, about 118-168 million patients. Cyclosporine A, 0.09% Eye Drops has the potential to fulfill the current unmet clinical needs of the patients with dry eye, providing them with a new satisfactory treatment option.

Tildrakizumab (A Monoclonal Antibody Specifically Targeting Interleukin-23 (IL-23))

In June 2019, the Group through its wholly-owned subsidiary signed a License Agreement with a wholly-owned subsidiary of Sun Pharma, and gained an exclusive, royalty-bearing license with the right to grant sublicenses under Sun Pharma's intellectual property rights to develop, use, sell, offer to sell and import (including to develop and commercialize) its product, Tildrakizumab, in Greater China (HK SAR, Macau SAR and TWN included). The initial term of the agreement shall be 15 years from the first commercial sale of the product, and may be extended for additional 3 years increments repeatedly if the certain conditions defined in the agreement are met.

Tildrakizumab-asmn is a humanized lgG1/k monoclonal antibody designed to specifically target IL-23, which is used to treat adults with moderate-to-severe plaque psoriasis that are candidates for systemic therapy or phototherapy. In March 2018, Tildrakizumab was approved by the U.S. FDA under the ILUMYA™ brand name for commercialization in the U.S. market. Two Phase III studies met primary efficacy endpoints, with an average of 63% of patients receiving Tildrakizumab 100 mg achieving 75% of skin clearance by week 12, and 77% of patients achieving 75% skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. Currently, the substance and formulation patents of Tildrakizumab have been granted in China. Psoriasis is a common life-long progressive and chronic systemic disease, which is currently incurable. At present, there are more than 6.5 million people suffering from psoriasis in China with an incidence rate of 0.47%. About 30% of patients with psoriasis are moderate-to-severe, and nearly 62% of them are dissatisfied with existing treatment options. According to the "Guideline for the Diagnosis and Treatment of Psoriasis in China (2018 Simplified Edition)", biological agents are recommended for moderate-to-severe plaque psoriasis. However, a patient-friendly and cost-efficiently biologic agent with long-term safety and efficacy is still required for this unmet clinical need.

Equity Investment

MTD201(A Q-Sphera™ Polymer Microsphere Formulation of Octreotide) and MTX110 (Panobinostat)

In January 2019, the Group through its wholly-owned subsidiary made an equity investment in Midatech Pharma PLC ("Midatech Pharma"), a U.K. international specialty pharmaceutical company focused on R&D of a pipeline of medicines for oncology and immunotherapy, and gained exclusive, perpetual, transferable,

sub-licensable rights to develop and commercialize its current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG or entities who acquire related rights thereafter), and certain new pharmaceutical products or line extension in China (HK SAR, Macau SAR and TWN included) and certain Southeast Asian countries.

Midatech Pharma's R&D activities focus on three innovative technology platforms to deliver drugs at the "right time, right place": Gold Nanoparticles to enable targeted delivery; Q-Sphera polymer microspheres to enable sustained release delivery; and Nano Inclusion to provide local delivery of therapeutics, initially to the brain.

Developed for the treatment of neuroendocrine tumors (NETs) and acromegaly, MTD201 is a Q-Sphera™ polymer microsphere formulation of Octreotide based on the Q-Sphera™ Microsphere Technology, which enables a no-burst and sustained drug release over an extended period. Potential advantages of microsphere products obtained through the technology platform over traditional sustained-release products include: reduced pain on injection, more predictable and less variable blood drug levels, fewer reconstitution difficulties and needle blockages, and avoidable losses from uneven particle size and therefore reduced cost. Various production process patents of MTD201 have been granted in China, which are valid up to 2032. The clinical equivalence study between MTD201 and a launched product Sandostatin LAR (Octreotide Acetate Microspheres for Injection) has been completed in Europe, and a pivotal registration study for marketing approval is planned to be conducted in the future. 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 growth hormone by the pituitary gland, and Octreotide is the most recommended medication for patients undergoing surgery while it is the preferred treatment for patients who are not suitable for surgery.

Mainly developed for the treatment of diffuse intrinsic pontine glioma (DIPG), MTX110 takes the known active histone deacetylase inhibitor (HDACi) panobinostat, and solubilizes it into liquid form using nano-inclusion technology, which 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. Currently, the Phase I/II clinical trial has been conducted to evaluate the safety, tolerability as well as efficacy of MTX110 given by intratumoral convection enhanced delivery in children with newly diagnosed DIPG. DIPG is a type of brain stem gliomas and its survival rate remains very low with overall median survival of approximately nine months and less than 1% survival rate within five years. At present, there is no drug for this tumor. MTX110 has the potential to bring the new treatment option for DIPG patients.

PoNS (Portable Neurostimulation Device)

PoNS was developed by Helius Medical Technologies Inc ("Helius"), a U.S. neurotech company focused on neurological wellness. As a class II medical device, PoNS is the only tongue delivered stimulator which stimulates the cranial nerves by acting on the tongue. Combined with exercise training, PoNS was developed for the adjuvant treatment of balance disorders in patients with traumatic brain injury (TBI), stroke, cerebral palsy, etc. PoNS is a patented product. The invention patents that protect the product equipment have entered into the Chinese national phase via PCT international application. Helius submitted the request to the U.S. FDA for De Novo classification and 510(k) clearance of the PoNS device for the treatment of chronic balance deficit due to mild-to-moderate TBI in September 2018, and its wholly owned subsidiary received authorization from Health Canada to market PoNS in October 2018.

In April 2019, Helius announced that FDA had completed the review of its request for De Novo classification and 510(k) clearance of the PoNS device and had declined its request. FDA noted that Helius could generate additional data to address its concerns and resubmit its request. In China, there are more than 1.3 million people suffering from accidental injuries each year due to traffic accidents, which is the most common cause of TBI (accounting for 54% of TBI causes), and there is a large unmet treatment need for rehabilitation of TBI prognostic balance disorders. However, currently, there is no approved drug or method available to solve this treatment difficulty domestically and overseas. PoNS will provide patients with a new treatment method to improve the balance disorders once approved.

NRL-1 (Intranasal Diazepam)

NRL-1 was developed by Neurelis, Inc. ("Neurelis"), a U.S. specialty pharmaceutical company focused on central nervous system innovative therapies. NRL-1 is a proprietary formulation of diazepam, delivered via a nasal formulation in a spray, being developed for the management of pediatric and adult patients who require intermittent use of diazepam to control bouts of increased seizure activity (also known as acute repetitive or cluster seizures). NRL-1's formulation incorporates the unique combination of a Vitamin E-based solvent and Intravail® absorption enhancement with the goal of obtaining unparalleled absorption, tolerability, and reliability in a nasal formulation. Compared with intravenous diazepam, the product shows 96% absolute bioavailability with low variability, and provides a treatment option which is more convenient and can be applied anytime and anywhere to patients. The simple and rapid administration can shorten the duration of epileptic seizures and lead to better treatment outcomes for patients. NRL-1 has been granted Orphan Drug and Fast Track Designations by U.S. FDA. In September 2018, Neurelis has submitted a New Drug Application (NDA) to U.S. FDA. At 30 June 2019, its NDA was under U.S. FDA review.

During the Reporting Period, the Group has been working on China registration related works for NRL-1. According to the estimation based on domestic epidemiological data, there are about 6 million active

epilepsy patients in China, with only about 2 million of them receiving regular treatment, of which 20%-30% (about 0.4-0.6 million) are still out of effective control and are at risk of repetitive seizures. Once approved in China, NRL-1 will certainly become a long-term indispensable medicine for patients with acute repetitive seizures, and its market prospect is promising.

As at 30 June 2019, the Group owned thirteen innovative products in various fields including ophthalmology, dermatology, nervous system, anti-tumor, immune system, digestive system, anti-infection and endocrine system. The development process of innovative products is listed below:

Product	Indication	Innovativeness	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application	Launched into Market
Cyclosporine A, 0.09% Eye Drops	Increasing Tear Production in Patients with Keratoconjunctivitis Sicca (Dry Eye)	Global nanotechnology patent				Approved for marketing by the U.S. FDA	
TILDRAKIZUMAB (Biological Agent)	Moderate-to-severe Plaque Psoriasis	Innovative biological agent; substance and formulation patents				Approved for marketing by the U.S. FDA, the Europe EMA and the Australia TGA**	
PoNS (Medical Device)	Physical Adjuvant Therapy for Balance Disorders Related Symptoms due to mild-to-moderate Traumatic Brain Injury (TBI)	Invention and design patents				Received License Clearance from Health Canada to market in Canada FDA noted that Helius could generate additional data and resubmit its application	
NRL-1	Acute Repetitive Seizures	Innovative pharmaceutical composition with overseas patent technology					
CMS024	Primary Liver Cancer	New lead compound; substance, compound, use and application patents					
CF101	Rheumatoid Arthritis (RA)	New lead compound					
	Psoriasis						
CF102	Hepatocellular Carcinoma (HCC)	New lead compound					
	Non-Alcoholic Fatty Liver Disease (NAFLD) / Non-Alcoholic Steatohepatitis (NASH)						
XF-73	Prevention of Post-surgical Staphylococcal Infections	New lead compound; compound and use patents					
BB2603	Onychomycosis and Tinea Pedis	Formulation patents					
ACT017 (Biological Agent)	Acute Phase of Ischemic Stroke	Innovative biological agent; substance patent					
VXM01 (Biological Agent)	Recurrent Glioblastoma(GBM)	Innovative biological agent; production process and use patents					
MTX110	Diffuse Intrinsic Pontine Glioma (DIPG)	Increases available routes of administration for a drug					
MTD201	Acromegaly and Neuroendocrine Tumors (NETs)	Production process patents					

*European Medicines Agency ("EMA")

* * Therapeutic Goods Administration ("TGA")

II. Existing Product Development

1. Main Products

Cardio-cerebrovascular Line

The Group's products under cardio-cerebrovascular line mainly include XinHuoSu, Plendil and Deanxit. During the Reporting Period, the products under cardio-cerebrovascular line recorded a revenue of RMB1,341.1 million, an increase of 3.7% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue of products under cardio-cerebrovascular line would increase by 14.7% to RMB1,940.4 million compared with the same period last year, accounting for 57.0% of the Group's revenue excluding the effect of the "two-invoice system".

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holding Co. ("Tibet Pharma", an associated company of the Group), is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in the China market. XinHuoSu is included in the National Reimbursement Drug List ("NRDL") and was recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China. rhBNP was recommended by "2018 Chinese Guidelines for the Diagnosis and Treatment of Heart Failure" in 2018 and "Guidelines for the Rational Medication of Heart Failure Second Edition (2019)" during the Reporting Period. XinHuoSu has gradually become the new-generation medication for acute heart failure. During the Reporting Period, the Group constantly expanded and penetrated the core expert network of the cardiology department. Meanwhile, the Group established and improved academic platforms related to the severe conditions of cardiothoracic surgery and emergency medical care while building up multi-level expert network, to further enhance the academic influence and the brand image of the product. In addition, the full implementation of NRDL (2017 Edition) continued to drive the growth of XinHuoSu.

Plendil (Felodipine Sustained Release Tablets)

The Company owns the 20-year exclusive license for the commercialization of Plendil in China (HK SAR, Macau SAR and TWN excluded). Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司), and used to treat hypertension and stable angina pectoris. Plendil is in the NRDL, and it has been included in the National Essential Drugs List ("NEDL") in 2018. Plendil is the sustained release formulation of Felodipine, which stabilizes and controls blood pressure with low occurrence rates of side effects. In 2018, the latest edition of "2018 Revised Edition of Chinese Guidelines for Prevention and Treatment of Hypertension" was released and continuously granted Felodipine

the relevant recommendation based on the previous edition (2010). In 2019, "2019 Chinese Guidelines for the Hypertension Management in the Elderly" granted Felodipine the relevant recommendation. During the Reporting Period, the Group continued to use the differentiation promotion strategy to constantly consolidate and strengthen the brand image in the core market, and accelerated the penetration of the county-level market and lower-tier market. Meanwhile, the Group enhanced the carrying capacity of retail network and chain drugstores for Plendil, the key product under the retail market promotion, aiming to develop and expand its retail market.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild-to-moderate depression, anxiety and psychosomatic affections, and is in the NRDL. Based on IMS data in 2018, Deanxit ranked first in the market share of antidepressant drugs in China. The Flupentixol and Melitracen was recommended by "Guidelines for the Diagnosis and Treatment of Common Diseases of the Nervous System with Depression" in 2018. During the Reporting Period, the Group constructed and optimized the existing promotion platform for the product, solidifying the promotion in traditional departments while expanding the expert network, and actively developed the lower-tier market and continually accelerated the expansion of retail market.

Digestion Line

The Group's products under digestion line mainly include Ursofalk, Salofalk, Bioflor and Combizym. During the Reporting Period, the revenue of products under digestion line increased by 19.6% to RMB1,027.2 million compared with the same period last year, accounting for 30.2% of the Group's revenue excluding the effect of the "two-invoice system".

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH ("Falk"), Germany. The product is used for the treatment of cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis and is in the NRDL. Based on IMS data in 2018, Ursofalk was the best-selling ursodeoxycholic acid drug in China, and has stably ranked first in sales among products in the Chinese cholagogue market. In 2018, Ursodeoxycholic was recommended by "The British Society of Gastroenterology/UKPBC Primary Biliary Cholangitis Treatment and Management Guidelines (2018)". During the Reporting Period, the Group continually solidified the promotion in several major departments such as traditional infection and hepatopathy, and conducted the synergized promotion with the Group's other products under digestion line, finding a new growth trigger for Ursofalk.

Salofalk (Mesalazine)

Salofalk suppositories and enemas are manufactured by Vifor AG Zweigniederlassung Medichmie Ettingen, Switzerland, which is the entrusted manufacturer of Falk, Germany; while enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany, which is the entrusted manufacturer of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. Salofalk is in the NRDL, and it has been included in the NEDL in 2018. It is the Mesalazine with the widest dosage forms in China market currently. According to the "Consensus on the Diagnosis and Treatment of Inflammatory Bowel Disease (2018)", Mesalazine was still recommended as the first-line drug for the treatment of Ulcerative Colitis. During the Reporting Period, the Group penetrated the expert network to enhance the market recognition of Salofalk across various level of expert network and the treatment level of relevant indications, boosting the growth of Salofalk.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations currently. The latest "The Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea" published in 2016 gave Bioflor a high level of recommendation. In 2017, the World Gastroenterology Organization ("WGO") updated the "Probiotics and Prebiotics Guideline" and the authoritative recommendation of Bioflor for relevant indications remained as in the previous version (2011). During the Reporting Period, adhering to the academic-oriented differentiation promotion strategy based on the evidence of evidence-based medicine, the Group cooperated with Biocodex to carry out various academic forums and conference tours nationwide, and organized product-related re-education activities in various regions. Meanwhile, while solidifying the pediatric field, the Group actively organized promotional activities with its other products under the digestion line to reinforce the promotion of Bioflor's indications in digestive field.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (HK SAR, Macau SAR and TWN included) market and other designated countries or areas, and has entrusted the manufacture of the product to Nordmark Arzneimittel GmbH & Co.KG (Germany). The main ingredients of Combizym are extracts of pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes and is in the NRDL. In 2018, "2018 Standard Practice of Diagnostic and Treatment for Pancreatic Exocrine Insufficiency" granted Combizym the recommendation for the relevant indications. During the Reporting Period, the Group determined the promotion strategy of focusing on the core

indications through deeply exploring and comprehending the product's indications, while integrating with resources of Group's digestion line to drive the growth of its other indications.

Ophthalmology Line

The Group's main product under ophthalmology line is Augentropfen Stulln Mono Eye Drops. During the Reporting Period, the revenue of the product under ophthalmology line increased 9.5% to RMB115.2 million, compared with the same period last year, accounting for 3.4% of the Group's revenue excluding the effect of the "two-invoice system".

Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)

The Group owns related assets of Augentropfen Stulln Mono Eye Drops for the China (HK SAR and Macau SAR included) market, and has entrusted the manufacture to Pharma Stulln GambH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops in Chinese market for the treatment of macula degeneration and the representative drug for asthenopia, and it is preservative-free. During the Reporting Period, through various levels of the ophthalmological academic platforms, academic re-education platforms and digital marketing, the Group continued to solidify the promotional work in the related fields of ocular fundus disease, as well as reinforce and refine the promotional work in the related fields of asthenopia, in order to further expand its brand influence.

Dermatology Line

The Group's products under dermatology line mainly include Hirudoid. During the Reporting Period, the revenue of products under dermatology line increased by 16.5% to RMB86.0 million compared with the same period last year, accounting for 2.5% of the Group's revenue excluding the effect of the "two-invoice system".

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (HK SAR, Macau SAR and TWN excluded) market, and has entrusted the manufacture of the product to Mobilat Produktions GmbH (Germany). Hirudoid is used in the treatment of blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression and the drug is proven to have broad effects and high safety. The active ingredient of Hirudoid is mucopolysaccharide polysulfate, which was recommended by Japan "JSA Guidelines for Atopic Dermatitis" in 2017, and also recommended by the China's first edition of "Expert Consensus on Diagnosis and Treatment of Senile Skin Pruritus" in 2018. During the Reporting Period, the Group expanded and enhanced its national dermatological expert network to explore the experts' consensus and upper-level evidence of evidence-based medicine. In addition, the Group actively developed the promotion around the

systematic normative medication of hemodialysis pathway while penetrating the refined promotion in dermatological indications, to drive the growth of Hirudoid.

2. Other Products

During the Reporting Period, other products sold and promoted by the Group recorded a revenue of RMB394.8 million, an increase of 21.8% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue would decrease by 5.1% to RMB232.6 million compared with the same period last year, accounting for 6.8% of the Group's revenue excluding the effect of the "two-invoice system".

III. Network Development

The reform of Chinese pharmaceutical policies has driven the changes of product structure in the pharmaceutical market. The Group accelerated the strategic planning and upgrading of its promotion network, to better position itself for the upcoming commercialization development of Group's innovative products in China. During the Reporting Period, the Group optimized the organizational structure of academic network, making its product promotion more refined and professional. At the same time, with the full use of digital marketing tools and digital internal management system, the Group achieved a new academic promotion model with integration of on-line and off-line to make the operational data more analyzable and traceable. Meanwhile the management of employee behavior was more standardized, ensuring the compliance of the Group's academic promotion. In terms of academic-oriented promotional team management, the Group improved the execution and efficiency of employees through optimizing the personnel and compensation system, carrying out the advanced training and management training while utilizing business management system, aiming to build a professional, dedicated and quality promotional team so as to accumulate energy for the promotion of its upcoming innovative products in China. For the six months ended 30 June 2019, the Group's promotion network had covered over 57,000 hospitals and medical institutions in China.

At the same time, with the business pattern changes caused by policies such as centralized drug procurement, limited prescription of national reimbursed drugs, and hierarchical diagnosis and treatment, the trend of prescription outflow has been constantly intensified. The Group steadily promoted the construction and development of its retail team, maintained and expanded the retail coverage and channel layout. Through improving the compensation system, completing the standards and processes of the retail business, and optimizing the retail data management system, the Group achieved an enhanced internal management system of retail business to lay the foundation for the expansion and development of its retail team. Meanwhile, the Group actively carried out the hierarchical management of chain drugstores to locate the key chain drugstore through tracking and analyzing products data. In addition, the Group further optimized the positioning and

promotion strategy for its existing products, by matching products' corresponding resources based on their characteristics and values, in order to achieve volume increment for products under differentiated promotion strategy.

Outlook and Future Development

China's pharmaceutical market is huge and expanding rapidly driven by factors such as population ageing, urbanization, wealth-increasing and comprehensive coverage of various medical insurance policies. The Group believes that China's pharmaceutical market is endowed with promising growth potential in the future. Meanwhile, the atmosphere of innovative R&D in China's pharmaceutical market is increasingly active. In 2018, the consecutive issuance of a series of innovation-encouraging policies brought constructive opportunities to the pharmaceutical industry, stimulating pharmaceutical's enthusiasm for innovation. In 2019, the reform of pharmaceutical review and approval continues, encouraging drug innovation via multiple approaches and accelerating the launching of innovative drugs. With the ever-growing professional academic promotion capability and the sustainable revenue contribution of its existing products, the Group has confidence in promoting the long-term strategic arrangement of diversified innovative products with different developmental stages and mixed risk levels, in order to maintain a steady growth of its performance.

In terms of new products development, on the one hand, the Group will globally make arrangement of the overseas launched innovative products and complex generic drugs multi-dimensionally to accelerate the commercialization pace of its products in China, securing the Group's product development in short and mid-term. At the same time, the Group will actively introduce the overseas-launched generics drugs with high quality and affordable price to form generics drugs clusters, creating an incremental market with its existing resources and policy opportunities. On the other hand, the Group will continually search for overseas innovative products at clinical stage, ensuring the Group's innovative product clusters arrangement in mid- and long-term, providing sustained driving force for the Group's development. As to the existing products, through accelerating the establishment and optimization of its academic platforms, the Group will actively integrate resources of products, and continuously expand the academic advantages based on the differentiated evidence of evidence-based medicine, endowing products with more professional brand images.

As to the network development, the Group will continually extend the coverage of academic network and accelerate its penetration into low-tier markets. At the same time, the steady development of retail network makes the Group's promotion network more stereoscopic, thereby realizing the multi-dimensional growth of the existing products. Meanwhile, the Group will continuously upgrade and optimize the current network,

aiming to improve its carrying capacity for the promotion of the upcoming innovative products, therefore to synergize with the promotion of the upcoming innovative products.

Looking ahead, innovation in China's pharmaceutical market will see its full bloom in the near future. The Group will continue to constantly arrange and develop innovative patented products globally while seizing the opportunities to make arrangement of complex generic drugs, forming these products with highly competitive barriers into products lines and gradually products clusters, in order to enhance the Group's innovative competitiveness in China's pharmaceutical industry. Meanwhile, the development of the generic drugs clusters with sufficient market competitiveness will ensure the product portfolio's dynamic supplement and iteration. Both the Group's generics clusters and the existing products will support its innovative products' long-term strategic deployment with strong economic contribution. In the meantime, the Group will continuously upgrade its academic network platform to provide a carrier for the development of its upcoming innovative products in China, maintaining the Group's sustainable growth. The Group dedicates to becoming a leading innovation-driven specialty pharmaceutical company and believes that success belongs to the brave. Pharmaceutical companies which embrace changes courageously and take actions immediately to create opportunities will be able to promote their development while keeping forging ahead and moving forward in the pharmaceutical industry!

Financial Review

Turnover

Turnover increased by 11.7% from RMB2,655.0 million for the six months ended 30 June 2018 to RMB2,964.4 million for the six months ended 30 June 2019; excluding the effect of the "two-invoice system", turnover increased by 14.4% to RMB3,401.5 million for the six months ended 30 June 2019 from RMB2,974.3 million for the six months ended 30 June 2018, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 17.7% from RMB1,883.7 million for the six months ended 30 June 2018 to RMB2,217.5 million for the six months ended 30 June 2019; excluding the effect of the "two-invoice system", gross profit increased by 16.0% from RMB1,744.9 million for the six months ended 30 June 2018 to RMB2,023.2 million for the six months ended 30 June 2019, primarily reflecting growth in turnover. For the six months ended 30 June 2019, gross profit margin was 74.8%, representing an increase of 3.9 percentage points from 70.9% for the six months ended 30 June 2018; excluding the effect of the "two-invoice system", gross profit margin increased by 0.8 percentage point to 59.5% for the six months ended 30 June 2019 from 58.7% for the six months ended 30 June 2018, mainly due to decreases in import duty rate and value added tax rate.

Selling Expenses

Selling expenses increased by 20.1% from RMB735.2 million for the six months ended 30 June 2018 to RMB883.0 million for the six months ended 30 June 2019. Selling expenses as a percentage of turnover was 29.8% for the six months ended 30 June 2019, representing an increase of 2.1 percentage points from 27.7% for the six months ended 30 June 2018. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover increased by 0.2 percentage point to 20.2% for the six months ended 30 June 2019 from 20.0% for the six months ended 30 June 2018, primarily reflecting increases in academic promotion activities and human costs.

Administrative Expenses

Administrative expenses increased by 12.0% from RMB98.5 million for the six months ended 30 June 2018 to RMB110.3 million for the six months ended 30 June 2019. Administrative expenses as a percentage of turnover for the six months ended 30 June 2019 was 3.7%, same as that for the six months ended 30 June 2018. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover decreased by 0.1 percentage point to 3.2% for the six months ended 30 June 2019 from 3.3% for the six months ended 30 June 2018, mainly due to the effective control over expenses and the benefit from economies of scale.

Other Gains and Losses

Other gains and losses increased by 608.5% from a loss of RMB9.2 million for the six months ended 30 June 2018 to a gain of RMB46.7 million for the six months ended 30 June 2019, mainly due to increases in the received government subsidies and the exchange gain on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 21.8% from RMB46.6 million for the six months ended 30 June 2018 to RMB56.8 million for the six months ended 30 June 2019, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 31.3% from RMB42.3 million for the six months ended 30 June 2018 to RMB29.1 million for the six months ended 30 June 2019, mainly due to a decrease in utilisation of loans.

Profit for the Period

Profit for the period increased by 22.2% from RMB955.1 million for the six months ended 30 June 2018 to RMB1,167.5 million for the six months ended 30 June 2019, mainly due to the continuous growth in turnover, and an increase in other gains.

Inventories

Inventories decreased by 1.1% from RMB434.7 million as at 31 December 2018 to RMB429.8 million as at 30 June 2019. Average inventory turnover days increased by 2 days from 104 days for the six months ended 30 June 2018 to 106 days for the six months ended 30 June 2019.

Trade Receivables

Trade receivables decreased by 13.5% from RMB1,280.7 million as at 31 December 2018 to RMB1,107.9 million as at 30 June 2019. Average trade receivables turnover days increased by 1 day from 73 days for the six months ended 30 June 2018 to 74 days for the six months ended 30 June 2019.

Trade Payables

Trade payables increased by 5.6% from RMB106.1 million as at 31 December 2018 to RMB112.1 million as at 30 June 2019. Average trade payables days increased by 1 day from 26 days for the six months ended 30 June 2018 to 27 days for the six months ended 30 June 2019.

Liquidity, Financial Resources, Capital Structure and Gearing Ratio

As at 30 June 2019, the Group's bank balances and cash amounted to RMB1,638.4 million while readily realizable bank acceptance bills amounted to RMB274.7 million. As at 31 December 2018, our bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million.

The Group had bank borrowings of RMB1,436.9 million as at 30 June 2019 (31 December 2018: RMB1,465.2 million). During the period ended 30 June 2019, the Group's bank loans decreased by a net amount of RMB28.3 million, mainly due to repayment of part of loans. The weighted average interest rate of loans was 4.0% per annum. All the loans were due within one year and classified as current liabilities accordingly.

As at 30 June 2019 and 31 December 2018, the Group had a gearing ratio (being the bank borrowings of the Group divided by the total assets of the Group) of approximately 12.7% and 13.9%, respectively.

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, bank loans and other financing means which the Company may from time to time consider appropriate.

Exposure to Fluctuations in Exchange Rates and Interest Rates

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. The conversion of

RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 30 June 2019, the Group has entered into certain foreign exchange forward contracts to hedge the foreign currency risk.

The Group will closely monitor the interest rate movements so as to mitigate the expected interest rate risk.

Pledge of Assets

As at 30 June 2019, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB74,498,000 and RMB16,102,000 respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2019, the Group had no material contingent liabilities.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

On 20 June 2017, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilisation date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Listing Rules) of the Company: (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 30 June 2019, Mr. Lam Kong (directly and indirectly) holds approximately 44.46% of the total issued ordinary share capital of the Company.

Other Information

Interim Dividend

The Board has resolved to pay an interim dividend of RMB0.1883 (equivalent to HK$0.210) per ordinary share of the Company for the six months ended 30 June 2019 to the shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 3 September 2019 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on about Tuesday, 10 September 2019.

Closure of Register of Members

The register of members of the Company will be closed on Tuesday, 3 September 2019, on which the registration of transfer of shares of the Company will be suspended. To qualify for the interim dividend, all transfer forms of shares accompanied by the relevant share certificates 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, for registration no later than 4:30 p.m. on Monday, 2 September 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the six months ended 30 June 2019.

Audit Committee

The Company established an Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun as Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the Company's appointment of external auditors.

The Company's interim result announcement and interim report for the six months ended 30 June 2019 have been reviewed by the Audit Committee of the Company.

Corporate Governance Practices

During the Reporting Period, the Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

The Company makes available to Directors monthly updates, in order to keep the Directors informed of the Company's performance and operations. In addition, the Directors also receive regular updates from time to time on changes and developments in the legislation and regulatory environments which apply to the Company's business.

All Directors participate in continuous professional development to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant. The Company keeps records of the training received by Directors.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (amended from time to time) as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors' securities transactions. Having made specific inquiries in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by Directors set out in the Model Code during the Reporting Period. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company during the Reporting Period.

Disclosure of Information

The information provided in this announcement is only the summary of 2019 Interim Report of the Company. The 2019 Interim Report will be duly dispatched to shareholders of the Company and published on the websites of the SEHK (www.hkexnews.hk) and the Company (www.cms.net.cn).

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

Hong Kong, 16 August 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.